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Form 424B2

SEMCO ENERGY INC - SEN

Filed: June 19, 2001 (period:)

Form of prospectus filed in connection with primary offering of securities on a delayed basis

Rule 424 (b) 2
Registration Statement No. 333-91815

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED MARCH 27, 2000

$60,000,000

[SEMCO ENERGY, INC.]
8% SENIOR NOTES DUE 2016

The 8% Senior Notes Due 2016 bear interest at the rate of 8% per year. Interest on the Senior Notes is payable quarterly on March 31, June 30, September 30 and December 31 of each year, beginning on September 30, 2001. The Senior Notes will mature on June 30, 2016. We can redeem all or a part of the Senior Notes on or after June 30, 2006 at 100% of the principal amount, plus any accrued and unpaid interest to the date of redemption. We will also redeem the Senior Notes, subject to certain conditions, at the option of the representative of any deceased note holder. See "Beneficial Owner's Limited Right of Redemption." The Senior Notes will be available for purchase in denominations of $1,000 plus integral multiples of $1,000.

The Senior Notes are unsecured debt securities of SEMCO Energy, Inc. that rank equally with all of our other unsecured and unsubordinated obligations.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Underwriters have agreed to purchase the Senior Notes at 97 1/2% of their principal amount ($58,500,000 aggregate proceeds to SEMCO, before deducting our expenses), subject to the terms of our underwriting agreement. The Underwriters plan to initially offer the Senior Notes at 100% of their principal amount. If all of the Senior Notes are not sold at the initial offering price, the offering price may be changed. See "Underwriting".

We expect that the Senior Notes will be ready for delivery in book entry form only through the facilities of The Depository Trust Company on or about June 21, 2001.

A.G. EDWARDS & SONS, INC.
SALOMON SMITH BARNEY
FIRST OF MICHIGAN
DIVISION OF FAHNESTOCK & CO. INC.

The date of this Prospectus Supplement is June 18, 2001.

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FORWARD-LOOKING STATEMENTS

This document contains and incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections of SEMCO and its subsidiaries. Statements that are not historical facts, including statements about SEMCO's outlook, beliefs, plans, goals, and expectations, are forward-looking statements. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. We undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Factors that may impact forward-looking statements include, but are not limited to, the following: (i) the effects of weather and other natural phenomena; (ii) the economic climate and growth in the geographical areas where we do business; (iii) the capital intensive nature of our business; (iv) increased competition within the energy industry as well as from alternative forms of energy; (v) the timing and extent of changes in commodity prices for natural gas and propane; (vi) the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates; (vii) our ability to bid on and win construction, engineering and quality assurance contracts; (viii) the impact of energy prices on the amount of projects and business available to our engineering and construction services segment; (ix) the nature, availability and projected profitability of potential investments available to SEMCO; (x) our ability to accomplish our financing objectives in a timely and cost-effective manner in light of changing conditions in the capital markets, (xi) our ability to operate and integrate acquired businesses in accordance with our plans and (xii) our ability to effectively execute our strategic plan.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary contains basic information about this offering. It likely does not contain all of the information that is important to you. For a more complete understanding of this offering, you should carefully read and rely only on this prospectus supplement, the related prospectus, and the information contained in the documents we refer to in the prospectus under "Where You Can Find More Information." We have not authorized anyone else to provide you with any different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus supplement is current only as of the date of this prospectus supplement. References in this prospectus supplement and the related prospectus to the terms "we," "us" or other similar terms mean SEMCO Energy, Inc. unless the context clearly indicates otherwise. We are also referred to in this prospectus supplement as SEMCO.

THE COMPANY

SEMCO is a diversified energy services and infrastructure holding company headquartered in southeastern Michigan. We were founded in 1950 as Southeastern Michigan Gas Company. We operate four business segments: (1) gas distribution; (2) engineering and construction services; (3) information technology services; and (4) propane, pipelines and storage. Effective January 1, 2001, we began operating our engineering services and construction services business segments as one business segment, and started reporting our information technology services business as a reportable business segment. Our gas distribution business segment operates in Michigan and Alaska. The Alaska-based operation, which consists of ENSTAR Natural Gas Company and Alaska Pipeline Company, was acquired on November 1, 1999. See "SEMCO Energy" in the accompanying prospectus.

THE OFFERING

Securities Offered.....	8% Senior Notes Due 2016. The Senior Notes will be issued in an aggregate principal amount of $60 million.
Maturity.....	June 30, 2016
Issue Price.....	100% of the principal amount.
Interest Payment Dates.....	Quarterly, on each March 31, June 30, September 30 and December 31, beginning on September 30, 2001.
Ranking.....	The Senior Notes are direct, unsecured and unsubordinated obligations of SEMCO that rank equally with all of our other unsecured and unsubordinated obligations. The Indenture under which the Senior Notes are being issued contains no limit on the amount of additional debt that may be issued by us.
Optional Redemption.....	On or after June 30, 2006, we may redeem some or all of the Senior Notes at any time at a redemption price of 100% of the principal amount plus any accrued and unpaid interest to the date of redemption.
Beneficial Owner's Limited Right of Redemption.....	At the option of the representative of a deceased holder of an interest in the Senior Notes, the deceased holder's Senior Notes may be redeemed at 100% of their principal amount, plus any accrued and unpaid interest to the date of redemption. This redemption privilege is subject to a limit of $60,000 per deceased holder and a total of $1,200,000 for all deceased holders during an initial period ending June 30, 2002 and during each twelve-month period thereafter.
Use of Proceeds.....	We will use the proceeds from the sale of the Senior Notes to reduce short-term debt and for general corporate purposes.

RISK FACTORS

BECAUSE WE ARE PRIMARILY A DISTRIBUTOR OF NATURAL GAS, OUR EARNINGS WILL FLUCTUATE WITH THE WEATHER PATTERNS OF OUR MARKET AREAS IN MICHIGAN AND ALASKA.

Our gas distribution business segment consists of operations in Michigan and Alaska. ENSTAR, the Alaska-based operation, was acquired on November 1, 1999. Warm weather during the past three years has had a significant effect on operating income. Weather was approximately 6%, 7% and 20% warmer than normal during 2000, 1999 and 1998, respectively. Under normal weather conditions, operating income would have been higher by $6.5 million, $5.3 million and $10.8 million, respectively. The impact of weather on operating income during 2000 was larger than during 1999, despite cooler weather in 2000. This is due to the ENSTAR acquisition which expanded our operations in the gas distribution segment. If the weather continues to be warmer than normal in our market areas, operating income and the resulting coverage ratios would continue to be negatively impacted.

OUR RATES IN ALASKA ARE CURRENTLY UNDER REVIEW BY THE REGULATORY COMMISSION OF ALASKA.

The Regulatory Commission of Alaska is currently conducting a proceeding regarding ENSTAR's rates. On May 21, 2001, the Commission issued an order finding that ENSTAR's current rates should not be made interim and refundable pending the Commission's final determination in the rate case. The Commission stated that its finding should not be construed as a substantive ruling on any issues that arise in the proceeding. We cannot predict the outcome of the proceeding.

USE OF PROCEEDS

We will use the proceeds from the sale of the Senior Notes to reduce short-term debt and for general corporate purposes.

CAPITALIZATION

The information presented below has been selected from or based on detailed information and financial statements appearing in the documents incorporated herein by reference. This information should be read in conjunction with the information incorporated herein by reference.

The following table sets forth at March 31, 2001 the consolidated capitalization of SEMCO.

	AS OF MARCH 31, 2001			
	ACTUAL	PERCENT	AS ADJUSTED(1)	PERCENT
	(DOLLAR AMOUNTS EXPRESSED IN THOUSANDS)			
Long-term debt:	$307,720	52.4%	$367,720	56.8%
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO	139,379	23.7%	139,379	21.5%
Common shareholders' equity:	140,682	23.9%	140,682	21.7%
Total capitalization	587,781	100.0%	647,781	100.0%
Short-term debt:	$103,414		$ 45,014	

(1) Adjusted to reflect the anticipated sale of $60 million of Senior Notes due 2016 and use of the net proceeds to reduce short-term debt.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information that has been derived from our audited and unaudited consolidated financial statements. The unaudited financial statements include all adjustments which we consider necessary for a fair presentation of our financial position and results of operations as of such dates and for such periods. You should read the following information in conjunction with our consolidated financial statements and the notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2000 and other financial information incorporated by reference herein.

	FOR THE TWELVE MONTHS ENDED MARCH 31, 2001	FOR THE YEAR ENDED DECEMBER 31,				
		2000	1999(A)	1998	1997	1996
	(UNAUDITED)	(DOLLAR AMOUNTS EXPRESSED IN THOUSANDS)				
CONSOLIDATED INCOME STATEMENT DATA:						
Operating revenue	$444,218	$422,593	$384,763(b)	$637,485	$775,932	$547,910
Operating income	63,969	65,258	41,890	24,195	29,167	24,834
Income before interest, income taxes and dividends on trust preferred securities	66,745	68,216	45,639	32,630(c)	36,953(d)	(8,785)(e)
Net income	13,755	16,693	17,659	10,040(c)	15,425(d)	(12,762)(e)
Ratio of earnings to fixed charges(f)	1.48x	1.60x	2.20x	2.17x	2.42x	(g)

	AS OF MARCH 31, 2001	AS OF DECEMBER 31,				
		2000(H)	1999(I)	1998	1997	1996
	(UNAUDITED)	(DOLLAR AMOUNTS EXPRESSED IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:						
Total assets	$817,586	$851,223	$815,183	$489,662	$507,160	$479,037
Short-term debt	103,414	134,142	376,629	63,576	71,406	91,382
Long-term debt	307,720	307,930	170,000	170,000	163,548	108,112
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries	139,379	139,374	--	--	--	--
Preferred stock	--	--	--	3,255	3,269	3,269
Common shareholders' equity	140,682	135,472	142,340	132,228	95,131	86,678

(a) Results include two months of operating results from the ENSTAR/Alaska Pipeline acquisition.

(b) The decrease in operating revenue in 1999 was due primarily to SEMCO's energy marketing business, which was sold effective March 31, 1999, offset partially by revenues from new business acquisitions.

(c) Includes $0.5 million (net of tax) or $0.03 per share attributable to an extraordinary charge on the early extinguishment of debt, income of $1.78 million (net of tax) or $0.11 per share attributable to a change in accounting method, and a gain of $1.71 million (net of tax) or $0.11 per share from the sale of the NOARK investment.

(d) Includes income of $5.0 million (net of tax) or $0.34 per share due to an adjustment to the reserve for the NOARK investment.

(e) Includes the $21.0 million (net of tax) or $1.44 per share writedown of the NOARK investment.

(f) The ratio of earnings to fixed charges includes preferred and trust preferred dividends in accordance with the instructions for Item 503 of Regulation S-K. The ratio excluding such preferred and trust preferred dividends is set forth below as the "Interest Coverage Ratio."

	FOR THE TWELVE MONTHS ENDED MARCH 31, 2001	FOR THE YEAR ENDED DECEMBER 31,				
		2000	1999	1998	1997	1996
Interest coverage ratio	1.95x	1.95x	2.22x	2.20x	2.45x	(g)

(g) For the year ended December 31, 1996, fixed charges exceeded earnings by $20.0 million. Earnings as defined included a $32.2 million non-cash pretax write-down of the NOARK investment. Excluding the NOARK writedown, the interest coverage ratio would have been 1.86 and the ratio of earnings to fixed charges would have been 1.84.

(h) The change in capital structure reflects permanent financing of the November 1, 1999 acquisition of ENSTAR.

(i) The increase in total assets and short-term debt is due to the November 1, 1999 acquisition of ENSTAR.

DESCRIPTION OF THE SENIOR NOTES

We have summarized provisions of the Senior Notes below. It is important for you to consider the information contained in this prospectus supplement and the accompanying prospectus before making your decision to invest in the Senior Notes. If any specific information regarding the Senior Notes in this prospectus supplement is inconsistent with the more general terms of the Senior Notes described in the accompanying prospectus you should rely on the information contained in this prospectus supplement.

GENERAL

The Senior Notes will be issued under an Indenture dated as of October 23, 1998, as supplemented by the Third Supplemental Indenture dated as of June 15, 2001, between us and Bank One Trust Company, National Association, successor to NBD Bank, as Trustee. The Senior Notes will mature and become due and payable on June 30, 2016, together with any accrued and unpaid interest thereon. We will issue the Senior Notes only in fully registered form, without coupons, in denominations of $1,000 plus integral multiples of $1,000. The Senior Notes are not subject to any sinking fund.

INTEREST

We will pay interest on the Senior Notes at the rate per annum stated on the first page of this prospectus supplement. Interest on the Senior Notes will accrue from the date of original issuance or from the most recent interest payment date to which interest has been paid. We will pay interest quarterly on each March 31, June 30, September 30 and December 31 of each year, beginning on September 30, 2001, and at maturity to the person in whose name such Senior Note is registered at the close of business on the fifteenth calendar day, whether or not a business day, prior to such payment date. In the event that any date on which interest is payable on the Senior Notes is not a Business Day (as defined in the Indenture for the Senior Notes), then payment of the 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).

RANKING

The Senior Notes will be direct, unsecured and unsubordinated obligations of SEMCO. The Senior Notes will rank equally with all of our other unsecured and unsubordinated indebtedness and will rank senior to any subordinated indebtedness of SEMCO. The Indenture under which the Senior Notes are being issued contains no limit on the amount of additional debt that may be issued by us; provided, however, the Indenture contains restrictions that may limit the ability of SEMCO and certain subsidiaries to provide security for such additional debt.

DEFEASANCE

The defeasance and covenant defeasance provisions of the Indenture that are described under the caption "Description of Debt Securities -- Discharge, Defeasance and Covenant Defeasance" in the accompanying prospectus will apply to the Senior Notes.

OPTIONAL REDEMPTION

We have the right to redeem the Senior Notes, in whole or in part, at our option at any time on or after June 30, 2006 at a redemption price equal to 100% of the principal amount plus any accrued and unpaid interest to the date of redemption.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of the Senior Notes to be redeemed.

Unless we default in payment of the redemption price and accrued interest to the redemption date, interest will cease to accrue on and after the redemption date on the Senior Notes called for redemption.

BENEFICIAL OWNER'S LIMITED RIGHT OF REDEMPTION

Unless the Senior Notes have been declared due and payable prior to their maturity by reason of an event of default under the Indenture, the Representative (described below) of a deceased holder of an interest in the Senior Notes has the right to request redemption of all or part of the holder's interest in the Senior Notes. The request must be expressed in multiples of $1,000. We will redeem the holder's Senior Notes subject to the following limitations. We will not be obligated to redeem during the period from the initial issuance of the Senior Notes through and including June 30, 2002 (the "Initial Period"), and during any twelve-month period which ends on and includes each June 30 thereafter (each such twelve-month period being hereinafter referred to as a "Subsequent Period") (i) on behalf of any deceased holder, any interest in the Senior Notes which exceeds a principal amount of $60,000 and (ii) interests in the Senior Notes in an aggregate principal amount exceeding $1,200,000. A request for redemption may be presented to the Trustee under the Indenture by the Representative of a deceased holder at any time and in any principal amount subject to the limitations set forth above. Representatives of deceased holders must make arrangements with the participant in The Depository Trust Company (or "DTC") through whom such interest is owned in order that timely presentation of redemption requests can be made by the participant and, in turn, by DTC, to the Trustee. If we, although not obligated to do so, choose to redeem interests in the Senior Notes of a deceased holder during the Initial Period or in any Subsequent Period in excess of the $60,000 limitation, such redemption, to the extent that it exceeds the $60,000 limitation for any deceased holder, shall not be included in the computation of the $1,200,000 aggregate limitation for such Initial Period or such Subsequent Period, as the case may be.

Subject to the $60,000 and the $1,200,000 limitations, we will upon the death of a holder redeem the interests of the holder in the Senior Notes within 60 days following receipt by the Trustee of a Redemption Request, including all supporting documentation, from such holder's representative, or surviving joint tenant(s), tenant(s) by the entirety or tenant(s) in common, or other persons entitled to effect a Redemption Request (each of which is a "Representative"). If, during the Initial Period or any Subsequent Period, Redemption Requests exceed the aggregate principal amount of Senior Notes required to be redeemed, then such excess Redemption Requests (subject in the case of the $60,000 limitation to the provisions of the last sentence of the preceding paragraph) will be applied to successive Subsequent Periods in order of receipt, regardless of the number of Subsequent Periods required to redeem such interests unless sooner withdrawn as described below.

A request for redemption of an interest in the Senior Notes may be made by delivering a request to the participant in DTC through whom the deceased holder owned such Senior Notes, in form satisfactory to the participant, together with evidence of the death of the holder and the authority of the Representative satisfactory to the participant and the Trustee. A Representative of a deceased holder may make the request for redemption and shall submit such other evidence of the right to such redemption as the participant or the Trustee shall require. The request shall specify the principal amount of Senior Notes to be redeemed. A request for redemption in form satisfactory to the participant and accompanied by the documents relevant to the request as above provided, together with a certification by the participant that it holds the interest on behalf of the deceased holder with respect to whom the request for redemption is being made (a "Redemption Request"), must be provided to DTC by a participant, and DTC will forward the request to the Trustee. Redemption Requests, including all supporting documentation, must be in the

form satisfactory to the Trustee, and no request for redemption will be considered validly made until the Redemption Request and all supporting documentation, in form satisfactory to the Trustee, have been received by the Trustee.

The price to be paid by SEMCO for an interest in the Senior Notes to be redeemed is 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of redemption. Subject to arrangements with DTC, payment for interests in the Senior Notes which are to be redeemed will be made to DTC within 60 days following receipt by the Trustee of the Redemption Request, including all supporting documentation, and the Senior Notes in the aggregate principal amount specified in the Redemption Requests submitted to the Trustee by DTC which are to be fulfilled in connection with such payment. Any acquisition of Senior Notes by SEMCO or its subsidiaries other than by redemption at the option of a Representative of a deceased holder shall not be included in the computation of either the $60,000 or the $1,200,000 limitation for the Initial Period or for any Subsequent Period.

Interests in the Senior Notes held in tenancy by the entirety, joint tenancy or by tenants in common will be deemed to be held by a single holder, and the death of a tenant in common, tenant by the entirety or joint tenant will be deemed the death of a holder. The death of a person who, during such person's lifetime, was entitled to substantially all of the rights of a holder of the Senior Notes will be deemed the death of the holder, regardless of the recordation of such interest on the records of the participant in DTC, if such rights can be established to the satisfaction of the participant and the Trustee.

In the case of a Redemption Request which is presented on behalf of a deceased holder and which has not been fulfilled at the time we give notice of our election to redeem the Senior Notes, the Senior Notes which are the subject of such Redemption Request shall not be eligible for redemption pursuant to our option to redeem but shall remain subject to redemption pursuant to such Redemption Request. Subject to the provisions of the immediately preceding sentence, any Redemption Request may be withdrawn upon delivery of a written request for such withdrawal given to the Trustee by DTC prior to payment for redemption of interests in the Senior Notes by reason of the death of a holder.

We are legally obligated to redeem Senior Notes properly presented for redemption pursuant to a Redemption Request in accordance with and subject to the terms, conditions and limitations in the Indenture, as summarized above. Our redemption obligation is not cumulative. Nothing in the Indenture prohibits us from redeeming, in fulfillment of the Redemption Requests made pursuant to the Indenture, Senior Notes in excess of the principal amount that we are obligated to redeem, nor does anything in the Indenture prohibit us from purchasing any Senior Notes in the open market. However, we may not use any Senior Notes redeemed or purchased as described in the immediately preceding sentence as a credit against our redemption obligation.

Because of the limitations of the requirement to redeem, no holder can have any assurance that his or her Senior Notes will be paid prior to maturity.

BOOK-ENTRY DELIVERY AND SETTLEMENT

We will issue the Senior Notes in the form of one or more permanent global notes in definitive, fully registered, book-entry form. The global notes will be deposited with or on behalf of The Depository Trust Company ("DTC") and registered in the name of Cede & Co., as nominee of DTC.

DTC has advised us as follows:

- DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934.

- DTC holds securities that its participants deposit with DTC and facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through

electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates.

- Direct participants include securities brokers and dealers, trust companies, clearing corporations and other organizations.

- DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

- Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

- The rules applicable to DTC and its participants are on file with the SEC.

We have provided the following descriptions of the operations and procedures of DTC solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to change by them from time to time. None of SEMCO, the underwriters nor the Trustee takes any responsibility for these operations or procedures, and you are urged to contact DTC or its participants directly to discuss these matters.

We expect that under procedures established by DTC:

- Upon deposit of the global notes with DTC or its custodian, DTC will credit on its internal system the accounts of direct participants designated by the underwriters with portions of the principal amounts of the global notes.

- Ownership of the Senior Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC or its nominee, with respect to interests of direct participants, and the records of direct and indirect participants, with respect to interests of persons other than participants.

The laws of some jurisdictions require that purchasers of securities take physical delivery of those securities in definitive form. Accordingly, the ability to transfer interests in the Senior Notes represented by a global note to those persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Senior Notes represented by a global note to pledge or transfer those interests to persons or entities that do not participate in DTC's system, or otherwise to take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global note, DTC or that nominee will be considered the sole owner or holder of the Senior Notes represented by that global note for all purposes under the Indenture and under the Senior Notes. Except as provided below, owners of beneficial interests in a global note will not be entitled to have Senior Notes represented by that global note registered in their names, will not receive or be entitled to receive physical delivery of certificated Senior Notes and will not be considered the owners or holders thereof under the Indenture or under the Senior Notes for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee. Accordingly, each holder owning a beneficial interest in a global note must rely on the procedures of DTC and, if that holder is not a direct or indirect participant, on the procedures of the participant through which that holder owns its interest, to exercise any rights of a holder of Senior Notes under the Indenture or the global note.

Neither SEMCO nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of Senior Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to the Senior Notes.

Payments on the Senior Notes represented by the global notes will be made to DTC or its nominee, as the case may be, as the registered owner thereof. We expect that DTC or its nominee, upon receipt of

any payment on the Senior Notes represented by a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the global note as shown in the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the global note held through such participants will be governed by standing instructions and customary practice as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be responsible for those payments.

Payments on the Senior Notes represented by the global notes will be made in immediately available funds. Transfers between participants in DTC will be effected in accordance with DTC rules and will be settled in immediately available funds.

CERTIFICATED NOTES

We will issue certificated Senior Notes to each person that DTC identifies as the beneficial owner of the Senior Notes represented by the global notes upon surrender by DTC of the global notes if:

- DTC notifies us that it is no longer willing or able to act as a depository for the global notes or DTC is no longer eligible or in good standing under the Securities Exchange Act of 1934 or other applicable statute or regulation, and we have not appointed a successor depository within 90 days of our receipt of that notice or our having become aware of such unwillingness, inability or ineligibility;

- We determine not to have the Senior Notes represented by a global note; or

- An event of default under the Indenture has occurred and the beneficial owners of a majority in principal amount of the Senior Notes has advised DTC to cease acting as depository for the Senior Notes.

Neither SEMCO nor the Trustee will be liable for any delay by DTC, its nominee or any direct or indirect participant in identifying the beneficial owners of the related Senior Notes. SEMCO and the Trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes, including with respect to the registration and delivery, and the respective principal amounts, of the Senior Notes to be issued.

UNDERWRITING

Subject to the terms and conditions contained in the underwriting agreement between SEMCO and A.G. Edwards & Sons, Inc., Salomon Smith Barney Inc. and Fahnestock & Co. Inc. acting as underwriters (the "Underwriters"), we have agreed to sell to each of the Underwriters, and each of the Underwriters has severally agreed to purchase from us, the principal amount of Senior Notes set forth opposite its name below. In the underwriting agreement, the Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all of the Senior Notes offered hereby if any of the Senior Notes are purchased.

UNDERWRITER	PRINCIPAL AMOUNT OF SENIOR NOTES
A.G. Edwards &Sons, Inc.	$33,000,000
Salomon Smith Barney Inc.	15,000,000
Fahnestock &Co. Inc.	12,000,000
Total	$60,000,000

The offering of the Senior Notes is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of the Senior Notes.

The Underwriters have advised us that they propose initially to offer the Senior Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at the public offering price less a concession not in excess of 2% of the principal amount of the Senior Notes. The Underwriters may allow, and such dealers may reallow, a discount not in excess of 1 1/2% of the principal amount of the Senior Notes on sales to certain other dealers. If all of the Senior Notes are not sold at the initial offering price, the Underwriters may offer the Senior Notes from time to time for sale in one or more negotiated transactions, or otherwise, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The Underwriters may effect such transactions by selling the Senior Notes to or through dealers, and such dealers may receive compensation in the form of underwriting discounts, concessions or commissions from the Underwriters and/or the purchasers of the Senior Notes for whom they may act as agent. The Underwriters and any dealers that participate with the Underwriters in the distribution of the Senior Notes may be deemed to be underwriters, and any discounts or commissions received by them and any profit on the resale of the Senior Notes by them may be deemed to be underwriting discounts or commissions, under the Securities Act of 1933, as amended.

The Senior Notes are a new issue of securities with no established trading market. We currently have no intention to list the Senior Notes on any securities exchange. We have been advised by the Underwriters that they intend to make a market in the Senior Notes, but are not obligated to do so and may discontinue any market making at any time without notice. We can give no assurance as to the liquidity of, or the existence of a trading market for, the Senior Notes.

We have agreed to indemnify the Underwriters against certain liabilities and contribute to payments the Underwriters may be required to make in respect thereof, including liabilities under the Securities Act of 1933, as amended.

In connection with the sale to the public of the Senior Notes, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Senior Notes. Specifically, the Underwriters may bid for and purchase the Senior Notes in the open market to stabilize the price of the Senior Notes. The Underwriters may also overallot the Senior Notes, creating a syndicate short position, and may bid for and purchase the Senior Notes in the open market to cover the syndicate short position. In addition, the Underwriters may bid for and purchase the Senior Notes in market making transactions. These activities may stabilize or maintain the market price of the Senior Notes above the market levels that would otherwise prevail. The Underwriters are not required to engage in these activities, and may end

these activities at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Underwriting Agreement provides that, during a period of 45 days from the date of this prospectus supplement, we will not, without the prior written consent of the Underwriters, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any securities substantially similar to the Senior Notes or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Senior Notes, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Senior Notes or such other securities, in cash or otherwise. The foregoing sentence will not apply to the Senior Notes offered herein.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $100,000.

LEGAL MATTERS

The legality of the Senior Notes will be passed upon for SEMCO by Dickinson Wright PLLC, Detroit, Michigan. Certain matters will be passed upon for the Underwriters by LeBoeuf, Lamb, Greene & MacRae, L.L.P., a limited liability partnership including professional corporations, New York, New York. LeBoeuf, Lamb, Greene & MacRae, L.L.P. from time to time renders legal services to SEMCO.

PROSPECTUS

SEMCO ENERGY, INC.
SEMCO CAPITAL TRUST I
SEMCO CAPITAL TRUST II
SEMCO CAPITAL TRUST III

The following are types of securities that we may, from time to time, offer and sell under this prospectus:

- Debt securities
- Preferred Stock
- Common Stock
- Stock purchase contracts
- Stock purchase units

In addition, we, in conjunction with our trusts, may, from time to time, offer and sell:

- Trust preferred securities and related guarantees

We may offer these securities separately or as units which may include other securities. We will describe in a prospectus supplement, which must accompany this prospectus, the type and amount of securities we are offering and selling, as well as the specific terms of the securities. Those terms may include:

- Maturity
- Interest or dividend rate
- Sinking fund terms
- Currency of payments
- Redemption terms
- Listing on a securities exchange
- Amount payable at maturity
- Ranking

Our shares of Common Stock are traded on the New York Stock Exchange under the symbol SEN.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We may offer the securities in amounts, at prices and on terms determined at the time of offering. We may sell the securities directly to you, through agents we select, or through underwriters and dealers we select. If we use agents, underwriters or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement.

March 27, 2000

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WHERE YOU CAN FIND MORE INFORMATION

SEMCO files annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the following locations of the Commission:

Judiciary Plaza, Room 10024 450 Fifth Street, N.W. Washington, D.C. 20549	Seven World Trade Center Suite 1300 New York, New York 10048	Citicorp Center 500 West Madison St., Ste. 1400 Chicago, Illinois 60661

You can also obtain copies of this information by mail from the Public Reference Room of the Commission, 450 Fifth Street, N.W., Room 10024, Washington D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the Commission at (800) SEC-0330.

The Commission also maintains an internet world wide web site that contains reports, proxy statements and other information about issuers, like SEMCO, who file electronically with the Commission. The address of that site is http://www.sec.gov.

We and our trusts have filed jointly with the Commission a registration statement on Form S-3 that registers the securities we or they are offering. The registration statement, including the attached exhibits, contains additional relevant information about SEMCO, the trusts and the securities offered. The rules and regulations of the Commission allow us to omit certain information included in the registration statement from this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Commission allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the Commission. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this document.

This prospectus includes by reference the documents listed below that we have previously filed with the Commission and that are not included in or delivered with this document. They contain important information about us and our financial condition.

FILING	PERIOD
Annual Report on Form 10-K.....	Year ended December 31, 1999
Current Report on Form 8-K.....	Filed March 20, 2000

We incorporate by reference additional documents that we may subsequently file with the Commission prior to termination of any offering of securities made by this prospectus. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements. The information in this prospectus, in documents incorporated into this prospectus, and in prospectus supplements may be changed or superceded by information given at a later date in these documents.

You can obtain any of the documents incorporated by reference in this document from us without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit to this prospectus. You can obtain documents incorporated by reference in this prospectus by requesting them in writing or by telephone from us at the following address:

Edric R. Mason, Jr.
Director of Investor Relations
SEMCO Energy, Inc.
405 Water Street
Port Huron, Michigan 48060
(810) 989-4104

We have not authorized anyone to give any information or make any representation about us that is different from, or in addition to, that contained in this prospectus or in any of the materials that we have incorporated by reference into this prospectus. Therefore, if anyone does give you information of this nature, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this prospectus does not extend to you. The information contained in this prospectus speaks only as of the date of this prospectus, unless the information specifically indicates that another date applies.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about our outlook, beliefs, plans, goals and expectations are forward-looking statements. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. We undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Factors that may impact forward-looking statements include, but are not limited to, the following: (i) the effects of weather and other natural phenomena; (ii) the economic climate and growth in the geographical

areas where we do business; (iii) the capital intensive nature of our business; (iv) increased competition within the energy industry as well as from alternative forms of energy; (v) the timing and extent of changes in commodity prices for natural gas and propane; (vi) the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates; (vii) our ability to bid on and win construction, engineering and quality assurance contracts; (viii) the impact of energy prices on the amount of projects and business available to the engineering business; (ix) the nature, availability and projected profitability of potential investments available to us; (x) our ability to accomplish our financing objectives in a timely and cost-effective manner, in light of changing conditions in the capital markets, and, in particular, our ability to refinance, in a timely and cost-effective manner, the $290,000,000 short-term bridge loan obtained to finance the acquisition of ENSTAR Natural Gas Company and Alaska Pipeline Company, and (xi) our ability to operate and integrate acquired businesses in accordance with our plans.

SEMCO ENERGY

SEMCO is a diversified energy services and infrastructure holding company headquartered in southeastern Michigan. It was founded in 1950 as Southeastern Michigan Gas Company. SEMCO and its subsidiaries operate four business segments: (1) gas distribution; (2) construction services; (3) engineering services; and (4) propane, pipelines and storage. The latter three segments are sometimes referred to together as the "diversified businesses". SEMCO sold the subsidiary comprising its energy marketing business effective March 31, 1999. In addition, several business acquisitions were made during 1999. These acquisitions are discussed in the following business segment sections. SEMCO had approximately 1,632 employees at December 31, 1999.

GAS DISTRIBUTION

SEMCO's gas distribution business segment operates in Michigan and Alaska. The Alaska-based operation, which consists of ENSTAR Natural Gas Company and Alaska Pipeline Company (together known as "ENSTAR"), was acquired on November 1, 1999 for approximately $290,000,000. The acquisition of ENSTAR was accounted for as a purchase and, therefore, the consolidated financial statements and the table below include the results of ENSTAR's operations since November 1, 1999. The success of the ENSTAR acquisition is, in part, dependent on the synergies obtained in combining ENSTAR with our other gas distribution operations, our ability to operate ENSTAR in accordance with our plans and our ability to accomplish the permanent financing related to the ENSTAR acquisition in a timely and cost-effective manner in light of changing conditions in the capital markets.

The Michigan gas distribution operation and ENSTAR are referred to together as the "Gas Distribution Business". The Michigan gas distribution operation and ENSTAR Natural Gas Company operate as divisions of SEMCO. SEMCO Energy Gas Company, which had conducted the Michigan gas distribution operation, was merged into SEMCO on December 31, 1999. Alaska Pipeline Company operates as a subsidiary of SEMCO.

The Gas Distribution Business distributes and transports natural gas to residential, commercial and industrial customers and is our largest business segment. Set forth in the table below is gas sales and transportation information for the past three years:

	YEARS ENDED DECEMBER 31,		
	1999(B)	1998	1997
GAS SALES REVENUE (IN THOUSANDS):			
Residential	$137,407	$118,220	$139,538
Commercial	38,451	42,041	66,577
Industrial	6,763	6,439	12,065
Total gas sales revenue(a)	$182,621	$166,700	$218,180
GAS TRANSPORTATION REVENUE (IN THOUSANDS)	$ 22,369	$ 14,832	$ 13,243
VOLUMES OF GAS SOLD (MMCF):			
Residential	28,583	21,946	25,968
Commercial	8,882	8,840	13,483
Industrial	1,780	1,461	2,534
Total volumes of gas sold(a)	39,245	32,247	41,985
VOLUMES OF GAS TRANSPORTED (MMCF)	32,417	23,791	21,373
TOTAL VOLUMES DELIVERED(A)	71,662	56,038	63,358

(a) Does not include the sale of excess inventory gas to a third party in 1999.

(b) 1999 results include two months of activity from ENSTAR.

GAS SALES. Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. These customers use natural gas mainly for space heating purposes. Consequently, weather has a significant impact on sales. Given the impact of weather on this business segment, most of its gas sales revenue is earned in the first and fourth quarters of the calendar year. Revenues from gas sales accounted for 50%, 26% and 28% of consolidated operating revenues in 1999, 1998 and 1997, respectively. If operating revenues from our energy marketing business, which was sold effective March 31, 1999, are excluded, gas sales by the Gas Distribution Business would have accounted for 66%, 68% and 88% of consolidated operating revenues for those three years.

Competition in the gas sales market arises from alternative energy sources such as electricity, propane and oil. However, this competition is inhibited because of the time, inconvenience and investment for residential and commercial customers to convert to an alternate energy source when the price of natural gas fluctuates.

An aggregation tariff, which was effective April 1, 1998, provides all Michigan commercial and industrial customers the opportunity to purchase their gas from a third-party supplier, while allowing the Gas Distribution Business to continue charging the existing distribution fees and customer fees plus a gas load balancing fee.

TRANSPORTATION. The Gas Distribution Business provides transportation services to our large-volume commercial and industrial customers. This service offers those customers the option of purchasing natural gas directly from producers or marketing companies while utilizing the Gas Distribution Business' distribution network to transport the gas to their facilities.

Alaska Pipeline Company ("APC") owns and operates the only natural gas transmission lines in its service area that are operated for utility purposes. APC's transmission system delivers natural gas from producing fields in south central Alaska to ENSTAR's Anchorage-based gas distribution system. APC's only customer is ENSTAR Natural Gas Company.

The market price of alternate energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for transportation. Certain large industrial customers have some ability to convert to another form of energy if the price of natural gas increases significantly. Partially offsetting the impact of price sensitivity has been the use of natural gas as an industrial fuel because of clean air legislation and the resultant pressures on industry and electric utilities to reduce emissions from their plants.

As is the case with many gas distribution utilities, there has been downward pressure on transportation rates due to the potential risk for industrial customers and electric generating plants located in close proximity to interstate natural gas pipelines to bypass SEMCO and connect directly to such pipelines. However, management is currently unaware of any significant bypass efforts by our customers. SEMCO has and would continue to address any such efforts by offering special services and contractual arrangements designed to retain these customers on SEMCO's system. Customers in ENSTAR's service territory are currently precluded from bypassing ENSTAR's transportation and distribution system due to the limited availability of gas transmission systems and the large distances between producing fields and the locations of current customers.

CUSTOMER BASE. At December 31, 1999, the Michigan gas distribution operation had approximately 255,000 customers. The largest concentration of customers, approximately 100,000, is located in southeastern Michigan. The remaining Michigan customers are located in and around the following communities: Battle Creek, Albion, Holland, Three Rivers, Niles, Marquette and Houghton. The Michigan customer base is diverse and includes residential, commercial and industrial customers. The largest customers include power plants, food production facilities, paper processing plants, furniture manufacturers and others in a variety of other industries. The average number of customers in Michigan has increased by an average of approximately 3% annually during the past three years. By contrast, the customer growth rate for the U.S. gas distribution industry has averaged approximately 1% annually during the past three years.

At December 31, 1999, ENSTAR had approximately 102,000 customers in and around the Anchorage, Alaska area including the communities of Big Lake, Bird Creek, Butte, Chugiak, Eagle River, Eklutna, Girdwood, Houston, Indian, Kenai, Knik, Nikiski, Palmer, Peters Creek, Portage, Sterling, Soldotna, Wasilla and Whittier. ENSTAR is the sole distributor of natural gas to the greater Anchorage metropolitan area, and its service area encompasses approximately 50% of the population of Alaska. ENSTAR has two types of customers: gas sales and transportation. Gas sales customers are primarily residential and commercial. ENSTAR provides transportation service to power plant sites, a liquefied natural gas plant, an ammonia plant, and hundreds of commercial locations on behalf of gas producers and gas marketers. The average number of customers at ENSTAR has increased by an average of approximately 3% annually during the past three years.

GAS SUPPLY. The Gas Distribution Business has agreements with TransCanada Gas Services, Inc. ("TransCanada"), under which TransCanada provides SEMCO's natural gas requirements and manages its natural gas supply and the supply aspects of transportation and storage operations in Michigan for the three year period that began April 1, 1999. The Gas Distribution Business owns underground storage facilities in Michigan with a working capacity of 5.0 billion cubic feet ("Bcf"). In addition, it leases 6.5 Bcf of storage from Eaton Rapids Gas Storage System and 4.5 Bcf from non-affiliates in Michigan. The owned and leased storage capacity equals 35% to 40% of SEMCO's average annual gas sales volumes in Michigan. SEMCO Gas Storage Company (an affiliated company) is a 50% owner of Eaton Rapids Gas Storage System.

ENSTAR has a gas purchase contract (the "Marathon Contract") with Marathon Oil Company ("Marathon") that has been approved by the Regulatory Commission of Alaska ("RCA") and is a "requirements" contract with no specified daily deliverability or annual take-or-pay quantities. Marathon has agreed to deliver all of ENSTAR's gas requirements in excess of those provided for in other gas supply contracts in existence as of May 1, 1988, subject to certain exceptions, until the commitment has been exhausted. However, ENSTAR's purchase obligations and Marathon's delivery obligations are set at specified annual amounts after 2001. The contract has a base price and is subject to an annual adjustment based on changes in the price of certain traded oil futures contracts plus reimbursement for any severance taxes and other charges.

ENSTAR also has an RCA-approved gas purchase contract with the Municipality of Anchorage, Chevron U.S.A., Inc. and ARCO Alaska, Inc. (the "Beluga Contract") which provides for the delivery of up to approximately 220 Bcf of gas through the year 2009. The pricing mechanism in the Beluga Contract is similar to that contained in the Marathon Contract.

Based on gas purchases during the twelve months ended December 31, 1999, which are not necessarily indicative of the volume of future purchases, gas reserves committed to ENSTAR under the Marathon and Beluga Contracts are sufficient to supply all of ENSTAR's expected gas supply requirements through the year 2001. After that time supplies will still be available under the Marathon and Beluga Contracts in accordance with their terms, but at least a portion of ENSTAR's requirements are expected to be satisfied outside the terms of these contracts, as currently in effect.

The Michigan-based gas distribution operation is served by four major interstate pipelines: (1) Panhandle Eastern Pipe Line Company; (2) Northern Natural Gas Company; (3) Great Lakes Gas Transmission Company and (4) ANR Pipeline Company. Currently, ENSTAR's supply source, primarily though the Marathon and Beluga Contracts, is confined to the Cook Inlet area with no direct access to other natural gas pipelines. However, the Cook Inlet area is home to major gas producing fields, with proven and producing reserves of approximately 2.6 trillion cubic feet ("Tcf"). An additional 2.3 Tcf of undiscovered gas in the Cook Inlet area has been estimated by the United States Geological Survey and Minerals Management Service.

RATES AND REGULATION. The rates of gas distribution customers located in the City of Battle Creek, Michigan and surrounding communities are subject to the jurisdiction of the City Commission of Battle Creek. The Michigan Public Service Commission ("MPSC") authorizes the rates charged to all of the remaining Michigan customers. ENSTAR is subject to regulation by the RCA which has jurisdiction over,

among other things, rates, accounting procedures, and standards of service. The RCA order approving our acquisition of ENSTAR provides that ENSTAR's existing rates remain in effect on an interim basis and requires SEMCO to file revenue requirement and cost of service information by July 1, 2000.

Our management periodically reviews the adequacy of the Gas Distribution Business' rates and files requests for rate increases whenever it is deemed necessary and appropriate. However, a recent rate case includes provisions limiting our ability to request a rate increase in Michigan during the three year period that began April 1, 1999.

ENVIRONMENTAL MATTERS. The Gas Distribution Business currently owns seven Michigan sites which formerly housed manufactured gas plants. In the earlier part of the 20th century, gas was manufactured from processes using coal, coke or oil. By-products of this process have left some contamination at these sites. The Gas Distribution Business has submitted plans to the appropriate regulatory authority in the State of Michigan to close one site and begin work at another site.

DIVERSIFIED BUSINESSES

SEMCO's diversified businesses have grown during the past three years primarily through acquisitions. The following table shows operating revenues for each of the diversified businesses, including intercompany revenues, for 1997 through 1999:

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS)		
Operating Revenues			
Construction Services	$58,272	$25,904	$13,207
Engineering Services	17,486	41,366	5,660
Propane, Pipelines and Storage	6,284	4,852	3,027

The amounts in the above table include intercompany transactions.

CONSTRUCTION SERVICES

Our construction services segment operates in the mid-western and southeastern areas of the United States and has offices in Michigan, Tennessee, Kansas, Iowa, Georgia, and Texas as of December 31, 1999. Its primary service is underground pipeline installation and replacement for the natural gas distribution industry. During 1999, SEMCO made four business acquisitions that not only expanded the geographic reach of our construction services business but also expanded underground construction service offerings in new industries such as telecommunications and water supply. As of December 31, 1999, the construction services business was comprised of six companies that were all acquired during the past three years: (1) Sub-Surface Construction Co.; (2) King Energy & Construction Co.; (3) K&B Construction, Inc.; (4) Iowa Pipeline Associates, Inc.; (5) Flint Construction Co.; and (6) Long's Underground Technologies, Inc. On December 31, 1999, King Energy & Construction Co. was merged into Flint Construction Co.

Our construction services segment had operating revenues, excluding intercompany transactions, of $49,965,000, $16,621,000, and $7,484,000 in 1999, 1998 and 1997, respectively. These operating revenues accounted for 17%, 7% and 3% of consolidated operating revenues, excluding energy marketing operating revenues, during those years.

The natural gas construction services industry is comprised of a highly fragmented group of companies focused primarily on regional or local markets. We estimate that the top six construction companies in the United States have less than 10% of the market and that approximately 30% of the market represents work done by utility companies' in-house construction operations with the remainder of the market being served by a large number of small and medium-size companies.

The construction services business is seasonal in nature. Most of this segment's annual profits are made during the summer and fall months. The construction services segment generally incurs losses during the winter months when underground construction is inhibited.

ENGINEERING SERVICES

Our engineering services business segment is comprised of two companies, Maverick Pipeline Services, Inc. ("Maverick") and Oilfield Materials Consultants, Inc. ("OMC"). Maverick was acquired in December 1997 and OMC was acquired in November 1998. Maverick purchased the assets and certain liabilities of Drafting Services, Inc. in September 1999 and Pinpoint Locators, Inc. in October 1999. These two businesses are being operated as divisions of Maverick. Engineering services has offices in New Jersey, Michigan, Louisiana and Texas and provides a variety of energy related engineering and quality assurance services in several states.

Our engineering services business had operating revenues, excluding intercompany transactions, of $14,841,000, $40,937,000, and $5,660,000 in 1999, 1998 and 1997, respectively. These operating revenues accounted for 5%, 17% and 2% of consolidated operating revenues, excluding energy marketing operating revenues, during those years.

The engineering services business serves the natural gas distribution and transmission, oil products, exploration/production and telecommunication industries. The primary services provided include engineering design, distribution system design, construction project management, field surveys, global positioning surveys, inspection, testing, pipeline-mill quality assurance and full turn-key service. The engineering services segment competes with regional, national and international firms as well as in-house engineering and field service departments.

There has been a reduction in oil and gas production and related activities due to the downturn in oil prices in late 1998 and early 1999. There has also been a reduction or deferral of new engineering projects for the gas distribution industry due to the cash flow impact on the industry of the warm weather during the past two years. As a result, our engineering services business has experienced a reduction in the level of available projects. Management believes that the level of available projects will increase as gas distribution companies start releasing new engineering projects and as pipeline construction and inspection projects become available as a result of the recovery in oil prices in late 1999.

PROPANE, PIPELINES AND STORAGE

SEMCO's pipelines and storage operations consist of several pipelines and a gas storage facility. SEMCO has partial ownership interests or equity interests in certain of these operations. The pipelines and storage operations are all located in Michigan. In March 1998, we entered the propane distribution business with the acquisition of Hotflame Gas, Inc. and Hotflame Transport Co., Inc. (together known as "Hotflame"). Hotflame supplies approximately 5 million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin. Because propane is used principally for heating, most of the operating income for the propane business is generated in the first and fourth quarters of the calendar year.

The retail propane industry is highly fragmented with the largest firm in the industry serving less than 10% of the national market and the vast majority of propane companies individually having less than one percent market share. Propane is transported easily in pressurized containers and is generally the fuel used in rural areas where natural gas pipelines and distribution systems do not exist or are uneconomical to build. SEMCO purchases the majority of its propane from BP Amoco PLC. The propane operation competes with other energy sources such as natural gas, fuel oil, electricity and other regional propane providers. The basis of the competition is generally price and service. The propane business has become increasingly competitive and less profitable, which necessitates large-scale operations to be successful in the long term. We will continue to assess regional growth opportunities and the strategic fit of the propane business over the coming year.

BUSINESS STRATEGY

SEMCO's business strategy is to expand significantly both its gas distribution and diversified businesses through normal market growth and acquisitions that meet pre-determined financial criteria and provide incremental revenue, cost synergies, additional business opportunities and ultimately higher shareholder value. Management has experience in operating non-contiguous gas distribution properties based on operating its Michigan properties. As such, we will continue to evaluate acquisition opportunities throughout the United States. With respect to the diversified business segments, SEMCO's vision is to become one of the largest engineering and construction companies in the United States in the pipeline/underground infrastructure business. The key to SEMCO's business strategy is the acquisition of a number of companies which provide engineering and construction services to companies in the natural gas, telecommunications, water and electric industries. The Company desires to consolidate these acquisitions to achieve the synergies and lower administrative and financing costs usually present in a large firm, while maintaining the entrepreneurial spirit of a small company. A cornerstone of SEMCO's strategy is to build complementary businesses capable of providing a large menu of engineering and construction services in the pipeline/underground infrastructure industry which can be packaged in full turnkey services for higher profit potential. Other major benefits of SEMCO's consolidation strategy is the development of greater depth and overall strength of management, more sophisticated systems, enhanced purchasing capabilities, and better utilization of equipment and resources. We anticipate that this group of diversified businesses could contribute an increasing share of SEMCO's consolidated net income. In addition to this increased contribution, such engineering and construction businesses provide a counter-seasonal earnings pattern to our traditional gas distribution business. These engineering and construction businesses tend to have higher earnings in the spring through fall months. The gas distribution business has higher earnings in the late fall and winter that is associated with colder weather.

THE TRUSTS

We created three Delaware business trusts pursuant to three trust agreements executed by us as sponsor for each trust, appointed trustees for each trust and filed a certificate of trust for each trust with the Delaware Secretary of State. The trusts are named SEMCO Capital Trust I, SEMCO Capital Trust II and SEMCO Capital Trust III, which we refer to herein as, collectively, the "trusts" and, individually, each a "trust." The amended and restated trust agreement for each trust, (as so amended and restated, the "trust agreement") which is filed as an exhibit to the registration statement of which this prospectus forms a part, states the terms and conditions for each trust to issue and sell its trust preferred securities and trust common securities, which we refer to herein, together with the trust preferred securities, as the trust securities.

Each trust will exist solely to:

- issue and sell its trust securities;
- use the proceeds from the sale of its trust securities to purchase and hold a series of our debt securities;
- maintain its status as a grantor trust for federal income tax purposes; and
- engage in other activities that are necessary or incidental to these purposes.

We will purchase all of the trust common securities of each trust. The trust common securities will represent an aggregate liquidation amount equal to at least 3% of each trust's total capitalization. The trust common securities will have terms substantially identical to, and will rank equal in priority of payment with, the trust preferred securities. However, if we default on the subordinated debt securities, then cash distributions and liquidation, redemption and other amounts payable on the trust common securities will be subordinate to the trust preferred securities in priority of payment.

We will guarantee the trust preferred securities as described later in this prospectus.

The trust's business and affairs will be conducted by the trustees (the "Trustees") appointed by us, as holder of the trust common securities. The duties and obligations of the trustees will be governed by the trust agreement. Pursuant to each trust agreement, the number of trustees will initially be four. Two of the trustees (the "Administrative Trustees") will be persons who are our employees or officers of or affiliated with us. The third Trustee will be a corporation which maintains a principal place of business in the State of Delaware that will serve for the sole purpose of complying with certain Delaware laws (the "Delaware Trustee"). The fourth trustee will be a financial institution unaffiliated with us which will serve as property trustee under each trust agreement and as indenture trustee for purposes of the Trust Indenture Act (the "Property Trustee"). Bank One Delaware, Inc. will act as the Delaware Trustee and Bank One Trust Company, National Association as the Property Trustee, in each case until removed or replaced by the holder of the trust common securities. The Property Trustee will also act as indenture trustee under the indenture and guarantee trustee under the Trust Guarantee (the "Guarantee Trustee"). See "Description of the Trust Guarantee." We, as the holder of all the trust common securities, will have the right to appoint, remove or replace any trustee and to increase the number of trustees, provided that the number of trustees will be at least three, two of which will be the Administrative Trustees.

The Property Trustee will hold title to the subordinated debt securities for the benefit of the holders of the trust securities, and will have the power to exercise all rights, powers and privileges as the holder of the subordinated debt securities under the indenture pursuant to which the subordinated debt securities are issued. In addition, the Property Trustee will maintain exclusive control of a segregated non-interest bearing bank account to hold all payments made in respect of the subordinated debt securities for the benefit of the holders of the trust securities. The Property Trustee will make payments of distributions and payments on liquidation, redemption and otherwise to the holders of the trust securities out of funds from the property account. The Guarantee Trustee will hold the guarantee by us of the trust securities for the benefit of the holders of the trust preferred securities.

In addition, unless the Property Trustee maintains a principal place of business in the State of Delaware, and otherwise meets the requirements of applicable law, another trustee of each trust, the Delaware trustee, will either be a natural person who is a resident of the State of Delaware or an entity which has its principal place of business or resides in the State of Delaware. We have appointed Bank One Delaware, Inc., as Delaware trustee. We will pay all fees and expenses related to each trust and each offering of the related trust preferred securities and will pay all ongoing costs and expenses of each trust, except such trust's obligations under the related trust securities.

The rights of the holders of the trust preferred securities, including economic rights, rights to information and voting rights, are set forth in each trust's trust agreement and the Delaware Business Trust Act, as amended, and the Trust Indenture Act. The principal place of business of the trusts is c/o SEMCO Energy, Inc., 405 Water Street, Port Huron, Michigan 48060, and their telephone number is 810-987-2200.

USE OF PROCEEDS

Except as may otherwise be described in the prospectus supplement relating to an offering of securities, the net proceeds from the sale of the securities will be used to finance acquisitions, repay our short-term borrowings and for other general corporate purposes. Prior to such uses, the net proceeds from the sale of securities may be invested in certificates of deposit or other highly liquid investments with short-term maturities. Any specific allocation of the net proceeds of an offering of securities to a specific purpose will be determined at the time of such offering and will be described in the related prospectus supplement. A significant portion of the net proceeds from the sale of these securities are expected to be used to refinance a $290,000,000 short-term, unsecured bridge loan facility that was used to acquire the assets and some of the liabilities of ENSTAR Natural Gas Company and the outstanding stock of Alaska Pipeline Company. This bridge loan facility matures on October 30, 2000. We currently plan to retire the bridge loan by publicly issuing a combination of medium-term notes, trust preferred securities and common stock, however, our ability to secure permanent financing for this amount on a timely basis or on

commercially reasonable terms depends to an extent on factors beyond our control such as the state of the financial markets and general economic conditions.

ACCOUNTING TREATMENT RELATING TO TRUST SECURITIES

The financial statements of each trust that has issued trust securities will be consolidated with our financial statements, with the trust preferred securities of each trust shown on our consolidated financial statements as our obligated mandatory redemption preferred securities of a consolidated trust. Our financial statements will include a footnote that discloses, among other things, that the sole asset of each trust included therein consists of our subordinated deferrable interest debentures and will specify the designation, principal amount, interest rate and maturity date of such subordinated deferrable interest debentures.

CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth the consolidated ratios of earnings to fixed charges for SEMCO and its subsidiaries for the years indicated:

	YEARS ENDED DECEMBER 31,				
RATIO OF EARNINGS TO:	1999	1998	1997(3)	1996(3)	1995
Fixed Charges(1).....	2.18	2.17	2.42	(2)	2.21
Fixed Charges and Preferred Dividends(1).....	2.18	2.17	2.42	(2)	2.20

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(1) In January 1998, SEMCO, through a subsidiary of SEMCO Energy Ventures, SEMCO Arkansas Pipeline Company, sold its 32.07% partnership interest in NOARK Pipeline System L.P. ("NOARK"). NOARK had been generating losses since it was placed in service in 1992. Earnings reflect a share of NOARK's operating losses and fixed charges include a share of NOARK's interest expense equal to SEMCO's percentage interest in NOARK.

For purposes of calculating the ratios, "earnings" represent the sum of (a) pretax income from continuing operations (excluding extraordinary charges from the early retirement of debt in 1994 and 1998) and (b) fixed charges. "Fixed charges" represent the sum of (i) interest incurred by SEMCO and its subsidiaries plus their share of interest on debt to outsiders incurred by less-than-fifty-percent-owned persons, (ii) amortization of debt expense and (iii) the preferred stock dividend requirements of SEMCO's subsidiaries, increased to an amount representing the pretax earnings required to cover such dividend requirement. "Preferred Dividends" represents dividends on SEMCO's Cumulative Convertible Preferred Stock which was called for redemption in November 1999.

(2) For the year ended December 31, 1996, fixed charges exceeded earnings by $20.0 million. Earnings as defined include a $32.3 million non-cash pretax write-down of the NOARK (1) investment. Excluding the NOARK write-down the ratio of earnings to fixed charges and ratio of earnings to fixed charges and preferred dividends would have been 1.84 and 1.84, respectively.

(3) Restated to account for a 1998 acquisition as a pooling of interests. Years prior to 1996 were not restated for the pooling of interests as the effects were not material.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 40,000,000 shares of common stock, $1.00 par value ("common stock"), 500,000 shares of cumulative preferred stock, $1.00 par value ("preferred stock"), and 3,000,000 shares of preference stock, $1.00 par value ("preference stock"). At February 29, 2000, there were outstanding 17,918,619 shares of common stock and no shares of preferred stock. 2,000,000 shares of the preference stock are reserved for issuance pursuant to a Shareholder Rights Plan described below; no preference stock is outstanding.

The following is a summary description of our common stock and preferred stock. You should look at our restated articles of incorporation which are filed as an exhibit to the Registration Statement for a complete description. The following summary is subject in all respects to the provisions of our restated articles of incorporation and does not relate to or give effect to the provisions of the statutory or common law of the State of Michigan. The summary given below is qualified in its entirety by reference to our restated articles of incorporation and the laws of the State of Michigan.

COMMON STOCK

Dividend Rights. The holders of common stock are entitled to dividends when, as and if, declared by the Board of Directors out of our surplus after full cumulative dividends on the preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to the preferred stock and preference stock, if any, have been satisfied.

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements. With respect to the payment of dividends or any other distributions in respect of our capital stock, such agreements provide that we may not declare and pay any dividends (except dividends or other distributions payable in shares of our capital stock), redeem or retire our capital stock (or any warrants, rights, or options to purchase or acquire our capital stock), or make other distributions with respect to our capital stock (such declarations or payments of dividends, purchases, redemptions or retirements of capital stock and warrants, rights or options and all such other payments or distributions being collectively referred to as "Restricted Payments") if, after giving effect thereto, (i) any event of default under such agreements exists; (ii) the aggregate amount of Restrictive Payments since January 1, 1994 would exceed our consolidated net income for the same period plus an adjustment factor of $21,000,000; or (iii) would cause our consolidated net worth to be less than $80,000,000.

After September 30, 1999, the adjustment factor of $21,000,000 is reduced each quarter by $625,000 until the adjustment factor equals $11,000,000. Under the most restrictive terms, as of December 31, 1999, $7,720,000 is available for dividends.

Voting Rights. The holders of Common Stock are entitled to one vote for each share on all matters voted upon by our shareholders and, subject to any voting rights of the holders of the preferred stock and preference stock described below, the holders of such shares currently possess all voting power. Our Articles of Incorporation provide for cumulative voting for the election of our directors.

Preemptive Rights. No holder of common stock has any preemptive right to subscribe to any additional securities which we may issue.

Liquidation Rights. Subject to the preferential rights of holders of the preferred stock and preference stock, upon our liquidation the holders of the common stock are entitled to share on a pro rata basis in our net assets which remain after satisfaction of all liabilities.

PREFERRED STOCK

The Board of Directors is authorized, without further action by shareholders, to issue preferred stock, in one or more series, from time to time, with such rights and preferences as may be provided in a resolution adopted by the Board of Directors. The authority of the Board includes, but is not limited to,

the determination or fixing of the following with respect to shares of such class or any series thereof: (i) the rate of dividends and the extent of further participation in dividend distribution, if any; (ii) the price at and the terms and conditions on which the shares are redeemable; (iii) the amount payable upon shares in event of voluntary or involuntary liquidation; (iv) sinking fund provisions for the redemption or purchase of shares; and (v) the terms and conditions on which shares are convertible.

The terms of each series of preferred stock will be described in any prospectus supplement related to such series of preferred stock and may include the following:

(1) the title and stated value of such preferred stock;

(2) the number of shares of such preferred stock offered and the offering price and liquidation preference per share of such preferred stock;

(3) the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to such preferred stock;

(4) the date from which dividends on such preferred stock shall accumulate, if applicable;

(5) the provision for a sinking fund, if any, for such preferred stock;

(6) the provision for redemption, if applicable, of such preferred stock;

(7) any listing of such preferred stock on any securities exchange;

(8) a discussion of federal tax considerations applicable to such preferred stock;

(9) any voting rights of holders of such preferred stock;

(10) any other specific terms, preferences, rights, limitations or restrictions of such preferred stock;

(11) the relative ranking and preference of such preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

(12) any limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and

(13) the terms and condition. if applicable, upon which such preferred stock will be convertible into or participate in dividends, if any, paid on the common stock, including the conversion price (or manner of calculation thereof).

In the event of our liquidation or dissolution, the holders of preferred stock are entitled to receive a fixed amount for each series before any distribution is made to the holders of common stock. As long as any preferred stock remains outstanding, we may not purchase any shares of our common stock or redeem any preference stock.

As long as any preferred stock remains outstanding, we may not without the consent of the holders of at least two-thirds of the outstanding preferred stock authorize any class of stock having a priority or preference over or ranking on a parity with the preferred stock as to dividends or distribution of assets.

If at any time we fail to declare and pay or set apart for payment in full eight quarterly dividends (whether or not consecutive) on all of the outstanding preferred stock, then the holders of the outstanding preferred stock shall have the right, voting as a single class irrespective of series, to elect such number of our directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors, and such right shall continue (and may be exercised at any annual or other meeting of shareholders for the election of directors) until we shall have paid or declared and set apart for payment all accrued dividends on the preferred stock for all past quarterly dividend periods.

At February 29, 2000, no shares of preferred stock were outstanding.

PREFERENCE STOCK

The Board of Directors has the authority to divide the 3,000,000 shares of preference stock into series and, within the limitations set forth in the laws of the State of Michigan and in the Articles of Incorporation, to fix and determine the relative rights and preferences of the shares of any series so established. The preference stock ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, except to the extent that a specific series of preferred stock provides otherwise.

SERIES A PREFERENCE STOCK

In January, 1997, the Board of Directors created a series of preference stock designated as Series A preference stock with the number of shares constituting such series set at 2,000,000. No shares of preference stock are outstanding.

If Series A preference stock was outstanding, dividends would accrue and be cumulative in an amount per share per quarter equal to the greater of (i) $10.00 or (ii) the Adjustment Number (as defined below) times the per share amount of all cash dividends, and the Adjustment Number times the per share amount (payable in kind) of all non-cash dividends or other distributions (other than a dividend payable in shares of common stock or a subdivision of the shares of common stock), declared on the common stock since the preceding quarterly dividend payment date, or, if later, since the issuance or such Series A preference stock. Upon our liquidation or dissolution the holders of Series A preference stock are entitled to receive $100 per share plus all accrued and unpaid dividends. The Series A preference stock is not redeemable and ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, unless the terms of any series provides otherwise. If Series A preference stock was outstanding, a holder of Series A preference stock would be entitled to the number of votes equal to the Adjustment Number times the number of votes to which a holder of common stock is entitled. Except as otherwise provided below or by law, Series A preference stock and common stock shall vote together as one class on all matters submitted to a vote of the holders of common stock. If any dividends on Series A preference stock shall be in arrears for six or more quarterly dividends, a "default period" shall begin. The default period shall end when all accrued dividends shall have been paid or set apart for payment. During a default period, Series A preference stock shall have the right to elect two directors. This vote shall be as a class for all series of preference stock entitled to vote.

The Articles of Incorporation initially set the Adjustment Number at 100. If we shall (i) pay any dividend on common stock in shares of common stock, (ii) subdivide the common stock, or (iii) combine the common stock into a smaller number of shares, the Adjustment Number shall be modified by multiplying it by a fraction, the numerator of which is the number of shares of common stock outstanding immediately after such event and the denominator of which is the number of shares of common stock outstanding immediately prior to such event.

DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN

We sponsor a direct stock purchase and dividend reinvestment plan under which investors may purchase shares of common stock without paying brokerage fees and other expenses. Under the plan, the plan administrator may purchase common stock in the open market, through private transactions or from SEMCO. If shares are purchased on the open market, or through private transactions, the price of the shares purchased through the plan will be the weighted average price paid in the stock market for the particular investment date. If the plan administrator purchases shares from SEMCO, the price paid for those shares will be the average of the closing prices on the three trading days prior to the 15th of each month as quoted on the New York Stock Exchange. We initially reserved 2,000,000 shares of common stock for issuance under the plan. As of February 29, 2000, 1,202,047 shares were available for issuance under the plan.

OTHER PROVISIONS

Articles of Incorporation. The following provisions of our Articles of Incorporation may delay, defer or prevent a person from acquiring us or changing control of the Board of Directors. Our Articles of

Incorporation divide the Board into three classes with staggered terms; each director is elected for a three year term. Approximately one-third of the Board positions are filled by a shareholder vote each year. Directors may be removed but only for cause, at an annual meeting of shareholders and by the affirmative vote of a majority of the shares then entitled to vote for the election of directors. In addition to requirements imposed under Section 7A of the Michigan Business Corporation Act (the "MBCA"), our Articles of Incorporation provide that a business combination cannot occur unless a written opinion is obtained from an independent investment banker that the consideration to be paid to our shareholders is fair and reasonable; provided, however, the directors may waive this requirement. Our Articles of Incorporation also contain provisions limiting the personal liability of directors.

Anti-Takeover Statutes. We are subject to Chapter 7A of the MBCA, which provides that business combinations subject to Chapter 7A between a Michigan corporation and a beneficial owner of shares entitled to 10% or more of the voting power of such corporation generally require the affirmative vote of 90% of the votes of each class of stock entitled to vote, and not less than 2/3 of each class of stock entitled to vote (excluding voting shares owned by such 10% owner), voting as a separate class. Such requirements do not apply if (i) the corporation's board of directors approves the transaction prior to the time the 10% owner becomes such or (ii) the transaction satisfies certain fairness standards, certain other conditions are met and the 10% owner has been such for at least five years.

We are also subject to Chapter 7B of the MBCA which provides that, unless a corporation's articles of incorporation or bylaws provide that Chapter 7B does not apply, "control shares" of a corporation acquired in a control share acquisition have no voting rights except as granted by the stockholders of the corporation. "Control shares" are shares which, when added to shares previously owned by a stockholder, increase such stockholder's ownership of voting stock to more than 20% but less than 33 1/3%, more than 33 1/3% but less than a majority, or more than a majority, of the votes to which all of the capital stock of the corporation is entitled. Voting rights of control shares must be approved by the affirmative vote of a majority of all shares entitled to vote excluding voting shares owned by the acquirer and certain officers and directors. However, no such approval is required for gifts or other transactions not involving consideration, for a merger to which the corporation is a party or certain other transactions described in Chapter 7B.

Rights to Purchase Preference Stock. In January 1997, we adopted a Shareholder's Rights Plan pursuant to which 2,000,000 shares of Series A preference stock are reserved under the plan for sale to holders of common stock. The common stock currently trades with a right to purchase such Series A preference stock. The right is intended to protect shareholders in the event of an unsolicited attempt to acquire us and becomes exercisable upon the occurrence of certain triggering events. The right is transferred automatically with the transfer of the common stock until separate rights certificates are distributed upon the occurrence of certain events. The right could have the effect of delaying, deferring or preventing a person from acquiring us or accomplishing a change in control of the board of directors.

Registration Rights. In connection with certain of our acquisitions, we agreed, among other things, to file with the Commission registration statements for shares of common stock received by the shareholders of such companies. As of February 29, 2000, approximately 1,044,874 shares of our common stock in the aggregate are subject to such agreements.

Transfer Agent. Norwest Bank Minnesota, N.A. is our transfer agent and registrar for our common stock.

The common stock is traded on the New York Stock Exchange under the symbol SEN.

DESCRIPTION OF DEBT SECURITIES

GENERAL

Our senior debt securities and subordinated debt securities (collectively, for purposes of this section of the Prospectus, the "Debt Securities"), consisting of notes, debentures and other evidence of indebtedness

may be issued from time to time in one or more series, in the case of the Senior Debt Securities, under an indenture, dated as of October 23, 1998, as supplemented from time to time (the "Senior Indenture") between us and Bank One Trust Company, National Association, as trustee (the "Senior Indenture Trustee"), and in the case of the Subordinated Debentures, under an indenture as supplemented from time to time (the "Subordinated Indenture"), between us and Bank One Trust Company, National Association, as trustee (the "Subordinated Indenture Trustee"). The term "Indenture Trustee," as used herein, shall refer to the Senior Indenture Trustee or the Subordinated Indenture Trustee, as appropriate. The form of Senior Indenture and the form of the Subordinated Indenture being sometimes referred to herein collectively as the "Indentures" and individually as an "Indenture" are filed, along with the form of Supplemental Indenture in the case of the Subordinated Indenture, as exhibits to the Registration Statement to which this Prospectus is a part and, upon execution and delivery, will be available for inspection at the corporate trust offices of the Senior Indenture Trustee and the Subordinated Indenture Trustee, or as described under "Available Information." The Indentures are subject to and governed by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act" or "TIA"). The following statements relating to the Debt Securities and the Indentures are summaries of the provisions thereof and do not purport to be complete and are qualified in their entirety by reference to the Indentures and the Debt Securities. All Section references herein are to sections of the Indentures, and capitalized terms used but not defined herein shall have the respective meanings set forth in the Indentures and the Debt Securities. The Subordinated Debentures are further described under "Additional Description of Subordinated Debentures to be Issued to Trust" below.

TERMS

The Debt Securities will be our direct, unsecured obligations. The indebtedness represented by the Senior Debt will rank on a parity with all our other unsecured and unsubordinated indebtedness. The indebtedness represented by the Subordinated Debentures will be subordinated in right of payment to the prior payment in full of all our existing and future Senior Indebtedness, as described below under "Subordination." Each Indenture provides that the Debt Securities may be issued without limit as to aggregate principal amount, in one or more series, in each case as established from time to time by our Board of Directors or as established in one or more indentures supplemental to such Indenture. Debt Securities may be issued with terms different from those of Debt Securities previously issued. All Debt Securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the holders of the Debt Securities of such series, for issuances of additional Debt Securities of such series (Section 301 of each Indenture).

Each Indenture provides that there may be more than one Indenture Trustee thereunder, each with respect to one or more series of Debt Securities. Any Indenture Trustee under either Indenture may resign or be removed with respect to one or more series of Debt Securities, and a successor Indenture Trustee may be appointed to act with respect to such series (Section 608 of each Indenture). In the event that two or more persons are acting as Indenture Trustee with respect to different series of Debt Securities, each such Indenture Trustee shall be an Indenture Trustee of a trust under the applicable Indenture separate and apart from the trust administered by any other Indenture Trustee (Section 609 of each Indenture), and, except as otherwise indicated herein, any action described herein to be taken by an Indenture Trustee may be taken by each such Indenture Trustee with respect to, and only with respect to, the one or more series of Debt Securities of which it is Indenture Trustee under the applicable Indenture.

The Prospectus Supplement relating to the series of Debt Securities being offered will contain the specific terms thereof, including, without limitation:

(1) The title and any series of such Debt Securities and whether such Debt Securities are Senior Debt or Subordinated Debentures;

(2) The aggregate principal amount of such Debt Securities and any limit on such principal amount;

(3) The percentage of the principal amount at which such Debt Securities will be issued and, if other than the principal amount thereof, the portion of the principal amount thereof payable upon declaration of acceleration of the maturity thereof;

(4) The date or dates, or the method for determining such date or dates, on which the principal of such Debt Securities will be payable and the amount of principal payable thereon;

(5) The rate or rates (which may be fixed or variable) at which such Debt Securities will bear interest, if any, or the method by which such rate or rates shall be determined, the date or dates, or the method for determining such date or dates, from which any such interest will accrue, the dates on which any such interest will be payable, the record dates for such interest payment dates, or the method by which such dates shall be determined, the persons to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;

(6) The place or places where the principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, where such Debt Securities may be surrendered for registration of transfer or exchange and where notices or demands to or upon us in respect of such Debt Securities and the applicable Indenture may be served;

(7) If applicable, whether the interest payment periods may be extended by us and, if so, the terms of any such extension;

(8) The period or periods within which, the price or prices at which, and other terms and conditions upon which such Debt Securities may be redeemed, as a whole or in part, at our option, if we are to have such an option;

(9) Our obligation, if any, to redeem, repay or purchase such Debt Securities pursuant to any sinking fund or analogous provision or at the option of a holder thereof, and the period or periods within which or the date or dates on which, the price or prices at which, and other terms and conditions upon which such Debt Securities will be redeemed, repaid or purchased, as a whole or in part, pursuant to such obligation;

(10) Whether the amount of payments of principal of (and premium, if any) or interest, if any, on such Debt Securities may be determined with reference to an index, formula or other method and the manner in which such amounts shall be determined;

(11) Provisions, if any, granting special rights to the holders of such Debt Securities upon the occurrence of such events as may be specified;

(12) Any deletions from, modifications of or additions to the Events of Default or our covenants with respect to such Debt Securities, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth in the applicable Indenture;

(13) Whether such Debt Securities will be issued in certificated or book-entry form;

(14) Whether such Debt Securities will be in registered or bearer form and, if in registered form, the denominations thereof if other than $1,000 and any integral multiple thereof and, if in bearer form, the denominations thereof and terms and conditions relating thereto;

(15) The applicability if any, of the defeasance and covenant defeasance provisions described herein, or any modification thereof;

(16) Whether and under what circumstances we will pay any Additional Amounts as defined and contemplated in the applicable Indenture on such Debt Securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem such Debt Securities in lieu of making such payment; and

(17) Any other terms of such Debt Securities not inconsistent with the provisions of the applicable Indenture (Section 301 of each Indenture).

The Debt Securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof ("Original Issue Discount Securities"). Special U.S. federal income tax, accounting and other considerations applicable to Original Issue Discount Securities will be described in the applicable Prospectus Supplement.

Except as set forth below under "Certain Covenants" and as may be set forth in any Prospectus Supplement, the Indentures will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of Debt Securities protection in the event of a highly leveraged or similar transaction involving us or in the event of a change of control. You should refer to the applicable Prospectus Supplement for information with respect to any deletions from, modifications of, or additions to the events of default or covenants of us that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

DENOMINATIONS, INTEREST, REGISTRATION AND TRANSFER

Unless otherwise described in the applicable Prospectus Supplement, the Debt Securities of any series issued in registered form will be issuable in denominations of $1,000 and integral multiples thereof. Unless otherwise specified in the applicable Prospectus Supplement, the Debt Securities of any series issued in bearer form will be issuable in denominations of $5,000 (Section 302 of each Indenture).

Unless otherwise specified in the applicable Prospectus Supplement, the principal of (and premium if any) and interest on any series of Senior Debt will be payable at the corporate trust office of the Senior Indenture Trustee, and the principal of (and premium, if any) and interest on any series of Subordinated Debentures will be payable at the corporate trust office of the Subordinated Indenture Trustee; provided that, at our option, payment of interest on any series of Debt Securities may be made by check mailed to the address of the Person entitled thereto as it appears in the applicable register for such Debt Securities or by wire transfer of funds to such person at an account maintained within the United States (Sections 301, 307 and 1002 of each Indenture).

Any interest not punctually paid or duly provided for on any interest payment date with respect to a Debt Security ("Defaulted Interest") will forthwith cease to be payable to the holder on the applicable Regular Record Date and may either be paid to the Person in whose name such Debt Security is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest to be fixed by the Indenture Trustee, notice whereof shall be given to the holder of such Debt Security not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more completely described in the applicable Indenture (Section 307 of each Indenture).

Subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series will be exchangeable for other Debt Securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such Debt Securities at the corporate trust office of the applicable Indenture Trustee referred to above. In addition, subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series may be surrendered for registration of transfer or exchange thereof at the corporate trust office of the applicable Indenture Trustee. Every Debt Security surrendered for registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any Debt Securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith (Section 305 of each Indenture). If the applicable Prospectus Supplement refers to any transfer agent (in addition to the applicable Indenture Trustee) initially designated by us with respect to any series of Debt Securities, we may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that the trust will be required to maintain a transfer agent in each place of payment for such series. We may at any time designate additional transfer agents with respect to any series of Debt Securities (Section 1002 of each Indenture).

Neither we nor any Indenture Trustee shall be required to (i) issue, register the transfer of or exchange of Debt Securities of any series which are issued in registered form during a period beginning at the opening of business 15 days before any selection of Debt Securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; (ii) register the transfer of or exchange any Debt Security or portion thereof, called for redemption, except the unredeemed portion of any Debt Security which is issued in registered form being redeemed in part; or (iii) issue, register the transfer of or exchange any Debt Security which is issued in registered form that has been surrendered for repayment at the option of the holder, except the portion, if any, of such Debt Security not to be so repaid (Section 305 of each Indenture).

MERGER, CONSOLIDATION OR SALE

The Senior Indenture provides that we will be permitted to consolidate with, or sell, lease or convey all or substantially all of our assets to, or merge with or into, any other entity provided that (a) either we shall be the continuing entity, or the successor entity (if other than us) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume payment of the principal of (and premium, if any) and interest on all of the Senior Debt and the due and punctual performance and observance of all of the covenants and conditions contained in the Senior Indenture; (b) immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation of us or any Subsidiary as a result thereof as having been incurred by us or such Subsidiary at the time of such transaction, no Event of Default under the Senior Indenture, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Indenture Trustee (Sections 801 and 803 of the Senior Indenture). The provisions of the Subordinated Indenture regarding merger, consolidation and sale are discussed in "Additional Description of Subordinated Debentures to be Issued to Trust -- Consolidation, Merger and Sale" below.

CERTAIN COVENANTS

Limitations on Liens. The Indentures provide that we shall not, and shall not cause or permit any Subsidiary to, issue, assume or guarantee any Debt secured by a Lien upon any of our property or assets (other than cash) or that of such Subsidiary, as applicable, without effectively providing that the outstanding Debt Securities (together with, if we so determine, any other indebtedness or obligation then existing or thereafter created ranking equally with such Debt Securities) shall be secured equally and ratably with (or prior to) such Debt so long as such Debt shall be so secured. The foregoing restriction on Liens will not, however, apply to:

(a) Liens in existence on the date of original issue of such Debt Securities;

(b) (i) any Lien created or arising over any property which is acquired, constructed or created by us, or any of our Subsidiaries, but only if (A) such Lien secures only principal amounts (not exceeding the cost of such acquisition, construction or creation) raised for the purposes of such acquisition, construction or creation, together with any costs, expenses, interest and fees incurred in relation thereto or a guarantee given in respect thereof, (B) such Lien is created or arises on or before 90 days after the completion of such acquisition, construction or creation and (C) such Lien is confined solely to the property so acquired, constructed or created; or (ii) any Lien to secure our Debt or the Debt of a Subsidiary incurred in connection with a specifically identifiable project where the Lien relates to and is confined to a property or properties (including, without limitation, shares or other rights of ownership in the entities which own such property or project) involved in such project and acquired by us or a Subsidiary after the date of original issue of the Debt Securities of any series and the recourse of the creditors in respect of such Debt is limited to any or all of such project and property (including as aforesaid);

(c) any Lien securing amounts not more than 90 days overdue or otherwise being contested in good faith;

(d) (i) rights of financial institutions to offset credit balances in connection with the operation of cash management programs established for our benefit or the benefit of a Subsidiary or in connection with the issuance of letters of credit for the benefit of the us or a Subsidiary; (ii) any Lien securing our Debt or the Debt of a Subsidiary incurred in connection with the financing of accounts receivable; (iii) any Lien incurred or deposits made in the ordinary course of business, including, but not limited to, (A) any mechanics', materialmens', carriers', workmens', vendors' or other like Liens and (B) any Liens securing amounts in connection with workers' compensation, unemployment insurance and other types of social security; (iv) any Lien upon specific items of inventory or other goods and proceeds of us or a Subsidiary securing obligations of us or a Subsidiary in respect of bankers' acceptances issued or created for the account of such person to facilitate the purchase, shipment or storage of such inventory or other goods; (v) any Lien incurred or deposits made securing the performance of tenders, bids, leases, trade contracts (other than for borrowed money), statutory obligations, surety bonds, appeal bonds, government contracts, performance bonds, return-of-money bonds and other obligations of like nature incurred in the ordinary course of business; (vi) any Lien constituted by a right of set off or right over a margin call account or any form of cash or cash collateral or any similar arrangement for obligations incurred in respect of the hedging or management of risks under transactions involving any currency or interest rate swap, cap or collar arrangements, forward exchange transaction, option, warrant, forward rate agreement, futures contract or other derivative instrument of any kind; (vii) any Lien arising out of title retention or like provisions in connection with the purchase of goods and equipment in the ordinary course of business; and (viii) any Lien securing reimbursement obligations under letters of credit, guaranties and other forms of credit enhancement given in connection with the purchase of goods and equipment in the ordinary course of business;

(e) Liens in favor of us or a Subsidiary;

(f) (i) Liens on any property or assets acquired from a corporation which is merged with or into us or a Subsidiary, or any Liens on the property or assets of any corporation or other entity existing at the time such corporation or other entity becomes a Subsidiary of us and, in either such case, is not created in anticipation of any such transaction (unless such Lien is created to secure or provide for the payment of any part of the purchase price of such corporation); (ii) any Lien on any property or assets existing at the time of acquisition thereof and which is not created in anticipation of such acquisition (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such property or assets); and (iii) any Lien created or outstanding on or over any asset of any Person which becomes a Subsidiary on or after the date of the issuance of such Debt Securities when such Lien is created prior to the date on which such Person becomes a Subsidiary;

(g) (i) Liens required by any contract or statute in order to permit us or a Subsidiary to perform any contract or subcontract made by us or it with or at the request of a governmental entity or any department, agency or instrumentality thereof, or to secure partial, progress, advance or any other payments by us or a Subsidiary to such governmental unit pursuant to the provisions of any contract or statute; (ii) any Lien securing industrial revenue, development or similar bonds issued by or for the benefit of us or a Subsidiary, provided that such industrial revenue, development or similar bonds are nonrecourse to us or such Subsidiary; and (iii) any Lien securing taxes or assessments or other applicable governmental charges or levies;

(h) (i) any Lien which arises pursuant to any order of attachment, distrait or similar legal process arising in connection with court proceedings and any Lien which secures the reimbursement obligation for any bond obtained in connection with an appeal taken in any court proceeding, so long as the execution or other enforcement of such Lien arising pursuant to such legal process is effectively stayed and the claims secured thereby are being contested in good faith and, if appropriate, by appropriate legal proceedings, or any Lien in favor of a plaintiff or defendant in any action before a court or tribunal as security for costs and/or other expenses; or (ii) any Lien arising by operation of law or by order of a court or tribunal or any Lien arising by an agreement of similar effect, including, without limitation, judgment liens; or

(i) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, or any Liens referred to in the foregoing clauses, for amounts not exceeding the principal amount of the Debt secured by the Lien so extended, renewed or replaced, provided that such extension, renewal or replacement Lien is limited to all or a part of the same property or assets that were covered by the Lien extended, renewed or replaced (plus improvements on such property or assets) (Section 1011 of each Indenture).

Limitations on Sale and Leaseback Transactions. The Indentures also provide that we will not, and will not permit any Subsidiary to, enter into any arrangement with any Person (other than us or a Subsidiary), providing for the leasing to us or a Subsidiary of any assets which have been or are to be sold or transferred by us or such Subsidiary to such Person (a "Sale and Lease-Back Transaction") unless: (a) such transaction involves a lease for a temporary period not to exceed three years; (b) such transaction is between us or a Subsidiary and an affiliate of ours; (c) we would be entitled to incur debt secured by a Lien on the assets or property involved in such transaction at least equal in amount to the Attributable Debt with respect to such Sale and Lease-Back Transaction, without equally and ratably securing the Debt Securities, pursuant to the limitation on Liens described above; (d) such transaction is entered into within 90 days after the initial acquisition by us of the assets or property subject to such transaction; (e) after giving effect thereto, the aggregate amount of all Attributable Debt with respect to all such Sale and Lease-Back Transactions does not exceed 10% of Consolidated Net Tangible Assets; or (f) we or a Subsidiary within the twelve months preceding the sale or transfer or the twelve months following the sale or transfer, regardless of whether such sale or transfer may have been made by us or such Subsidiary, apply in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair value of the assets so leased at the time of entering into such arrangement (as determined by our Board of Directors or the Board of Directors of such Subsidiary), (i) to the retirement of debt, incurred or assumed by us or a Subsidiary, which by its terms matures at, or is extendible or renewable at the option of the obligor to, a date more than twelve months after the date of incurring, assuming or guaranteeing such debt or (ii) to investment in any of our assets or the assets of any Subsidiary (Section 1012 of each Indenture).

Existence. Except as permitted under "Merger, Consolidation or Sale," we will be required to do or cause to be done all things necessary to preserve and keep in full force and effect our existence, rights and franchises; provided, however, that we shall not be required to preserve any right or franchise if we determine that the preservation thereof is no longer desirable in the conduct of our business (Section 1004 of each Indenture).

Maintenance of Properties. We will be required to cause all of our material properties used or useful in the conduct of our business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in our judgment may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times (Section 1005 of each Indenture).

Insurance. We will be required to, and will be required to cause each of our Subsidiaries to, keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value with insurers of recognized responsibility and, if described in the applicable Prospectus Supplement, having a specified rating from a recognized insurance rating service (Section 1006 of each Indenture).

Payment of Taxes and Other Claims. We will be required to pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon us or any Subsidiary or upon our income, profits or property or, that of any Subsidiary, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a material lien upon our property or that of any Subsidiary; PROVIDED, HOWEVER, that we shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment,

charge or claim whose amount, applicability or validity is being contested in good faith (Section 1007 of each Indenture).

Provision of Financial Information. Whether or not we are subject to Section 13 or 15(d) of the Exchange Act, we will be required, within 15 days of each of the respective dates by which we would have been required to file annual reports, quarterly reports and other documents with the Commission if we were so subject, to (i) transmit by mail to all holders of Debt Securities, as their names and addresses appear in the applicable register for such Debt Securities, without cost to such holders, copies of the annual reports, quarterly reports and other documents that we would have been required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such sections, (ii) file with the applicable Indenture Trustee copies of the annual reports, quarterly reports and other documents that we would have been required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such Sections, and (iii) promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to any prospective holder (Section 1008 of each Indenture).

Additional Covenants. Any of our additional covenants with respect to any series of Debt Securities will be set forth in the Prospectus Supplement relating thereto.

EVENTS OF DEFAULT, NOTICE AND WAIVER

Each Indenture will provide that the following events are "Events of Default" with respect to any series of Debt Securities issued thereunder: (a) default for 30 days in the payment of any installment of interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series; (b) default in the payment of principal of (or premium, if any, on) any Debt Security of such series at its maturity; (c) default in making any sinking fund payment as required for any Debt Security of such series; (d) default in the performance or breach of any other covenant or warranty of ours contained in the Indenture (other than a covenant added to the Indenture solely for the benefit of a series of Debt Securities issued thereunder other than such series), continued for 60 days after written notice as provided in the Indenture; (e) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed by us (including obligations under leases required to be capitalized on the balance sheet of the lessee under generally accepted accounting principles but not including any indebtedness or obligations for which recourse is limited to property purchased) in an aggregate principal amount in excess of $5,000,000 or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us (including such leases, but not including such indebtedness or obligations for which recourse is limited to property purchased) in an aggregate principal amount in excess of $5,000,000, whether such indebtedness now exists or shall hereafter be created which default shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable or such obligations being accelerated, without such acceleration having been rescinded or annulled; (f) certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of us or any Significant Subsidiary of ours; and (g) any other event of default provided with respect to a particular series of Debt Securities (Section 501 of each Indenture). The term "Significant Subsidiary" means each of our significant subsidiaries (as defined in Regulation S-X promulgated under the Securities Act).

If an Event of Default under either Indenture with respect to Debt Securities of any series at the time outstanding occurs and is continuing, then in every such case the Indenture Trustee or the holders of not less than 25% in principal amount of the outstanding Debt Securities of that series will have the right to declare the principal amount (or, if the Debt Securities of that series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms thereof) of, and premium, if any, on all of the Debt Securities of that series to be due and payable immediately by written notice thereof to us (and to the Indenture Trustee if given by the holders). However, at any time after such a declaration of acceleration with respect to Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) has been made, but before a

judgment or decree for payment of the money due has been obtained by the Indenture Trustee, the holders of not less than a majority in principal amount of outstanding Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) may rescind and annul such declaration and its consequences if (a) we shall have deposited with the applicable Indenture Trustee all required payments of the principal of (and premium, if any) and interest, and any Additional Amounts, on the Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be), plus certain fees, expenses, disbursements and advances of such Indenture Trustee and (b) all Events of Default, other than the non-payment of accelerated principal (or specified portion thereof and the premium, if any) or interest, with respect to Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) have been cured or waived as provided in the applicable Indenture (Section 502 of each Indenture). Each Indenture also provides that the holders of not less than a majority in principal amount of the outstanding Debt Securities of any series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) may waive any past default with respect to such series and its consequences, except a default (x) in the payment of the principal of (or premium, if any) or interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series or (y) in respect of a covenant or provision contained in the applicable Indenture that cannot be modified or amended without the consent of the holder of each outstanding Debt Security affected thereby (Section 513 of each Indenture).

Each Indenture Trustee will be required to give notice to the holders of Debt Securities within 90 days of a default under the applicable Indenture unless such default shall have been cured or waived; PROVIDED, HOWEVER, that such Indenture Trustee may withhold notice to the holders of any series of Debt Securities of any default with respect to such series (except a default in the payment of the principal of (or premium, if any) or interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series or in the payment of any sinking fund installment in respect of any Security of such series) if specified responsible officers of such Indenture Trustee consider such withholding to be in the interest of such holders (Section 601 of each Indenture).

Each Indenture will provide that no holders of Debt Securities of any series may institute any proceedings, judicial or otherwise, with respect to such Indenture or for any remedy thereunder, except in the cases of failure of the Indenture Trustee, for 60 days, to act after it has received a written request to institute proceedings in respect of an event of default from the holders of not less than 25% in principal amount of the outstanding Debt Securities of such series, as well as an offer of indemnity reasonably satisfactory to it (Section 507 of each Indenture). This provision will not prevent, however, any holder of Debt Securities from instituting suit for the enforcement of payment of the principal of (and premium, if any), interest on and Additional Amounts, or Additional Interest, as applicable, payable with respect to, such Debt Securities at the respective due dates thereof.

Subject to provisions in each Indenture relating to its duties in case of default, each Indenture Trustee will not be under any obligation to exercise any of its rights or powers under the applicable Indenture at the request or direction of any holders of any series of Debt Securities then outstanding under such Indenture, unless such holders shall have offered to the Indenture Trustee thereunder reasonable security or indemnity (Section 602 of each Indenture). The holders of not less than a majority in principal amount of the outstanding Debt Securities of any series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or of exercising any trust or power conferred upon such Indenture Trustee. However, an Indenture Trustee may refuse to follow any direction which is in conflict with any law or the Indenture, which may involve the Indenture Trustee in personal liability or which may be unduly prejudicial to the holders of Debt Securities of such series not joining therein (Section 512 of each Indenture).

Within 120 days after the close of each fiscal year, we will be required to deliver to each Indenture Trustee a certificate, signed by one of our several specified officers, stating whether or not such officer has knowledge of any default under the applicable Indenture and, if so, specifying each such default and the nature and status thereof (Section 1009 of each Indenture).

Additional provisions of the Subordinated Indenture regarding Events of Default are discussed in "Additional Description of Subordinated Debentures to be Issued to Trust -- Subordinated Indenture Additional Events of Default" below.

MODIFICATION OF THE INDENTURES

Modifications and amendments of either Indenture will be permitted to be made only with the consent of the holders of not less than a majority in principal amount of all outstanding Debt Securities issued under each Indenture which are affected by such modification or amendment; PROVIDED, HOWEVER, that no such modification or amendment may, without the consent of the holder of each such Debt Security affected thereby, (a) change the stated maturity of the principal of (or premium, if any), or any installment of principal of or interest payable on, any such Debt Security; (b) reduce the principal amount of, or the rate or amount of interest on, or any premium payable on redemption of, or Additional Amounts, or Additional Interest, as applicable, payable with respect to, any such Debt Security, or reduce the amount of principal of an Original Issue Discount Security that would be due and payable upon declaration of acceleration of the maturity thereof or would be provable in bankruptcy, or adversely affect any right of repayment of the holder of any such Debt Security; (c) change the place of payment, or currency, for payment of principal of (and premium, if any), or interest on, or any Additional Amounts, or Additional Interest, as applicable, payable with respect to, any such Debt Security; (d) impair the right to institute suit for the enforcement of any payment on or with respect to any such Debt Security; (e) reduce the above-stated percentage of outstanding Debt Securities of any series necessary to modify or amend the applicable Indenture, to waive compliance with certain provisions thereof or certain defaults and consequences thereunder or to reduce the quorum or voting requirements set forth in the Indenture; or (f) modify any of the foregoing provisions or any of the provisions relating to the waiver of certain past defaults or certain covenants, except to increase the required percentage to effect such action or to provide that certain other provisions may not be modified or waived without the consent of the holder of such Debt Security (Section 902 of each Indenture).

The holders of not less than a majority in principal amount of outstanding Debt Securities issued under either Indenture will have the right to waive compliance by us with certain covenants in such Indenture (Section 1013 of each Indenture).

Modifications and amendments of each Indenture will be permitted to be made by us and the applicable Indenture Trustee thereunder without the consent of any holder of Debt Securities for any of the following purposes: (i) to evidence the succession of another person to us as obligor under the applicable Indenture; (ii) to add to our covenants for the benefit of the holders of all or any series of Debt Securities or to surrender a right or power conferred upon us in the applicable Indenture; (iii) to add events of default for the benefit of the holders of all or any series of Debt Securities; (iv) to add or change any provisions of the applicable Indenture to facilitate the issuance of, or to liberalize certain terms of, Debt Securities in bearer form, or to permit or facilitate the issuance of Debt Securities in uncertificated form, PROVIDED that such action shall not adversely affect the interests of the holders of the Debt Securities of any series in any material aspect; (v) to change or eliminate any provisions of the applicable Indenture, PROVIDED that any such change or elimination shall become effective only when there are no Debt Securities outstanding of any series created prior thereto which are entitled to the benefit of such provision; (vi) to secure the Debt Securities; (vii) to establish the form or terms of Debt Securities of any series; (viii) to provide for the acceptance of appointment by a successor Indenture Trustee or facilitate the administration of the trusts imposed under the applicable Indenture by more than one Indenture Trustee; (ix) to cure any ambiguity, defect or inconsistency in the applicable Indenture, PROVIDED that such action shall not adversely affect the interests of holders of Debt Securities of any series issued under such Indenture in any material respect; or (x) to supplement any of the provisions of such Indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of such Debt Securities, PROVIDED that such action shall not adversely affect the interests of the holders of the Debt Securities of any series in any material respect (Section 901 of each Indenture).

Each Indenture will provide that in determining whether the holders of the requisite principal amount of outstanding Debt Securities of a series have given any request, demand, authorization, direction, notice, consent or waiver thereunder or whether a quorum is present at a meeting of holders of Debt Securities, (i) the principal amount of an Original Issue Discount Security that shall be deemed to be outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon declaration of acceleration of the maturity thereof, and (ii) Debt Securities owned by us or any other obligor upon the Debt Securities or any affiliate of us or of such other obligor shall be disregarded (Section 104 and Section 101 of each Indenture).

Each Indenture will contain provisions for convening meetings of the holders of Debt Securities of a series (Section 1501 of each Indenture). A meeting will be permitted to be called at any time by the applicable Indenture Trustee, and also, upon request, by us or the holders of at least 10% in principal amount of the outstanding Debt Securities of such series, in any such case upon notice given as provided in the applicable Indenture (Section 1502 of each Indenture). Except for any consent that must be given by the holder of each Debt Security affected by certain modifications and amendments of the applicable Indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum is present may be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding Debt Securities of that series; PROVIDED, HOWEVER, that, except as referred to above, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the holders of a specified percentage, which is less than a majority, in principal amount of the outstanding Debt Securities of a series may be adopted at a meeting or adjourned meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the holders of such specified percentage in principal amount of the outstanding Debt Securities of that series. Any resolution passed or decision taken at any meeting of holders of Debt Securities of any series duly held in accordance with the applicable Indenture will be binding on all holders of Debt Securities of that series. The quorum at any meeting called to adopt a resolution, and at an reconvened meeting, will be persons holding or representing a majority in principal amount of the outstanding Debt Securities of a series; PROVIDED, HOWEVER, that if any action is to be taken at such meeting with respect to a consent or waiver which may be given by the holders of not less than a specified percentage in principal amount of the outstanding Debt Securities of a series, the persons holding or representing such specified percentage in principal amount of the outstanding Debt Securities of such series will constitute a quorum (Section 1504 of each Indenture).

Notwithstanding the foregoing provisions, each Indenture will provide that if any action is to be taken at a meeting of holders of Debt Securities of any series with respect to any request, demand, authorization, direction, notice, consent, waiver and other action that the Indenture expressly provides may be made, given or taken by the holders of a specified percentage in principal amount of all outstanding Debt Securities affected thereby, or of the holders of such series and one or more additional series: (i) there shall be no minimum quorum requirement for such meeting, and (ii) the principal amount of the outstanding Debt Securities of such series that vote in favor of such request, demand, authorization, direction, notice, consent, waiver or other action shall be taken into account in determining whether such request, demand, authorization, direction, notice, consent, waiver or other action has been made, given or taken under the Indenture (Section 1504 of each Indenture).

SUBORDINATION

Upon any distribution to our creditors in a liquidation, dissolution or reorganization, the payment of the principal of and interest on the Subordinated Debentures will be subordinated to the extent provided in the Subordinated Indenture in right of payment to the prior payment in full of all Senior Indebtedness defined below (Sections 1601 and 1602 of the Subordinated Indenture), but our obligation to make payment of the principal and interest on the Subordinated Debentures will not otherwise be affected (Section 1606 of the Subordinated Indenture). No payment of principal or interest may be made on the Subordinated Debentures at any time if (i) any Senior Indebtedness is not paid when due and any applicable grace period has ended or such default has not been waived; (ii) a default on Senior

Indebtedness exists that permits the holders of such Senior Indebtedness to accelerate its maturity or (iii) notice has been given of the exercise of an option to require repayment or prepayment of Senior Indebtedness (Section 1603 of the Subordinated Indenture). After all Senior Indebtedness is paid in full and until the Subordinated Debentures are paid in full, holders will be subrogated to the rights of holders of Senior Indebtedness to the extent that distributions otherwise payable to holders have been applied to the payment of Senior Indebtedness (Section 1605 of the Subordinated Indenture). By reason of such subordination, in the event of a distribution of assets upon insolvency, certain of our general creditors may recover more, ratably, than holders of the Subordinated Debentures.

Senior Indebtedness is defined in the Subordinated Indenture as, (i) any payment due in respect of indebtedness of a Person, whether outstanding at the date of execution of the Subordinated Indenture or thereafter incurred, created or assumed, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by such Person which, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other Persons the payment of which such Person is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other Persons secured by any lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), except for (1) any such indebtedness that is by its terms subordinated to or pari passu with the Subordinated Debentures and (2) any unsecured indebtedness between or among such Person or its Affiliates. At February 29, 2000, Senior Indebtedness aggregated approximately $543,600,000. There are no restrictions in the Subordinated Indenture upon the creation of additional Senior Indebtedness.

Upon payment in full of all amounts due on the Senior Indebtedness then outstanding, the rights of the holders of the Subordinated Debentures will be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions applicable to such Senior Indebtedness until all amounts owing on the Subordinated Debentures are paid in full.

In addition, because we are a holding company our right, and hence the right of our creditors (including any holder of Subordinated Debentures), to participate in any distribution of the assets of any subsidiary upon its liquidation or recognition or otherwise is necessarily subject to the prior claims of creditors of such subsidiary, except to the extent that our claims as a creditor of such subsidiary may be recognized. There is no restriction in the Subordinated Indenture against our subsidiaries incurring secured or unsecured indebtedness or issuing secured or unsecured securities. Our ability to make payments of principal and interest on the Subordinated Debentures will be dependent upon the payment to it by its subsidiaries of dividends, loans or advances.

DISCHARGE, DEFEASANCE AND COVENANT DEFEASANCE

Under each Indenture, we may discharge certain obligations to holders of any series of Debt Securities issued thereunder that have not already been delivered to the applicable Indenture Trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the applicable Indenture Trustee, in trust, funds in an amount sufficient to pay the entire indebtedness on such Debt Securities in respect of principal (and premium, if any) and interest and any Additional Amounts, or Additional Interest, as applicable, payable to the date of such deposit (if such Debt Securities have become due and payable) or to the stated maturity or redemption date, as the case may be (Section 401 of each Indenture).

Each Indenture will provide that, if the provisions of Article Fourteen thereof are made applicable to the Debt Securities of or within any series pursuant to Section 301 of such Indenture, we may elect either (a) to defease and be discharged from any and all obligations with respect to such Debt Securities (except for the obligations to pay Additional Amounts, or Additional Interest, as applicable, if any, upon the occurrence of certain events of tax, assessment or governmental charge with respect to payments on such Debt Securities and the obligations to register the transfer or exchange of such Debt Securities, to replace temporary or mutilated, destroyed, lost or stolen Debt Securities, to maintain an office or agency in respect of such Debt Securities and to hold moneys for payment in trust) ("defeasance") (Section 1402 of each Indenture) or (b) to be released from our obligations with respect to such Debt Securities under Sections 1004 to 1008, inclusive, and Sections 1011 and 1012 under such Indenture (being the restrictions described under "Certain Covenants") or, if provided pursuant to such Indenture, our obligations with respect to any other covenant, and any omission to comply with such obligations shall not constitute an event of default with respect to such Debt Securities ("covenant defeasance") (Section 1403 of each Indenture), in either case upon the irrevocable deposit by us with the applicable Indenture Trustee, in trust, of an amount of money, or Government Obligations (as defined below), or both, applicable to such Debt Securities which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on such Debt Securities, and any mandatory sinking fund or analogous payments thereon, on the scheduled due dates therefor (Section 1404 of each Indenture).

Such a trust will only be permitted to be established if, among other things, we have delivered to the applicable Indenture Trustee an opinion of counsel (as specified in each Indenture) to the effect that the holders of such Debt Securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred, and such opinion of counsel, in the case of defeasance, will be required to refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable United States federal income tax law occurring after the date of such Indenture (Section 1404 of each Indenture).

"Government Obligations" means securities which are (i) direct obligations of the United States of America, for which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt, PROVIDED that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depository receipt (Section 101 of each Indenture).

In the event we effect covenant defeasance with respect to any Debt Securities and such Debt Securities are declared due and payable because of the occurrence of any Event of Default other than the Event of Default described in clause (d) under "Events of Default, Notice and Waiver" with respect to Sections 1004 to 1008, inclusive, and Sections 1011 and 1012 of either Indenture (which sections would no longer be applicable to such Debt Securities) or described in clause (g) under "Events of Default, Notice and Waiver" with respect to any other covenant as to which there has been covenant defeasance, the amount in which such Debt Securities are payable, and Government Obligations on deposit with the applicable Indenture Trustee, will be sufficient to pay amounts due on such Debt Securities at the time of their stated maturity but may not be sufficient to pay amounts due on such Debt Securities at the time of the acceleration resulting from such Event of Default. However, we would remain liable to make payment of such amounts due at the time of acceleration.

The applicable Prospectus Supplement may further describe the provisions, if any, permitting such defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the Debt Securities of or within a particular series.

GLOBAL SECURITIES

The Debt Securities of a series may be issued in whole or in part in the form of one or more global securities (the "Global Securities") that will be deposited with, or on behalf of, a depositary identified in the applicable Prospectus Supplement relating to such series. Global Securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depositary arrangement with respect to a series of Debt Securities will be described in the applicable Prospectus Supplement relating to such series.

GOVERNING LAW

The Indentures, each Supplemental Indenture thereto, the Senior Debt and the Subordinated Debentures will be governed by the laws of the State of New York.

DESCRIPTION OF TRUST PREFERRED SECURITIES

Each trust may issue only one series of Trust Preferred Securities having terms described in the prospectus supplement relating thereto. Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act and will contain the terms of Trust Preferred Securities.

The Property Trustee will act as indenture trustee for purposes of the Trust Indenture Act. The Trust Preferred Securities will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferred or other special rights or such restrictions as will be set forth in the Trust Agreement or made part of the Trust Agreement by the Trust Indenture Act and which will correspond to the terms of the Subordinated Debentures held by the Trust and described in the Prospectus Supplement relating thereto.

The Prospectus Supplement relating to the Trust Preferred Securities of a trust will include the specific terms of the series of trust preferred securities being issued, including:

(i) the distinctive designation of the Trust Preferred Securities;

(ii) the number of Trust Preferred Securities issuable by the Trust;

(iii) the annual distribution rate (or method of determining such rate) for Trust Preferred Securities and the date or dates upon which such distributions will be payable;

(iv) whether distributions on Trust Preferred Securities will be cumulative, and, in the case of Trust Preferred Securities having such cumulative distribution rights, the date or dates or method of determining the date or dates from which distributions on Trust Preferred Securities will be cumulative;

(v) the amount or amounts which will be paid out of the assets of the Trust to the holders of Trust Preferred Securities upon voluntary or involuntary dissolution, winding-up or termination of the Trust;

(vi) the obligation, if any, of the Trust to purchase or redeem Trust Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which Trust Preferred Securities will be purchased or redeemed, in whole or in part, pursuant to such obligation;

(vii) the voting rights, if any, of holders of Trust Preferred Securities in addition to those required by law, including the number of votes per Trust Preferred Security and any requirement for

approval by the holders of such Trust Preferred Securities, as a condition to specified action or amendments to the Trust Agreement;

(viii) the terms and conditions, if any, upon which the Subordinated Debentures owned by the Trust may be distributed to holders of Trust Preferred Securities;

(ix) if applicable, any securities exchange upon which the Trust Preferred Securities will be listed; and

(x) any other relevant rights, preferences, privileges, limitations or restrictions of Trust Preferred Securities not inconsistent with the Trust Agreement or with applicable law.

We will guarantee distributions on Trust Preferred Securities to the extent set forth below under "Description of the Trust Guarantee." Certain United States federal income tax considerations applicable to Trust Preferred Securities will be described in a Prospectus Supplement relating to the Trust Preferred Securities.

Each Trust will issue a series of Trust Common Securities in connection with the issuance of Trust Preferred Securities. Except for voting rights, the terms of Trust Common Securities will be substantially identical to the terms of Trust Preferred Securities. Trust Common Securities will rank pari passu with Trust Preferred Securities except that, upon an event of default under the Trust Agreement, the rights of holders of Trust Common Securities to payments will be subordinated to the rights of holders of Trust Preferred Securities. The Trust Common Securities will also carry the right to vote to appoint, remove or replace any Trustee of the Trust. We will own all of the Trust Common Securities.

ENFORCEMENT OF CERTAIN RIGHTS BY HOLDERS OF TRUST PREFERRED SECURITIES

If an Event of Default as defined and provided in a Trust Agreement occurs and is continuing, then the holders of Trust Preferred Securities of such Trust would rely on the enforcement by the Property Trustee of such Trust of its rights as a holder of the applicable series of Subordinated Debentures against us. In addition, the holders of a majority in aggregate liquidation amount of Trust Preferred Securities of such Trust will have the right to direct the time, method and place of conducting any proceeding for any remedy available to such Property Trustee or to direct the exercise of any trust or power conferred upon such Property Trustee under such Trust Agreement, including the right to direct such Property Trustee to exercise the remedies available to it as a holder of Subordinated Debentures provided that such direction shall not be in conflict with any rule of law or with such Trust Agreement, and could not involve such Property Trustee in personal liability in circumstances where reasonable indemnity would not be adequate. If such Property Trustee fails to enforce its rights under the Subordinated Debentures held by such Trust, a holder of Trust Preferred Securities of such Trust may, to the extent permitted by law, institute a legal proceeding directly against us to enforce such Property Trustee's rights under such Trust Agreement without first instituting any legal proceeding against such Property Trustee or any other entity or person, including such Trust; it being understood and intended that no one or more of such holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of such Trust Agreement to affect, disturb or prejudice the rights of any other of such holders or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under such Trust Agreement, except in the manner herein provided and for the equal and ratable benefit of all such holders. Notwithstanding the foregoing, a holder of Trust Preferred Securities of such Trust may institute a proceeding directly against us without first instituting a legal proceeding against or requesting that action be taken by such Property Trustee or any other Person for enforcement of payment to such holder of the principal of or interest on the Subordinated Debentures held by such Trust having a principal amount equal to the aggregate stated liquidation amount of such Trust Preferred Securities of such holder (a "Direct Action") on or after the due dates specified or provided for in such Subordinated Debentures. In connection with such Direct Action, we will be subrogated to the rights of such holder of Trust Preferred Securities under the Trust Agreement to the extent of any payment made by us to such holder of Trust Preferred Securities in such Direct Action.

DESCRIPTION OF TRUST GUARANTEES

The following is a summary of information concerning the guarantees of the trust preferred securities of each trust, which we refer to as the Trust Guarantees. Each Trust Guarantee will be executed by us for the benefit of holders of Trust Preferred Securities. Each Trust Guarantee will be qualified as an indenture under the Trust Indenture Act. A Prospectus Supplement with respect to the Trust Preferred Securities will identify the indenture trustee for purposes of the Trust Indenture Act (the "Trust Guarantee Trustee").

The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified by its entirety by reference to, the form of Trust Guarantee, which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part. The Trust Guarantee will be held by the Property Trustee for the benefit of holders of Trust Preferred Securities.

GENERAL

To the extent set forth in the Trust Guarantee, we will agree to pay in full the Guarantee Payments, described below, without duplication of amounts theretofore paid by or on behalf of the Trust, as and when due regardless of defense, right of set off or counter-claim which we may have. The following payments or distributions are referred to herein as the Guarantee Payments and, with respect to trust preferred securities issued by a trust, to the extent not paid or made by such trust will be subject to the Trust Guarantee:

(i) any accrued and unpaid distributions on Trust Preferred Securities, to the extent such Trust has funds legally and immediately available therefor;

(ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to the Trust Preferred Securities called for redemption by the Trust to the extent such Trust has funds legally and immediately available therefor with respect to Trust Preferred Securities called for redemption; and

(iii) upon voluntary or involuntary termination, dissolution or winding up of such Trust (other than in connection with the distribution of Subordinated Debentures to holders of Trust Preferred Securities or the redemption of all Trust Preferred Securities), the lesser of:

(a) the aggregate of the liquidation amount and all accrued and unpaid distributions on such Trust Preferred Securities to the date of payment, to the extent such Trust has funds legally and immediately available therefor and

(b) the amount of assets of the Trust remaining available for distribution to holders of Trust Preferred Securities in liquidation of the Trust.

The redemption price and liquidation amount will be fixed at the time the Trust Preferred Securities are issued. Our obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by us to the holders of such Trust Preferred Securities or by causing the Trust to pay such amounts to such holders.

Each Trust Guarantee will not apply to any payment or distribution except to the extent such Trust has funds legally available therefor. If we do not make interest payments on the Subordinated Debentures purchased by a Trust, such Trust will not pay distributions on such Trust Preferred Securities issued by such Trust and will not have funds legally available therefor. The Trust Guarantee, when taken together with our obligations under the Subordinated Debentures, the Subordinated Indenture and the Trust Agreement, including our obligation to pay costs, expenses, debt, and liabilities of such Trust (other than with respect to the Trust Securities), will be a full and unconditional guarantee, on a subordinated basis, by us of payments due on the Trust Preferred Securities from the time of issuance, but will not apply to the payment of distributions and other payments on the Trust Preferred Securities when the Property Trustee does not have sufficient funds in the Property Account of the Trust to make such distributions or

other payments. If we do not make interest payments on the Subordinated Debentures held by the Property Trustee, the Trust will not make distributions on the Trust Preferred Securities and will not have funds available therefor. See "Additional Description of the Subordinated Debentures to be Issued to Trust -- Certain Covenants."

AMENDMENT OF TRUST GUARANTEE; ASSIGNMENT

Except for changes which do not materially adversely affect the rights of holders of Trust Preferred Securities, each Trust Guarantee may be amended only with the approval of not less than 66 2/3% in liquidation amount of Trust Preferred Securities issued by the applicable Trust. The manner of obtaining any such approval will be as set forth in Article Six of the applicable Trust Agreement. The Trust Guarantee will bind the successors, assigns receivers, trustees and representatives of us and continue to benefit the Trust Guarantee Trustee and holders of Trust Preferred Securities. Except in connection with a consolidation, merger, conveyance, transfer or lease involving us, permitted under Article Eight of the Subordinated Indenture, we may not assign its rights or delegate our obligations under the Trust Guarantee.

TERMINATION OF THE TRUST GUARANTEE

Each Trust Guarantee will terminate as to the Trust Preferred Securities issued by the applicable Trust (a) upon full payment of the Redemption Price of all Trust Preferred Securities of such trust, (b) upon distribution of Subordinated Debentures held by such Trust to the holders of and in exchange for all of the Trust Preferred Securities or (c) upon full payment of amounts payable in accordance with the Trust Agreement upon liquidation of such Trust. See "Status of the Trust Guarantee" and "Additional Description of Subordinated Debentures to be Issued to Trust -- Subordinated Indenture Additional Events of Default" for a description of the events of default and enforcement rights of the holders of Subordinated Debentures. The Trust Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of Trust Preferred Securities must repay any sums paid to them under the Trust Preferred Securities or Trust Guarantee.

EVENTS OF DEFAULT

An event of default under a Trust Guarantee will occur if we fail to make the payments required by the Trust Guarantee.

The holders of a majority in liquidation amount of Trust Preferred Securities relating to such Trust Guarantee have the right to direct the time, method and place of conducting any proceeding for any remedy available to such Trust Guarantee Trustee or to direct the exercise of any trust or power conferred upon such Trust Guarantee Trustee under the Trust Guarantee. Accordingly if the Trust Guarantee Trustee fails to enforce such Trust Guarantee, any holder of record of Trust Preferred Securities relating to such Trust Preferred Guarantee may institute a legal proceeding directly against us to enforce the Trust Guarantee Trustee's rights, without first instituting any other legal proceeding.

STATUS OF TRUST GUARANTEE

The Trust Guarantee will constitute our unsecured obligation and will rank:

(i) subordinate and junior in right of payment to all of our other liabilities, including the Subordinated Debentures, except those made pari passu or subordinate by their terms,

(ii) pari passu with the most senior preferred or preference stock which may now or hereafter be issued or guaranteed by us; and

(iii) senior to our Common Stock.

The terms of the Trust Preferred Securities provide that each holder of Trust Preferred Securities issued by such trust, by acceptance thereof, agrees to the subordination provisions and other terms of the

Trust Guarantee relating thereto. Each Trust Guarantee will constitute a guarantee of payment and not of collection (i.e., the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under such Trust Guarantee without instituting a legal proceeding against any other person or entity). Each Trust Guarantee will be deposited with the applicable Guarantee Trustee to be held for the benefit of the holders of such Trust Preferred Securities. Except as otherwise noted herein, the Guarantee Trustee has the right to enforce the Trust Guarantee on behalf of the holders of the related Trust Preferred Securities. Except as described under "Termination of the Trust Guarantee" above, the Trust Guarantee will not be discharged except by payment of the Guarantee Payments in full (without duplication of amounts theretofore paid by the Trust).

INFORMATION CONCERNING TRUST GUARANTEE TRUSTEE

The Trust Guarantee Trustee, prior to the occurrence of a default with respect to the Trust Guarantee and after the curing or waiving of all such defaults that may have occurred, undertakes to perform only such duties as are specifically set forth in the Trust Guarantee and, during the continuance of any default, will exercise the same degree of care as a prudent individual would exercise in the conduct of such individual's own affairs. Subject to such provisions, the Trust Guarantee Trustee is under no obligation to exercise any of the powers vested in it by the Trust Guarantee at the request of any holder of Trust Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby; but the foregoing shall not relieve the Trust Guarantee Trustee, upon the occurrence of an Event of Default under such Trust Guarantee, from exercising the rights and powers vested in it by such Trust Guarantee. The Trust Guarantee Trustee also serves as Property Trustee. We and our officers and directors have no material relationship with the initial Trust Guarantee Trustee other than normal banking relationships.

GOVERNING LAW

The Trust Guarantee will be governed by the laws of the State of New York.

THE AGREEMENT AS TO EXPENSES AND LIABILITIES

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by us under the Trust Agreement, we will irrevocably and unconditionally guarantee to each person or entity to whom the Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of the Trust other than obligations of the Trust to pay to the holders of the related Trust Securities or other similar interests in the Trust the amounts due such holders pursuant to the terms of such Trust Securities or such other similar interests, as the case may be.

ADDITIONAL DESCRIPTION OF SUBORDINATED DEBENTURES TO BE ISSUED TO TRUST

Set forth below is a description of the terms of the Subordinated Debentures which each Trust will hold as trust assets. The general provisions of the Subordinated Debentures are set forth under "Description of Debt Securities" above. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Indenture (as defined in "Description of Debt Securities" above), as supplemented by the Supplemental Indenture creating the Subordinated Debentures. The Subordinated Indenture and the Supplemental Indenture are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Subordinated Debentures will include those stated in the Subordinated Indenture and the related Supplemental Indenture and those made a part of the Subordinated Indenture by reference to the Trust Indenture Act.

Upon a dissolution of a Trust, Subordinated Debentures held by such Trust may be distributed to the holders of Trust Securities in liquidation of such Trust.

If any Subordinated Debentures are distributed to holders of Trust Preferred Securities, we will use our best efforts to have such Subordinated Debentures traded on the same stock exchange as the related Trust Preferred Securities are traded.

GENERAL

Subordinated Debentures will be issued in a principal amount equal to the aggregate stated Liquidation Amount of Trust Preferred Securities plus our investment in Trust Common Securities.

The entire principal amount of the Subordinated Debentures held by each Trust will mature and become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest (as defined herein), if any, on the date set forth in the applicable Prospectus Supplement.

The covenants contained in the Subordinated Debenture Indenture would not necessarily afford protection to holders of the Subordinated Debentures in the event of a decline in our credit quality resulting from takeovers, recapitalizations or similar restructurings.

If Subordinated Debentures held by a Trust are distributed to holders of Trust Preferred Securities of such Trust in liquidation of such holders' interests in such Trust, such Subordinated Debentures will initially be issued as a Global Security. Under certain limited circumstances, Subordinated Debentures may be issued in certificated form in exchange for a Global Security. In the event Subordinated Debentures are issued in certificated form, such Subordinated Debentures will be in denominations as specified in the applicable Prospectus Supplement and integral multiples thereof and may be transferred or exchanged at the offices described therein. Payments on Subordinated Debentures issued as a Global Security will be made to the Depositary for the Subordinated Debentures. In the event Subordinated Debentures are issued in certificated form, principal and interest will be payable, the transfer of the Subordinated Debentures will be registrable and Subordinated Debentures will be exchangeable for Subordinated Debentures of other denominations of a like aggregate principal amount at the corporate trust office of the Debt Trustee in New York, New York; provided, that payment of interest may be made at our option by check mailed to the address of the persons entitled thereto.

The Indenture does not contain provisions that afford holders of the Subordinated Debentures protection in the event we are involved in a highly leveraged transaction.

CERTAIN COVENANTS

If there has occurred any event that would constitute an Indenture Event of Default, then (a) we may not declare or pay any dividend on, make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock and, (b) we may not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Trust Guarantee) issued by us which rank pari passu with or junior to the Subordinated Debentures. The preceding sentence, however, shall not restrict (A) any of the actions described in the preceding sentence resulting from any reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (B) repurchases, redemptions or other acquisition of shares of our capital stock in connection with any employment contract benefit plan or other similar arrangement with or for the benefit of employees, officers or directors or a stock purchase and dividend reinvestment plan, (C) dividends or distributions of our capital stock, or (D) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provision of such capital stock or the security being converted or exchanged.

We will covenant, as long as Trust Preferred Securities of a Trust remain outstanding, (i) to maintain 100% ownership of Trust Common Securities of such Trust, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory business trust, except in connection with the distribution of Subordinated Debentures held by such Trust to the holders of Trust Securities in liquidation of such Trust, the redemption of all Trust Securities, or certain mergers, consolidations or amalgamations, each as

permitted by the Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

OPTIONAL REDEMPTION

We will have the right to redeem the Subordinated Debentures, in whole or in part, from time to time, without premium or penalty, on or after the date set forth in the applicable Prospectus Supplement, upon not less than thirty (30) or more than sixty (60) days' notice, at a redemption price equal to a percentage of the principal amount to be redeemed plus any accrued and unpaid interest, including Additional Interest (as defined herein), if any, to the Redemption Date, as specified in the applicable Prospectus Supplement. If a partial redemption of the Trust Preferred Securities resulting from a partial redemption of the Subordinated Debentures held by a trust would result in the delisting of the Trust Preferred Securities of such Trust, we may only redeem such Subordinated Debentures held by such trust in whole. In addition, upon the occurrence of a Special Event, we may, upon not less than thirty (30) or more than (60) days notice, within ninety (90) days following the occurrence thereof and subject to the terms and conditions of the Subordinated Indenture, redeem such Subordinated Debentures, in whole, at a price equal to 100% of the principal amount to be redeemed plus any accrued but unpaid interest (including Additional Interest, if any) to the Redemption Date. In the event of redemption of such Subordinated Debentures in part only, new Subordinated Debentures for the unredeemed portion shall be issued in the name or names of the holders thereof upon the surrender thereof.

INTEREST

Each Subordinated Debenture will bear interest at the rate set forth in the applicable Prospectus Supplement from the original date of issuance, payable quarterly in arrears on dates which will be specified in the Prospectus Supplement (each, an "Interest Payment Date"), to the person in whose name such Subordinated Debenture is registered, subject to certain exceptions, on the record date specified in the applicable Prospectus Supplement.

The amount of interest payable for any period will 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 the Subordinated Debentures is not a Business Day, then payment of the 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.

OPTION TO EXTEND INTEREST PAYMENT PERIOD

Except to the extent set forth in the applicable Prospectus Supplement, we will have the right at any time to defer payments of interest on Subordinated Debentures by extending the interest payment period for up to 20 consecutive quarters, during which Extension Period we will have the right to make partial payments of interest on Interest Payment Dates. At the end of such an Extension Period, we will pay all interest then accrued and unpaid (including any Additional Interest, together with interest thereon at the rate specified and to the extent permitted by applicable law). We covenant in the Supplemental Indenture for the benefit of the holders of a series of Subordinated Debentures, that, subject to the next succeeding sentence, (a) we shall not declare or pay any dividend on, or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock, and (b) we shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Trust Guarantee) issued by us which rank pari passu with or junior to said series of Subordinated Debentures (i) if at such time we shall have given notice of our election to extend an interest payment period for a series of Subordinated Debentures and such extension shall be continuing or (ii) if at such time an Event of Default with respect to a series of Subordinated Debentures shall have occurred and be continuing. The preceding sentence, however, shall not restrict (A) any of the actions described in the preceding sentence resulting from any reclassification

of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (B) repurchases, redemptions or other acquisitions of shares of our capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers or directors or a stock purchase and dividend reinvestment plan, and (C) dividends or distributions in our capital stock, or (D) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

Prior to the termination of any such Extension Period for a series of Subordinated Debentures, we may further defer payments of interest on such Subordinated Debentures, by extending the interest payment period, provided that such Extension Period together with all such previous and further extensions thereof for such series of Subordinated Debentures may not exceed 20 consecutive quarters or extend beyond the maturity of such series of Subordinated Debentures.

Upon the termination of any Extension Period for a series of Subordinated Debentures, and the payment of all accrued and unpaid interest on the Subordinated Debentures then due, we may select a new Extension Period for such series of Subordinated Debentures, as if no Extension Period had previously been declared, subject to the above requirements. No interest on a series of Subordinated Debentures during an Extension Period, except at the end thereof, will be due and payable on such series of Subordinated Debentures.

If the Property Trustee is the sole holder of the Subordinated Debentures, we will give the Property Trustee notice of our selection of such Extension Period for such series of Subordinated Debentures one Business Day prior to the earlier of (i) the Regular Record Date relating to the Interest Payment Date on which the Extension Period is to commence or relating to the Interest Payment Date on which an Extension Period that is being extended would otherwise terminate or (ii) the date a Trust is required to give notice to the applicable self-regulatory organization or to holders of such Trust Preferred Securities on the record date or the date such distribution is payable, but in any event not less than one Business Day prior to such record date. The Administrative Trustees shall give notice of our selection of such Extension Period to the holders of such Trust Preferred Securities. If the Property Trustee is not the sole holder of a series of Subordinated Debentures, we will give the holders of such Subordinated Debentures notice of our selection of such Extension Period ten Business Days prior to the earlier of (i) the Regular Record Date relating to the Interest Payment Date on which the Extension Period is to commence or relating to the Interest Payment Date on which an Extension Period that is being extended would otherwise terminate or (ii) the date we are required to give notice to the applicable self-regulatory organization or to holders of such Subordinated Debentures, but in any event at least two Business Days before such record date.

We have no present intention to defer interest payments.

ADDITIONAL INTEREST

If a Trust is required to pay any taxes, duties, assessments or other governmental charges (other than withholding taxes) imposed by the United States, or any other taxing authority, we will pay as additional interest ("Additional Interest") such additional amounts as shall be required so that the net amounts received and retained by a Trust after paying any such charges will be equal to the amount such Trust would have received had no such charge been imposed.

SUBORDINATED INDENTURE ADDITIONAL EVENTS OF DEFAULT

In addition to the Events of Default described under "Description of Debt Securities -- Events of Default," the following will be an additional Event of Default:

the voluntary or involuntary dissolution, winding up or termination of a Trust except in connection with

(i) the distribution of Subordinated Debentures to holders of Trust Securities in liquidation of a Trust,

(ii) the redemption of all outstanding Trust Securities of such Trust, or

(iii) certain mergers or consolidations permitted by the Trust Agreement.

The holders of not less than a majority in aggregate principal amount of Subordinated Debentures of any series may waive any past default, except (i) a default in payment of principal, premium, interest or Additional Interest or (ii) a default in a covenant or provision which under Article Nine of the Subordinated Indenture may not be modified or amended without the consent of each holder of a Subordinate Debenture of the affected series. The holders of Trust Preferred Securities in certain circumstances have the right to direct the Property Trustee to exercise its rights as holder of Subordinated Debentures.

PAYMENT AND PAYING AGENTS

Payment of principal and premium (if any) on Subordinated Debentures will be made only if the holder of Subordinated Debentures surrenders them to the Paying Agent of the Subordinated Debentures.

Principal of and any premium and interest, if any, on Subordinated Debentures will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as we may designate from time to time pursuant to the Subordinated Debenture Indenture. Payment of interest on the Subordinated Debentures on any Interest Payment Date will be made to the person in whose name the Subordinated Debenture (or predecessor security) is registered at the close of business on the Regular Record Date for such interest payment.

The Subordinated Indenture Trustee will act as Paying Agent with respect to the Subordinated Debentures. We may at any time designate additional Paying Agents or rescind the designation of any Paying Agent or approve a change in the office through which any Paying Agent acts, except that we will be required to maintain a Paying Agent at the place of payment.

CONSOLIDATION, MERGER AND SALE

The Subordinated Indenture provides that we will be permitted to consolidate with, or sell, lease or convey all or substantially all of its assets to, or merge with or into, any other entity provided that (a) either we shall be the continuing entity, or the successor entity (if other than us) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume our obligations under the Trust Guarantee and the payment of the principal of (and premium, if any) and interest including all Additional Interest on all of the Subordinated Debentures and the due and punctual performance and observance of all of the covenants and conditions contained in the Subordinated Indenture; (b) immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation of ours or any Subsidiary as a result thereof as having been incurred by us or such Subsidiary at the time of such transaction, no Event of Default under the Subordinated Indenture or the Trust Guarantee, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Indenture Trustee (Sections 801 and 803 of the Subordinated Indenture).

INFORMATION CONCERNING SUBORDINATED DEBENTURE TRUSTEE

The Subordinated Indenture Trustee, prior to default and after the curing of all defaults, if any, undertakes to perform only such duties as are specifically set forth in the Subordinated Indenture and, after a default (that has not been cured or waived), will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Indenture Trustee is under no obligation to exercise any of the powers vested in it by the

Subordinated Indenture at the request of any holder of Subordinated Indentures, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby; but the foregoing will not relieve the Subordinated Indenture Trustee, upon the occurrence of an Indenture Event of Default, from exercising the rights and powers vested in it by the Subordinated Indenture. The Subordinated Indenture Trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the Subordinated Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

MISCELLANEOUS

We will have the right at all times to assign any of our rights or obligations under the Subordinated Indenture to a direct or indirect wholly-owned subsidiary of ours; provided that, in the event of any such assignment, we will remain liable for all of such obligations. Subject to the foregoing, the Subordinated Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

EFFECT OF OBLIGATIONS UNDER SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES GUARANTEE

As long as payments are made when due on Subordinated Debentures, the Trust will have sufficient funds to be able to make all appropriate payments on Trust Securities. This is primarily because (i) the aggregate principal amount of the Subordinated Debentures will be equal to the sum of the aggregate stated liquidation amount of such Trust Securities; (ii) the interest rate and interest and other payment dates on the Subordinated Debentures will match the distribution rate and distribution and other payment dates for the Trust Securities; (iii) we will pay for all costs and expenses of each Trust; and (iv) the Trust Agreement provides that the Trustees may not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions and other payments due on the Trust Preferred Securities (to the extent funds are available therefor) are guaranteed by us to the extent set forth under "Description of the Trust Guarantee." If we do not make interest payments on Subordinated Debentures, it is expected that the Trust will not have sufficient funds to pay distributions on its Trust Preferred Securities. The Trust Guarantee is a full and unconditional guarantee, but does not apply to any payment unless the Trust has sufficient funds for such payment.

If we fail to make payments on Subordinated Debentures when due (taking into account any Extension Period), the Trust Agreement will provide a mechanism whereby holders of Trust Preferred Securities may direct the Property Trustee to enforce its rights, including proceeding directly against us. Accordingly, if the Property Trustee fails to enforce its rights, a holder of Trust Preferred Securities may sue us directly to enforce those rights, without first instituting legal proceedings against the Trust, the Property Trustee or any other person or entity.

If we fail to make payments under the Trust Guarantee, the Trust Guarantee provides a mechanism whereby the holders of Trust Preferred Securities may direct the Trust Guarantee Trustee to enforce its rights. If the Trust Guarantee Trustee fails to enforce its rights, any holder of Trust Preferred Securities may institute a legal proceeding against us directly to enforce those rights without first instituting legal proceedings against the Trust, the Trust Guarantee Trustee or any other person or entity.

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under the Trust Agreement, we will irrevocably and unconditionally guarantee to each person or entity to whom the Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of the Trust other than obligations of the Trust to pay to the holders of the related Trust Securities or other similar interests in the Trust the amounts due such holders pursuant to the terms of such Trust Securities or such other similar interests, as the case may be.

The above mechanisms and obligations, taken together, are equivalent to a full and unconditional guarantee by us of payments due on Trust Preferred Securities to the extent of funds available to the Trust.

DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

We may issue stock purchase contracts, including contracts obligating holders to purchase from us, and us to sell to the holders, a specified number of shares of common stock at a future date or dates, which we refer to herein as "stock purchase contract." The consideration per share of common stock may be fixed at the time stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts. The stock purchase contracts may be issued separately, or as part of units consisting of a stock purchase contract and debt securities, trust preferred securities or debt obligations of third parties, including U.S. treasury securities, securing the holders' obligations to purchase the common stock under the stock purchase contracts, which we refer to herein as "stock purchase units." The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis. The stock purchase contracts may require holders to secure their obligations thereunder in a specified manner.

The applicable prospectus supplement will describe the terms of any stock purchase contracts or stock purchase units. The description in the prospectus supplement will not necessarily be complete, and reference will be made to the stock purchase contract, and, if applicable, collateral or depositary arrangements, relating to such stock purchase contracts or stock purchase units. Material United States federal income tax considerations applicable to the stock purchase units and the stock purchase contracts will be discussed in the prospectus supplement relating thereto.

PLAN OF DISTRIBUTION

We and the trusts may sell securities in any of three ways: (1) through underwriters or dealers; (2) directly to a limited number of institutional purchasers or to a single purchaser; or (3) through agents. Any such dealer or agent, in addition to any underwriter, may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended. The terms of the offering of the securities with respect to which this prospectus is being delivered will be set forth in the applicable prospectus supplement and will include:

- the name or names of any underwriters, dealers or agents;
- the purchase price of such securities and the proceeds to us from such sale;
- any underwriting discounts and other items constituting underwriters' compensation;
- the public offering price; and
- any discounts or concessions which may be allowed or reallowed or paid to dealers and any securities exchanges on which the securities may be listed.

If underwriters are used in the sale of securities, such securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by one or more underwriters acting alone. Unless otherwise set forth in the applicable prospectus supplement, the obligations of the underwriters to purchase the securities described in the applicable prospectus supplement will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all such securities if any are so purchased by them. Any public

offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

The securities may be sold directly by us or the applicable trust or through agents designated by us or the applicable trust from time to time. Any agents involved in the offer or sale of the securities in respect of which this prospectus is being delivered, and any commissions payable by us or the applicable trust to such agents, will be set forth in the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

If dealers are utilized in the sale of any securities, we or the applicable trust will sell the securities to the dealers, as principals. Any dealer may resell the securities to the public at varying prices to be determined by the dealer at the time of resale. The name of any dealer and the terms of the transaction will be set forth in the prospectus supplement with respect to the securities being offered.

Securities may also be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more firms, which we refer to herein as the "remarketing firms," acting as principals for their own accounts or as our or a trust's agents, as applicable. Any remarketing firm will be identified and the terms of its agreement, if any, with us or the applicable trust and its compensation will be described in the applicable prospectus supplement. Remarketing firms may be deemed to be underwriters, as that term is defined in the Securities Act of 1933, as amended, in connection with the securities remarketed thereby.

If so indicated in the applicable prospectus supplement, we or the applicable trust will authorize agents, underwriters or dealers to solicit offers by certain specified institutions to purchase the securities to which this prospectus and the applicable prospectus supplement relates from us or the applicable trust at the public offering price set forth in the applicable prospectus supplement, plus, if applicable, accrued interest, pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Such contracts will be subject only to those conditions set forth in the applicable prospectus supplement, and the applicable prospectus supplement will set forth the commission payable for solicitation of such contracts.

Underwriters will not be obligated to make a market in any securities. No assurance can be given regarding the activity of trading in, or liquidity of, any securities.

Agents, dealers, underwriters and remarketing firms may be entitled, under agreements entered into with us or the applicable trust (or both), to indemnification by us or the applicable trust (or both) against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribution to payments they may be required to make in respect thereof. Agents, dealers, underwriters and remarketing firms may be customers of, engage in transactions with, or perform services for, us and/or the applicable trust in the ordinary course of business.

Each series of securities will be a new issue and, other than the common stock, which is listed on NASDAQ, will have no established trading market. We may elect to list any series of securities on an exchange, and in the case of the common stock, on any additional exchange, but, unless otherwise specified in the applicable prospectus supplement, we shall not be obligated to do so. No assurance can be given as to the liquidity of the trading market for any of the securities.

Agents, underwriters, dealers and remarketing firms may be customers of, engage in transactions with, or perform services for, us and our subsidiaries in the ordinary course of business.

LEGAL MATTERS

The validity of the securities offered here and certain related matters will be passed upon for us, and certain United Stated federal income taxation matters will be passed upon for us and the Trusts by Dickinson Wright PLLC, Detroit, Michigan. Certain matters of Delaware law relating to the validity of

the Trust Preferred Securities will be passed upon on behalf of the Trusts by Richards, Layton & Finger, P.A., Wilmington, Delaware. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

EXPERTS

The consolidated financial statements of SEMCO Energy, Inc. as of December 31, 1999 and 1998, and for the three years ended December 31, 1999, incorporated by reference in this prospectus have been audited by Arthur Andersen LLP, independent public accountants, and the SEMCO Energy, Inc. pro forma Combined Statement of Income for the year ended December 31, 1999, incorporated by reference in this prospectus has been examined by Arthur Andersen LLP, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The combined financial statements of ENSTAR Natural Gas Company (a division of SEMCO Energy, Inc.) and Alaska Pipeline Company (a subsidiary of SEMCO Energy, Inc.) as of December 31, 1999 and 1998, and for each of the years in the three year period ended December 31, 1999, have been incorporated by reference in this prospectus in reliance upon the report of KPMG LLP, independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

Our future Financial Statements and the reports thereon of Arthur Andersen LLP also will be incorporated by reference in this prospectus in reliance upon the authority of that firm as experts in giving those reports to the extent that said firm has audited said Financial Statements and consented to the use of their reports thereon.

NO DEALER, SALESPERSON OR OTHER PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS. YOU MUST NOT RELY ON ANY UNAUTHORIZED INFORMATION OR REPRESENTATIONS. THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS DO NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY UNDER CIRCUMSTANCES OR IN JURISDICTIONS WHERE IT IS UNLAWFUL TO DO SO. THE INFORMATION CONTAINED IN THE PROSPECTUS SUPPLEMENT AND THE PROSPECTUS IS CURRENT ONLY AS OF ITS DATE.

$60,000,000

[SEMCO Energy, Inc.]

8% SENIOR NOTES
DUE 2016

PROSPECTUS SUPPLEMENT

A.G. EDWARDS & SONS, INC.
SALOMON SMITH BARNEY
FIRST OF MICHIGAN
DIVISION OF FAHNESTOCK & CO. INC.

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Form S-8

SEMCO ENERGY INC - SEN

Filed: June 28, 2002 (period:)

Securities offered to employees pursuant to employee benefit plans

As Filed with the Securities and Exchange Commission on June 28, 2002
Registration No. 333 --

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-8
REGISTRATION STATEMENT
Under
The Securities Act of 1933

SEMCO ENERGY, INC.

(Exact name of issuer as specified in its charter)

Michigan	38-2144267
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

28470 13 Mile Road, Suite 300, Farmington Hills, Michigan 48334
(Address of Principal Executive Offices) (Zip Code)

SEMCO Energy, Inc. 401(k) Plan
(Full title of the plan)

Arnold R. Madigan
Vice President and General Counsel
SEMCO Energy, Inc.
28470 13 Mile Road, Suite 300
Farmington Hills, Michigan 48334
(Name and Address of agent for service)
Telephone number, including area code, of agent of service:
248-702-6208

Copies of Communications to:
Verne C. Hampton II
Dickinson Wright PLLC
500 Woodward Avenue, Suite 4000
Detroit, Michigan 48226

Approximate date of proposed public offering:
As soon as practicable after the effective date of this Registration Statement

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock ($1 par value)	400,000 shs.	$7.80	$3,120,000	$287.04

*Based upon the market price on June 21, 2002

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

SEMCO Energy, Inc. (the "Company") hereby incorporates by reference in this Registration Statement the following documents previously filed with the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"):

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2001.

2. The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

3. The description of the Common Stock, $1.00 par value, of the Company set forth in the Prospectus of the Company dated July 24, 1998 which was part of Amendment No. 1 to Registration Statement No. 333-58715.

All documents subsequently filed with the Commission by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold shall be deemed to be incorporated herein by reference and to be a part hereof from the dates of filing of such documents.

ITEM 4. DESCRIPTION OF SECURITIES

Not Applicable.

ITEM 5. INTEREST OF NAMED EXPERTS AND COUNSEL

Not Applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Bylaws and the Michigan Business Corporation Act permit the Company's officers and directors to be indemnified under certain circumstances for expenses and in some instances, for judgments, fines or amounts paid in settlement of civil, criminal, administrative and investigative suits or proceedings, including those involving alleged violations of the Securities Act of 1933, as amended (the "Act"). In addition, the Company maintains directors' and officers' liability insurance which, under certain circumstances, would cover alleged violation of the Act. Insofar as indemnification for liabilities arising under the Act may be permitted to officers and directors pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. Therefore in the event that a claim for such indemnification is asserted by any officer or director, the Company (except insofar as such claim seeks reimbursement by the Company of the expenses paid or incurred by an officer or director in the successful defense of any action, suit or proceeding) will, unless the matter has heretofore been adjudicated by precedent deemed by the Company to be controlling, submit to a court of appropriate jurisdiction the question of whether or not the indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED

Not Applicable.

ITEM 8. EXHIBITS

The following exhibit is filed herewith:

Exhibit Number	Exhibit
5	Opinion and consent of Dickinson Wright PLLC

The undersigned Company will submit the amended SEMCO Energy, Inc. 401(k) Plan to the Internal Revenue Service ("IRS") in a timely manner to assure compliance with the requirements of ERISA and will make all changes required by the IRS in order to qualify the Plan.

ITEM 9. UNDERTAKINGS

The undersigned Company hereby undertakes: 1. To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement: (i) to include any Prospectus required by Section 10(a)(3) of the Securities Act of 1933; (ii) to reflect in the Prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; (iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement; provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Company pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement. (2) That, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned Company hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Company's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the Registration Statement shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company, in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether or not such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement or amendment thereto to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Farmington Hills and State of Michigan on June 20, 2002.

SEMCO ENERGY, INC.

By /s/ Marcus Jackson

(Marcus Jackson)
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement or amendment thereto has been signed below by the following persons in the capacities indicated on June 20, 2002.

SIGNATURE	TITLE	SIGNATURE	TITLE
/s/ Marcus Jackson (Marcus Jackson)	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer) and Director	/s/ John R. Hinton (John R. Hinton)	Director
/s/ John E. Schneider (John E. Schneider)	Senior Vice President, Treasurer and Chief Financial Officer (Principal Financial Officer)	/s/ Harvey I. Klein (Harvey I. Klein)	Director
/s/ John M. Albertine (John M. Albertine)	Director	/s/ Frederick S. Moore (Frederick S. Moore)	Director
/s/ Edward J. Curtis (Edward J. Curtis)	Director	/s/ Thomas W. Sherman (Thomas W. Sherman)	Director
/s/ John T. Ferris (John T. Ferris)	Director	/s/ Edith A. Stotler (Edith A. Stotler)	Director
/s/ Michael O. Frazer (Michael O. Frazer)	Director	/s/ Donald W. Thomason (Donald W. Thomason)	Director

Exhibit Index

Exhibit Number	Exhibit
5	Opinion and consent of Dickinson Wright PLLC

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EXHIBIT 5

[DICKINSON WRIGHT PLLC LETTERHEAD]

June 26, 2002

Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, DC 20549

Re: SEMCO Energy, Inc.
401(k) Plan
Registration Statement on Form S-8

Gentlemen:

As counsel for SEMCO Energy, Inc., a Michigan corporation (the "Company"), we are familiar with the corporate affairs of the Company and particularly with the corporate proceedings relating to the establishment of the 401(k) Plan, as amended (the "Plan").

The Plan was duly and legally authorized by the Board of Directors of the Company.

Based on the above, we are of the opinion that:

1. The Company duly and validly has approved the Plan, taking all necessary corporate action for that purpose.

2. The shares of Common Stock of the Company covered by the Plan have been duly authorized and when issued pursuant to the Plan will be validly issued, fully paid and non-assessable and no personal liability will attach to the holder thereof.

3. The Plan is subject to the Employee Retirement Income Security Act of 1974, as amended.

We hereby consent to the use of this opinion as Exhibit 5 to the Registration Statement.

Very truly yours,

DICKINSON WRIGHT PLLC

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Form 424B2

SEMCO ENERGY INC - SEN

Filed: September 18, 2002 (period:)

Form of prospectus filed in connection with primary offering of securities on a delayed basis

Rule 424(b)2
Registration No. 333-91815

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED MARCH 27, 2000

$30,000,000

SEMCO Energy, Inc.

6.49% Senior Notes Due 2009

The 6.49% Senior Notes Due 2009 bear interest at the rate of 6.49% per year. Interest on the Senior Notes is payable semiannually on April 1 and October 1 of each year, beginning on April 1, 2003. The Senior Notes will mature on October 1, 2009. The Senior Notes will be available for purchase in denominations of $1,000 and integral multiples of $1,000.

The Senior Notes are unsecured debt securities of SEMCO Energy, Inc. that rank equally with all of our other unsecured and unsubordinated obligations.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Underwriters have agreed to purchase the Senior Notes at 99.35% of their principal amount ($29,805,000 aggregate proceeds to SEMCO, before deducting our expenses), subject to the terms of our underwriting agreement. The Underwriters plan to initially offer the Senior Notes at 100% of their principal amount. If all of the Senior Notes are not sold at the initial offering price, the offering price may be changed. See "Underwriting."

We expect that the Senior Notes will be ready for delivery in book entry form only through the facilities of The Depository Trust Company on or about September 19, 2002.

MCDONALD INVESTMENTS INC. U.S. BANCORP PIPER JAFFRAY INC.

The date of this Prospectus Supplement is September 16, 2002.

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FORWARD-LOOKING STATEMENTS

This document contains and incorporates by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections of SEMCO and its subsidiaries. Statements that are not historical facts, including statements about SEMCO's outlook, beliefs, plans, goals, and expectations, are forward-looking statements. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. We undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Factors that may impact forward-looking statements include, but are not limited to, the following: (i) the effects of weather and other natural phenomena; (ii) the economic climate and growth in the geographical areas where we do business; (iii) the capital-intensive nature of our business; (iv) increased competition within the energy industry as well as from alternative forms of energy; (v) the timing and extent of changes in commodity prices for natural gas and propane; (vi) the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates; (vii) our ability to bid on and win construction contracts; (viii) the impact of energy prices on the amount of projects and business available to our construction services business; (ix) the nature, availability and projected profitability of potential investments available to SEMCO; (x) our ability to remain in compliance with our debt covenants and accomplish our financing objectives in a timely and cost-effective manner in light of changing conditions in the capital markets; (xi) our ability to operate and integrate acquired businesses in accordance with our plans and (xii) our ability to effectively execute our strategic plan.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary contains basic information about this offering. It likely does not contain all of the information that is important to you. For a more complete understanding of this offering, you should carefully read and rely only on this prospectus supplement, the accompanying prospectus, and the information contained in the documents we refer to in this prospectus supplement under "Where You Can Find More Information." The information contained in this prospectus supplement is current only as of the date of this prospectus supplement. If any information set forth in this prospectus supplement, or any document incorporated by reference in this prospectus supplement, is inconsistent with any information contained in the accompanying prospectus, you should rely on the information in this prospectus supplement or the documents incorporated by reference. References in this prospectus supplement and the related prospectus to the terms "we," "us" or other similar terms mean SEMCO Energy, Inc. unless the context clearly indicates otherwise. We are also referred to in this prospectus supplement as SEMCO.

THE COMPANY

SEMCO is a diversified energy services and infrastructure holding company headquartered in southeastern Michigan. We were founded in 1950 as Southeastern Michigan Gas Company. We operate four business segments: (1) gas distribution; (2) construction services; (3) information technology services; and (4) propane, pipelines and storage. Our gas distribution business segment operates in Michigan and Alaska. The Alaska-based operation, which consists of ENSTAR Natural Gas Company and Alaska Pipeline Company, was acquired on November 1, 1999. See "SEMCO Energy" in the accompanying prospectus.

THE OFFERING

Securities Offered.....	6.49% Senior Notes Due 2009. The Senior Notes will be issued in an aggregate principal amount of $30 million.
Maturity.....	October 1, 2009.
Issue Price.....	100% of the principal amount.
Interest Payment Dates.....	Semiannually, on each April 1 and October 1 beginning on April 1, 2003.
Ranking.....	The Senior Notes are direct, unsecured and unsubordinated obligations of SEMCO that rank equally with all of our other unsecured and unsubordinated obligations. The Indenture under which the Senior Notes are being issued contains no limit on the amount of additional debt that may be issued by us.
Redemption.....	The Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.
Use of Proceeds.....	We will use the proceeds from the sale of the Senior Notes to redeem $30 million principal amount of 6.83% notes maturing on October 1, 2002.

Ratio of Earnings to Fixed Charges.....

FOR THE TWELVE MONTHS ENDED JUNE 30, 2002	FOR THE YEAR ENDED DECEMBER 31, 2001	2000	1999	1998	1997
1.22x	1.04x	1.60x	2.23x	2.00x	2.38x

The ratio of earnings to fixed charges includes preferred and trust preferred dividends.

RISK FACTORS

BECAUSE WE ARE PRIMARILY A DISTRIBUTOR OF NATURAL GAS, OUR EARNINGS WILL FLUCTUATE WITH THE WEATHER PATTERNS OF OUR MARKET AREAS IN MICHIGAN AND ALASKA.

Our gas distribution business segment consists of operations in Michigan and Alaska. ENSTAR, the Alaska-based operation, was acquired on November 1, 1999. Warm weather during the past three years has had a significant impact on operating income. Weather was approximately 9%, 6% and 7% warmer than normal during 2001, 2000 and 1999, respectively. Under normal weather conditions, operating income during 2001, 2000 and 1999 would have been higher by approximately $8.4 million, $6.5 million and $5.3 million, respectively. The impact of weather on operating income during 2000 was greater than during 1999, despite colder weather in 2000. This is due to the ENSTAR acquisition, which expanded our operations in the gas distribution segment. If the weather continues to be warmer than normal in our market areas, operating income and the resulting coverage ratios would continue to be negatively impacted.

USE OF PROCEEDS

We will use the proceeds from the sale of the Senior Notes to redeem $30 million principal amount of 6.83% notes maturing on October 1, 2002.

CAPITALIZATION

The information presented below has been selected from or based on detailed information and financial statements appearing in the documents incorporated herein by reference. This information should be read in conjunction with the information incorporated herein by reference.

The following table sets forth as of June 30, 2002, the consolidated capitalization of SEMCO.

	AS OF JUNE 30, 2002			
	ACTUAL	PERCENT	AS ADJUSTED(1)	PERCENT
	(DOLLARS IN THOUSANDS)			
LONG-TERM DEBT (INCLUDING CURRENT MATURITIES):	$368,347	58.6%	$368,347	58.6%
COMPANY-OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARIES HOLDING SOLELY DEBT SECURITIES OF SEMCO:	139,415	22.2	139,415	22.2
COMMON SHAREHOLDERS' EQUITY:	121,097	19.2	121,097	19.2
TOTAL CAPITALIZATION	$628,859	100.0%	$628,859	100.0%
SHORT-TERM DEBT:	$ 86,656		$ 86,656	

(1) Adjusted to reflect the anticipated sale of $30 million of 6.49% Senior Notes due 2009 and use of the proceeds to reduce long-term debt maturing on October 1, 2002.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information that has been derived from our audited and unaudited consolidated financial statements. The unaudited financial statements include all adjustments which we consider necessary for a fair presentation of our financial position and results of operations as of the dates and for the periods presented. You should read the following information in conjunction with our consolidated financial statements and the notes thereto, Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2001 and for the three, six and twelve months ended June 30, 2002, and other financial information incorporated by reference herein.

	FOR THE TWELVE MONTHS ENDED JUNE 30, 2002	FOR THE YEAR ENDED DECEMBER 31, 2001	2000	1999(A)
	(UNAUDITED)	(DOLLAR AMOUNTS EXPRESSED IN THOUSANDS)		
CONSOLIDATED INCOME STATEMENT DATA:				
Operating Revenue	$471,343	$445,823	$410,325	$369,922(b)
Operating Income	52,339	44,391	65,233	42,403
Income (loss) before income taxes and dividends on trust preferred securities	23,128	14,942	33,156	25,653
Income (loss) from continuing operations	5,003	(239)	16,598	18,022
Net Income (loss) available to Common shareholders	(704)(e)	(6,361)(e)	16,693(e)	17,659(e)
Ratio of earnings to fixed charge(g)	1.22x	1.04x	1.60x	2.23x

	FOR THE YEAR ENDED DECEMBER 31, 1998	1997
	(DOLLAR AMOUNTS EXPRESSED IN THOUSANDS)	
CONSOLIDATED INCOME STATEMENT DATA:		
Operating Revenue	$596,548	$770,272
Operating Income	21,257	28,389
Income (loss) before income taxes and dividends on trust preferred securities	12,271(c)	23,149(d)
Income (loss) from continuing operations	7,083(c)	14,921(d)
Net Income (loss) available to Common shareholders	10,040(c)(e)(f)	15,425(e)(d)
Ratio of earnings to fixed charge(g)	2.00x	2.38x

	AS OF JUNE 30, 2002	AS OF DECEMBER 31, 2001	2000(H)	1999(I)	1998	1997
	(UNAUDITED)	(DOLLAR AMOUNTS EXPRESSED IN THOUSANDS)				
CONSOLIDATED BALANCE SHEET DATA:						
Total assets	$829,366	$863,548	$851,223	$815,183	$489,662	$507,160
Short-term debt	86,656	107,957	134,142	376,629	63,576	71,406
Long-term debt (including current maturities)	368,347	368,966	307,930	170,000	170,000	163,548
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries	139,415	139,394	139,374	--	--	--
Preferred stock	--	--	--	--	3,255	3,269
Common shareholders' equity	121,097	113,810	135,472	142,340	132,228	95,131

(a) Results include two months of operating results from the ENSTAR/Alaska Pipeline acquisition.

(b) The decrease in operating revenue in 1999 was due primarily to SEMCO's energy marketing business, which was sold effective March 31, 1999, offset partially by revenues from new business acquisitions.

(c) Includes a gain of $1.71 million (net of tax) or $0.11 per share from the sale of the NOARK investment.

(d) Includes income of $5.0 million (net of tax) or $0.34 cents per share due to an adjustment to the reserve for the NOARK investment.

(e) Includes, net of tax, $(5.7) million or $(0.31) per share for the twelve months ended June 30, 2002 and $(6.1) million or $(0.34) per share, $0.1 million or $0.01 per share, $(0.4) million or $0.02 per share, $1.7 million or $0.11 per share and $0.5 million or $0.03 per share in 2001, 2000, 1999, 1998 and 1997, respectively, attributable to the reclassification of the operating results of the engineering services business to discontinued operations.

(f) Includes $0.5 million (net of tax) or $0.03 per share attributable to an extraordinary charge on the early extinguishment of debt and income of $1.78 million (net of tax) or $0.11 per share attributable to a change in accounting method.

(g) The ratio of earnings to fixed charges includes preferred and trust preferred dividends in accordance with the instructions for Item 503 of Regulation S-K. The ratio excluding such preferred and trust preferred dividends is set forth below as the "Interest Coverage Ratio."

	FOR THE TWELVE MONTHS ENDED JUNE 30, 2002	FOR THE YEAR ENDED DECEMBER 31, 2001	2000	1999	1998	1997
Interest coverage ratio.....	1.74x	1.47x	1.95x	2.25x	2.03x	2.41x

(h) The change in capital structure reflects permanent financing of the November 1, 1999 acquisition of ENSTAR.

(i) The increase in total assets and short-term debt is due to the November 1, 1999 acquisition of ENSTAR.

DESCRIPTION OF THE SENIOR NOTES

We have summarized provisions of the Senior Notes below. It is important for you to consider the information contained in this prospectus supplement and the accompanying prospectus before making your decision to invest in the Senior Notes. If any specific information regarding the Senior Notes in this prospectus supplement is inconsistent with the more general terms of the Senior Notes described in the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

GENERAL

The Senior Notes will be issued under an Indenture dated as of October 23, 1998, as supplemented by the Fourth Supplemental Indenture to be dated as of September 19, 2002, between us and Bank One Trust Company, National Association, successor to NBD Bank, as Trustee. The Senior Notes will mature and become due and payable on October 1, 2009, together with any accrued and unpaid interest thereon. We will issue the Senior Notes only in fully registered form, without coupons, in denominations of $1,000 plus integral multiples of $1,000. The Senior Notes are not subject to any sinking fund.

INTEREST

We will pay interest on the Senior Notes at the rate per annum stated on the first page of this prospectus supplement. Interest on the Senior Notes will accrue from the date of original issuance or from the most recent interest payment date to which interest has been paid. We will pay interest semiannually on each April 1 and October 1 of each year, beginning on April 1, 2003, and at maturity to the person in whose name such Senior Note is registered at the close of business on the fifteenth calendar day, whether or not a business day, prior to such payment date. In the event that any date on which interest is payable on the Senior Notes is not a Business Day (as defined in the Indenture for the Senior Notes), then payment of the 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).

RANKING

The Senior Notes will be direct, unsecured and unsubordinated obligations of SEMCO. The Senior Notes will rank equally with all of our other unsecured and unsubordinated indebtedness and will rank senior to any subordinated indebtedness of SEMCO. The Indenture under which the Senior Notes are being issued contains no limit on the amount of additional debt that may be issued by us, but the Indenture contains restrictions that may limit the ability of SEMCO and certain subsidiaries to provide security for such additional debt.

DEFEASANCE

The defeasance and covenant defeasance provisions of the Indenture that are described under the caption "Description of Debt Securities -- Discharge, Defeasance and Covenant Defeasance" in the accompanying prospectus will apply to the Senior Notes.

REDEMPTION

The Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

BOOK-ENTRY DELIVERY AND SETTLEMENT

We will issue the Senior Notes in the form of one or more permanent global notes in definitive, fully registered, book-entry form. The global notes will be deposited with or on behalf of The Depository Trust Company ("DTC") and registered in the name of Cede & Co., as nominee of DTC.

DTC has advised us as follows:

- DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under Section 17A of the Securities Exchange Act of 1934.

- DTC holds securities that its participants deposit with DTC and facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates.

- Direct participants include securities brokers and dealers, trust companies, clearing corporations and other organizations.

- DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

- Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

- The rules applicable to DTC and its participants are on file with the SEC.

We have provided the following descriptions of the operations and procedures of DTC solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to change by it from time to time. None of SEMCO, the underwriters nor the Trustee takes any responsibility for these operations or procedures, and you are urged to contact DTC or its participants directly to discuss these matters.

We expect that under procedures established by DTC:

- Upon deposit of the global notes with DTC or its custodian, DTC will credit on its internal system the accounts of direct participants designated by the underwriters with portions of the principal amounts of the global notes.

- Ownership of the Senior Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC or its nominee, with respect to interests of direct participants, and the records of direct and indirect participants, with respect to interests of persons other than participants.

The laws of some jurisdictions require that purchasers of securities take physical delivery of those securities in definitive form. Accordingly, the ability to transfer interests in the Senior Notes represented by a global note to those persons may be limited. In addition, because DTC can act only on behalf of its participants, who in turn act on behalf of persons who hold interests through participants, the ability of a person having an interest in Senior Notes represented by a global note to pledge or transfer those interests to persons or entities that do not participate in DTC's system, or otherwise to take actions in respect of such interest, may be affected by the lack of a physical definitive security in respect of such interest.

So long as DTC or its nominee is the registered owner of a global note, DTC or that nominee will be considered the sole owner or holder of the Senior Notes represented by that global note for all purposes under the Indenture and under the Senior Notes. Except as provided below, owners of beneficial interests in a global note will not be entitled to have Senior Notes represented by that global note registered in their names, will not receive or be entitled to receive physical delivery of certificated Senior Notes and will not be considered the owners or holders thereof under the Indenture or under the Senior Notes for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee. Accordingly, each holder owning a beneficial interest in a global note must rely on the procedures of DTC and, if that holder is not a direct or indirect participant, on the procedures of the participant through which that holder owns its interest, to exercise any rights of a holder of Senior Notes under the Indenture or the global note.

Neither SEMCO nor the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of Senior Notes by DTC, or for maintaining, supervising or reviewing any records of DTC relating to the Senior Notes.

Payments on the Senior Notes represented by the global notes will be made to DTC or its nominee, as the case may be, as the registered owner thereof. We expect that DTC or its nominee, upon receipt of any payment on the Senior Notes represented by a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the global note as shown in the records of DTC or its nominee. We also expect that payments by participants to owners of beneficial interests in the global note held through such participants will be governed by standing instructions and customary practice as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. The participants will be responsible for those payments.

Payments on the Senior Notes represented by the global notes will be made in immediately available funds. Transfers between participants in DTC will be effected in accordance with DTC rules and will be settled in immediately available funds.

CERTIFICATED NOTES

We will issue certificated Senior Notes to each person that DTC identifies as the beneficial owner of the Senior Notes represented by the global notes upon surrender by DTC of the global notes if:

- DTC notifies us that it is no longer willing or able to act as a depository for the global notes or DTC is no longer eligible or in good standing under the Securities Exchange Act of 1934 or other applicable statute or regulation, and we have not appointed a successor depository within 90 days of our receipt of that notice or our having become aware of such unwillingness, inability or ineligibility;

- We determine not to have the Senior Notes represented by a global note; or

- An event of default under the Indenture has occurred and the beneficial owners of a majority in principal amount of the Senior Notes have advised DTC to cease acting as depository for the Senior Notes.

Neither SEMCO nor the Trustee will be liable for any delay by DTC, its nominee or any direct or indirect participant in identifying the beneficial owners of the Senior Notes. SEMCO and the Trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes, including with respect to the registration and delivery, and the respective principal amounts, of the Senior Notes to be issued.

UNDERWRITING

Subject to the terms and conditions contained in the underwriting agreement among SEMCO and McDonald Investments Inc. and U.S. Bancorp Piper Jaffray Inc. acting as underwriters (the "Underwriters"), we have agreed to sell to each of the Underwriters, and each of the Underwriters has severally agreed to purchase from us, the principal amount of Senior Notes set forth opposite its name below. In the underwriting agreement, the Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all of the Senior Notes offered hereby if any of the Senior Notes are purchased.

UNDERWRITER	PRINCIPAL AMOUNT OF SENIOR NOTES
McDonald Investments Inc.	$21,000,000
U.S. Bancorp Piper Jaffray Inc.	9,000,000
Total	$30,000,000

The offering of the Senior Notes is made for delivery when, as and if accepted by the Underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offer without notice. The Underwriters reserve the right to reject any order for the purchase of the Senior Notes.

The Underwriters have advised us that they propose initially to offer the Senior Notes to the public at the public offering price set forth on the cover page of this prospectus supplement. If all of the Senior Notes are not sold at the initial offering price, the Underwriters may offer the Senior Notes from time to time for sale in one or more negotiated transactions, or otherwise, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The Underwriters may effect such transactions by selling the Senior Notes to or through dealers, and such dealers may receive compensation in the form of underwriting discounts, concessions or commissions from the Underwriters or the purchasers of the Senior Notes for whom they may act as agent. The Underwriters and any dealers that participate with the Underwriters in the distribution of the Senior Notes may be deemed to be underwriters, and any discounts or commissions received by them and any profit on the resale of the Senior Notes by them may be deemed to be underwriting discounts or commissions, under the Securities Act of 1933, as amended.

The Senior Notes are a new issue of securities with no established trading market. We currently have no intention to list the Senior Notes on any securities exchange. We have been advised by the Underwriters that they intend to make a market in the Senior Notes, but are not obligated to do so and may discontinue any market making at any time without notice. We can give no assurance as to the liquidity of, or the existence of a trading market for, the Senior Notes.

We have agreed to indemnify the Underwriters against certain liabilities and contribute to payments the Underwriters may be required to make in respect thereof, including liabilities under the Securities Act of 1933, as amended.

In connection with the sale to the public of the Senior Notes, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the Senior Notes. Specifically, the Underwriters may bid for and purchase the Senior Notes in the open market to stabilize the price of the Senior Notes. The Underwriters may also overallot the Senior Notes, creating a syndicate short position, and may bid for and purchase the Senior Notes in the open market to cover the syndicate short position. In addition, the Underwriters may bid for and purchase the Senior Notes in market making transactions. These activities may stabilize or maintain the market price of the Senior Notes above the market levels that would otherwise prevail. The Underwriters are not required to engage in these activities, and may end these activities at any time. These transactions may be effected in the over-the-counter market or otherwise.

The Underwriting Agreement provides that, during a period of 45 days from the date of this prospectus supplement, we will not, without the prior written consent of the Underwriters, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of any securities substantially similar to the Senior Notes or file any registration statement under the Securities Act of 1933, as amended, with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Senior Notes, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Senior Notes or such other securities, in cash or otherwise. The foregoing provisions do not apply to the offer and sale of the Senior Notes offered under this prospectus supplement.

We estimate that our share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $170,000.

LEGAL MATTERS

The legality of the Senior Notes will be passed upon for SEMCO by Dickinson Wright PLLC, Detroit, Michigan. Certain matters will be passed upon for the Underwriters by Baker & Hostetler LLP, Cleveland, Ohio.

EXPERTS

The consolidated financial statements of SEMCO Energy, Inc. as of December 31, 2001 and 2000 and for the three years ended December 31, 2001, incorporated by reference in this prospectus supplement, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

Upon the recommendation of the Audit Committee of our Board of Directors, the Board of Directors on May 28, 2002 approved the engagement of PricewaterhouseCoopers LLP as our independent auditor to audit our financial statements, replacing Arthur Andersen LLP.

WHERE YOU CAN FIND MORE INFORMATION

We file periodic reports, proxy statements and other information with the Securities and Exchange Commission. Our filings are available to the public over the Internet at the Commission's web site at http://www.sec.gov. You may also inspect and copy these materials at the public reference facilities of the Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Copies of such material can be obtained at prescribed rates from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Commission allows us to incorporate by reference information into this prospectus supplement. This means that we can disclose important information to you by referring you to another document filed separately with the Commission. The information incorporated by reference is considered to be part of this prospectus supplement, except for any information that is superseded by information that is included directly in this document or superseded by other information incorporated by reference.

This prospectus supplement includes by reference the documents listed below that we have previously filed with the Commission and that are not included in or delivered with this document. They contain important information about us and our financial condition.

FILING	PERIOD
Annual Report on Form 10-K	Year ended December 31, 2001
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2002 and June 30, 2002
Current Report on Form 8-K	Dated February 22, 2002, May 2, 2002, May 31, 2002, June 26, 2002 and August 14, 2002

We incorporate by reference additional documents that we may subsequently file with the Commission prior to termination of any offering of securities made by this prospectus supplement. These documents include periodic reports such as Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements. The information in this prospectus supplement and in documents incorporated into this prospectus supplement may be changed or superseded by information given at a later date in these documents.

You can obtain any of the documents incorporated by reference in this prospectus supplement from us without charge. You can obtain documents incorporated by reference in this prospectus supplement by requesting them in writing or by telephone from us at the following address:

SEMCO Energy, Inc.
Shareholder Services
28470 13 Mile Road, Suite 300
Farmington Hills, MI 48334
(800) 225-7647

We have not authorized anyone to give any information or make any representation about us that is different from, or in addition to, that contained in this prospectus supplement or in any of the materials that we have incorporated by reference into this prospectus supplement. Therefore, if anyone does give you information of this nature, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to purchase, the securities offered by this document is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this prospectus supplement does not extend to you. The information contained in this prospectus supplement speaks only as of the date of this prospectus supplement unless the information specifically indicates that another date applies.

PROSPECTUS

SEMCO ENERGY, INC.
SEMCO CAPITAL TRUST I
SEMCO CAPITAL TRUST II
SEMCO CAPITAL TRUST III

The following are types of securities that we may, from time to time, offer and sell under this prospectus:

- Debt securities
- Preferred Stock
- Common Stock
- Stock purchase contracts
- Stock purchase units

In addition, we, in conjunction with our trusts, may, from time to time, offer and sell:

- Trust preferred securities and related guarantees

We may offer these securities separately or as units which may include other securities. We will describe in a prospectus supplement, which must accompany this prospectus, the type and amount of securities we are offering and selling, as well as the specific terms of the securities. Those terms may include:

- Maturity
- Interest or dividend rate
- Sinking fund terms
- Currency of payments
- Redemption terms
- Listing on a securities exchange
- Amount payable at maturity
- Ranking

Our shares of Common Stock are traded on the New York Stock Exchange under the symbol SEN.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We may offer the securities in amounts, at prices and on terms determined at the time of offering. We may sell the securities directly to you, through agents we select, or through underwriters and dealers we select. If we use agents, underwriters or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement.

March 27, 2000

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WHERE YOU CAN FIND MORE INFORMATION

SEMCO files annual and quarterly reports, proxy statements and other information with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. You may read and copy this information at the following locations of the Commission:

Judiciary Plaza, Room 10024 450 Fifth Street, N.W. Washington, D.C. 20549	Seven World Trade Center Suite 1300 New York, New York 10048	Citicorp Center 500 West Madison St., Ste. 1400 Chicago, Illinois 60661

You can also obtain copies of this information by mail from the Public Reference Room of the Commission, 450 Fifth Street, N.W., Room 10024, Washington D.C. 20549, at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the Commission at (800) SEC-0330.

The Commission also maintains an internet world wide web site that contains reports, proxy statements and other information about issuers, like SEMCO, who file electronically with the Commission. The address of that site is http://www.sec.gov.

We and our trusts have filed jointly with the Commission a registration statement on Form S-3 that registers the securities we or they are offering. The registration statement, including the attached exhibits, contains additional relevant information about SEMCO, the trusts and the securities offered. The rules and regulations of the Commission allow us to omit certain information included in the registration statement from this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Commission allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the Commission. The information incorporated by reference is considered to be part of this prospectus, except for any information that is superseded by information that is included directly in this document.

This prospectus includes by reference the documents listed below that we have previously filed with the Commission and that are not included in or delivered with this document. They contain important information about us and our financial condition.

FILING	PERIOD
Annual Report on Form 10-K.....	Year ended December 31, 1999
Current Report on Form 8-K.....	Filed March 20, 2000

We incorporate by reference additional documents that we may subsequently file with the Commission prior to termination of any offering of securities made by this prospectus. These documents include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements. The information in this prospectus, in documents incorporated into this prospectus, and in prospectus supplements may be changed or superceded by information given at a later date in these documents.

You can obtain any of the documents incorporated by reference in this document from us without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit to this prospectus. You can obtain documents incorporated by reference in this prospectus by requesting them in writing or by telephone from us at the following address:

Edric R. Mason, Jr.
Director of Investor Relations
SEMCO Energy, Inc.
405 Water Street
Port Huron, Michigan 48060
(810) 989-4104

We have not authorized anyone to give any information or make any representation about us that is different from, or in addition to, that contained in this prospectus or in any of the materials that we have incorporated by reference into this prospectus. Therefore, if anyone does give you information of this nature, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this prospectus does not extend to you. The information contained in this prospectus speaks only as of the date of this prospectus, unless the information specifically indicates that another date applies.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about our outlook, beliefs, plans, goals and expectations are forward-looking statements. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. We undertake no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Factors that may impact forward-looking statements include, but are not limited to, the following: (i) the effects of weather and other natural phenomena; (ii) the economic climate and growth in the geographical

areas where we do business; (iii) the capital intensive nature of our business; (iv) increased competition within the energy industry as well as from alternative forms of energy; (v) the timing and extent of changes in commodity prices for natural gas and propane; (vi) the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates; (vii) our ability to bid on and win construction, engineering and quality assurance contracts; (viii) the impact of energy prices on the amount of projects and business available to the engineering business; (ix) the nature, availability and projected profitability of potential investments available to us; (x) our ability to accomplish our financing objectives in a timely and cost-effective manner, in light of changing conditions in the capital markets, and, in particular, our ability to refinance, in a timely and cost-effective manner, the $290,000,000 short-term bridge loan obtained to finance the acquisition of ENSTAR Natural Gas Company and Alaska Pipeline Company, and (xi) our ability to operate and integrate acquired businesses in accordance with our plans.

SEMCO ENERGY

SEMCO is a diversified energy services and infrastructure holding company headquartered in southeastern Michigan. It was founded in 1950 as Southeastern Michigan Gas Company. SEMCO and its subsidiaries operate four business segments: (1) gas distribution; (2) construction services; (3) engineering services; and (4) propane, pipelines and storage. The latter three segments are sometimes referred to together as the "diversified businesses". SEMCO sold the subsidiary comprising its energy marketing business effective March 31, 1999. In addition, several business acquisitions were made during 1999. These acquisitions are discussed in the following business segment sections. SEMCO had approximately 1,632 employees at December 31, 1999.

GAS DISTRIBUTION

SEMCO's gas distribution business segment operates in Michigan and Alaska. The Alaska-based operation, which consists of ENSTAR Natural Gas Company and Alaska Pipeline Company (together known as "ENSTAR"), was acquired on November 1, 1999 for approximately $290,000,000. The acquisition of ENSTAR was accounted for as a purchase and, therefore, the consolidated financial statements and the table below include the results of ENSTAR's operations since November 1, 1999. The success of the ENSTAR acquisition is, in part, dependent on the synergies obtained in combining ENSTAR with our other gas distribution operations, our ability to operate ENSTAR in accordance with our plans and our ability to accomplish the permanent financing related to the ENSTAR acquisition in a timely and cost-effective manner in light of changing conditions in the capital markets.

The Michigan gas distribution operation and ENSTAR are referred to together as the "Gas Distribution Business". The Michigan gas distribution operation and ENSTAR Natural Gas Company operate as divisions of SEMCO. SEMCO Energy Gas Company, which had conducted the Michigan gas distribution operation, was merged into SEMCO on December 31, 1999. Alaska Pipeline Company operates as a subsidiary of SEMCO.

The Gas Distribution Business distributes and transports natural gas to residential, commercial and industrial customers and is our largest business segment. Set forth in the table below is gas sales and transportation information for the past three years:

	YEARS ENDED DECEMBER 31,		
	1999(B)	1998	1997
GAS SALES REVENUE (IN THOUSANDS):			
Residential	$137,407	$118,220	$139,538
Commercial	38,451	42,041	66,577
Industrial	6,763	6,439	12,065
Total gas sales revenue(a)	$182,621	$166,700	$218,180
GAS TRANSPORTATION REVENUE (IN THOUSANDS)	$ 22,369	$ 14,832	$ 13,243
VOLUMES OF GAS SOLD (MMCF):			
Residential	28,583	21,946	25,968
Commercial	8,882	8,840	13,483
Industrial	1,780	1,461	2,534
Total volumes of gas sold(a)	39,245	32,247	41,985
VOLUMES OF GAS TRANSPORTED (MMCF)	32,417	23,791	21,373
TOTAL VOLUMES DELIVERED(A)	71,662	56,038	63,358

(a) Does not include the sale of excess inventory gas to a third party in 1999.

(b) 1999 results include two months of activity from ENSTAR.

GAS SALES. Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. These customers use natural gas mainly for space heating purposes. Consequently, weather has a significant impact on sales. Given the impact of weather on this business segment, most of its gas sales revenue is earned in the first and fourth quarters of the calendar year. Revenues from gas sales accounted for 50%, 26% and 28% of consolidated operating revenues in 1999, 1998 and 1997, respectively. If operating revenues from our energy marketing business, which was sold effective March 31, 1999, are excluded, gas sales by the Gas Distribution Business would have accounted for 66%, 68% and 88% of consolidated operating revenues for those three years.

Competition in the gas sales market arises from alternative energy sources such as electricity, propane and oil. However, this competition is inhibited because of the time, inconvenience and investment for residential and commercial customers to convert to an alternate energy source when the price of natural gas fluctuates.

An aggregation tariff, which was effective April 1, 1998, provides all Michigan commercial and industrial customers the opportunity to purchase their gas from a third-party supplier, while allowing the Gas Distribution Business to continue charging the existing distribution fees and customer fees plus a gas load balancing fee.

TRANSPORTATION. The Gas Distribution Business provides transportation services to our large-volume commercial and industrial customers. This service offers those customers the option of purchasing natural gas directly from producers or marketing companies while utilizing the Gas Distribution Business' distribution network to transport the gas to their facilities.

Alaska Pipeline Company ("APC") owns and operates the only natural gas transmission lines in its service area that are operated for utility purposes. APC's transmission system delivers natural gas from producing fields in south central Alaska to ENSTAR's Anchorage-based gas distribution system. APC's only customer is ENSTAR Natural Gas Company.

The market price of alternate energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for transportation. Certain large industrial customers have some ability to convert to another form of energy if the price of natural gas increases significantly. Partially offsetting the impact of price sensitivity has been the use of natural gas as an industrial fuel because of clean air legislation and the resultant pressures on industry and electric utilities to reduce emissions from their plants.

As is the case with many gas distribution utilities, there has been downward pressure on transportation rates due to the potential risk for industrial customers and electric generating plants located in close proximity to interstate natural gas pipelines to bypass SEMCO and connect directly to such pipelines. However, management is currently unaware of any significant bypass efforts by our customers. SEMCO has and would continue to address any such efforts by offering special services and contractual arrangements designed to retain these customers on SEMCO's system. Customers in ENSTAR's service territory are currently precluded from bypassing ENSTAR's transportation and distribution system due to the limited availability of gas transmission systems and the large distances between producing fields and the locations of current customers.

CUSTOMER BASE. At December 31, 1999, the Michigan gas distribution operation had approximately 255,000 customers. The largest concentration of customers, approximately 100,000, is located in southeastern Michigan. The remaining Michigan customers are located in and around the following communities: Battle Creek, Albion, Holland, Three Rivers, Niles, Marquette and Houghton. The Michigan customer base is diverse and includes residential, commercial and industrial customers. The largest customers include power plants, food production facilities, paper processing plants, furniture manufacturers and others in a variety of other industries. The average number of customers in Michigan has increased by an average of approximately 3% annually during the past three years. By contrast, the customer growth rate for the U.S. gas distribution industry has averaged approximately 1% annually during the past three years.

At December 31, 1999, ENSTAR had approximately 102,000 customers in and around the Anchorage, Alaska area including the communities of Big Lake, Bird Creek, Butte, Chugiak, Eagle River, Eklutna, Girdwood, Houston, Indian, Kenai, Knik, Nikiski, Palmer, Peters Creek, Portage, Sterling, Soldotna, Wasilla and Whittier. ENSTAR is the sole distributor of natural gas to the greater Anchorage metropolitan area, and its service area encompasses approximately 50% of the population of Alaska. ENSTAR has two types of customers: gas sales and transportation. Gas sales customers are primarily residential and commercial. ENSTAR provides transportation service to power plant sites, a liquefied natural gas plant, an ammonia plant, and hundreds of commercial locations on behalf of gas producers and gas marketers. The average number of customers at ENSTAR has increased by an average of approximately 3% annually during the past three years.

GAS SUPPLY. The Gas Distribution Business has agreements with TransCanada Gas Services, Inc. ("TransCanada"), under which TransCanada provides SEMCO's natural gas requirements and manages its natural gas supply and the supply aspects of transportation and storage operations in Michigan for the three year period that began April 1, 1999. The Gas Distribution Business owns underground storage facilities in Michigan with a working capacity of 5.0 billion cubic feet ("Bcf"). In addition, it leases 6.5 Bcf of storage from Eaton Rapids Gas Storage System and 4.5 Bcf from non-affiliates in Michigan. The owned and leased storage capacity equals 35% to 40% of SEMCO's average annual gas sales volumes in Michigan. SEMCO Gas Storage Company (an affiliated company) is a 50% owner of Eaton Rapids Gas Storage System.

ENSTAR has a gas purchase contract (the "Marathon Contract") with Marathon Oil Company ("Marathon") that has been approved by the Regulatory Commission of Alaska ("RCA") and is a "requirements" contract with no specified daily deliverability or annual take-or-pay quantities. Marathon has agreed to deliver all of ENSTAR's gas requirements in excess of those provided for in other gas supply contracts in existence as of May 1, 1988, subject to certain exceptions, until the commitment has been exhausted. However, ENSTAR's purchase obligations and Marathon's delivery obligations are set at specified annual amounts after 2001. The contract has a base price and is subject to an annual adjustment based on changes in the price of certain traded oil futures contracts plus reimbursement for any severance taxes and other charges.

ENSTAR also has an RCA-approved gas purchase contract with the Municipality of Anchorage, Chevron U.S.A., Inc. and ARCO Alaska, Inc. (the "Beluga Contract") which provides for the delivery of up to approximately 220 Bcf of gas through the year 2009. The pricing mechanism in the Beluga Contract is similar to that contained in the Marathon Contract.

Based on gas purchases during the twelve months ended December 31, 1999, which are not necessarily indicative of the volume of future purchases, gas reserves committed to ENSTAR under the Marathon and Beluga Contracts are sufficient to supply all of ENSTAR's expected gas supply requirements through the year 2001. After that time supplies will still be available under the Marathon and Beluga Contracts in accordance with their terms, but at least a portion of ENSTAR's requirements are expected to be satisfied outside the terms of these contracts, as currently in effect.

The Michigan-based gas distribution operation is served by four major interstate pipelines: (1) Panhandle Eastern Pipe Line Company; (2) Northern Natural Gas Company; (3) Great Lakes Gas Transmission Company and (4) ANR Pipeline Company. Currently, ENSTAR's supply source, primarily though the Marathon and Beluga Contracts, is confined to the Cook Inlet area with no direct access to other natural gas pipelines. However, the Cook Inlet area is home to major gas producing fields, with proven and producing reserves of approximately 2.6 trillion cubic feet ("Tcf"). An additional 2.3 Tcf of undiscovered gas in the Cook Inlet area has been estimated by the United States Geological Survey and Minerals Management Service.

RATES AND REGULATION. The rates of gas distribution customers located in the City of Battle Creek, Michigan and surrounding communities are subject to the jurisdiction of the City Commission of Battle Creek. The Michigan Public Service Commission ("MPSC") authorizes the rates charged to all of the remaining Michigan customers. ENSTAR is subject to regulation by the RCA which has jurisdiction over,

among other things, rates, accounting procedures, and standards of service. The RCA order approving our acquisition of ENSTAR provides that ENSTAR's existing rates remain in effect on an interim basis and requires SEMCO to file revenue requirement and cost of service information by July 1, 2000.

Our management periodically reviews the adequacy of the Gas Distribution Business' rates and files requests for rate increases whenever it is deemed necessary and appropriate. However, a recent rate case includes provisions limiting our ability to request a rate increase in Michigan during the three year period that began April 1, 1999.

ENVIRONMENTAL MATTERS. The Gas Distribution Business currently owns seven Michigan sites which formerly housed manufactured gas plants. In the earlier part of the 20th century, gas was manufactured from processes using coal, coke or oil. By-products of this process have left some contamination at these sites. The Gas Distribution Business has submitted plans to the appropriate regulatory authority in the State of Michigan to close one site and begin work at another site.

DIVERSIFIED BUSINESSES

SEMCO's diversified businesses have grown during the past three years primarily through acquisitions. The following table shows operating revenues for each of the diversified businesses, including intercompany revenues, for 1997 through 1999:

	YEARS ENDED DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS)		
Operating Revenues			
Construction Services	$58,272	$25,904	$13,207
Engineering Services	17,486	41,366	5,660
Propane, Pipelines and Storage	6,284	4,852	3,027

The amounts in the above table include intercompany transactions.

CONSTRUCTION SERVICES

Our construction services segment operates in the mid-western and southeastern areas of the United States and has offices in Michigan, Tennessee, Kansas, Iowa, Georgia, and Texas as of December 31, 1999. Its primary service is underground pipeline installation and replacement for the natural gas distribution industry. During 1999, SEMCO made four business acquisitions that not only expanded the geographic reach of our construction services business but also expanded underground construction service offerings in new industries such as telecommunications and water supply. As of December 31, 1999, the construction services business was comprised of six companies that were all acquired during the past three years: (1) Sub-Surface Construction Co.; (2) King Energy & Construction Co.; (3) K&B Construction, Inc.; (4) Iowa Pipeline Associates, Inc.; (5) Flint Construction Co.; and (6) Long's Underground Technologies, Inc. On December 31, 1999, King Energy & Construction Co. was merged into Flint Construction Co.

Our construction services segment had operating revenues, excluding intercompany transactions, of $49,965,000, $16,621,000, and $7,484,000 in 1999, 1998 and 1997, respectively. These operating revenues accounted for 17%, 7% and 3% of consolidated operating revenues, excluding energy marketing operating revenues, during those years.

The natural gas construction services industry is comprised of a highly fragmented group of companies focused primarily on regional or local markets. We estimate that the top six construction companies in the United States have less than 10% of the market and that approximately 30% of the market represents work done by utility companies' in-house construction operations with the remainder of the market being served by a large number of small and medium-size companies.

The construction services business is seasonal in nature. Most of this segment's annual profits are made during the summer and fall months. The construction services segment generally incurs losses during the winter months when underground construction is inhibited.

ENGINEERING SERVICES

Our engineering services business segment is comprised of two companies, Maverick Pipeline Services, Inc. ("Maverick") and Oilfield Materials Consultants, Inc. ("OMC"). Maverick was acquired in December 1997 and OMC was acquired in November 1998. Maverick purchased the assets and certain liabilities of Drafting Services, Inc. in September 1999 and Pinpoint Locators, Inc. in October 1999. These two businesses are being operated as divisions of Maverick. Engineering services has offices in New Jersey, Michigan, Louisiana and Texas and provides a variety of energy related engineering and quality assurance services in several states.

Our engineering services business had operating revenues, excluding intercompany transactions, of $14,841,000, $40,937,000, and $5,660,000 in 1999, 1998 and 1997, respectively. These operating revenues accounted for 5%, 17% and 2% of consolidated operating revenues, excluding energy marketing operating revenues, during those years.

The engineering services business serves the natural gas distribution and transmission, oil products, exploration/production and telecommunication industries. The primary services provided include engineering design, distribution system design, construction project management, field surveys, global positioning surveys, inspection, testing, pipeline-mill quality assurance and full turn-key service. The engineering services segment competes with regional, national and international firms as well as in-house engineering and field service departments.

There has been a reduction in oil and gas production and related activities due to the downturn in oil prices in late 1998 and early 1999. There has also been a reduction or deferral of new engineering projects for the gas distribution industry due to the cash flow impact on the industry of the warm weather during the past two years. As a result, our engineering services business has experienced a reduction in the level of available projects. Management believes that the level of available projects will increase as gas distribution companies start releasing new engineering projects and as pipeline construction and inspection projects become available as a result of the recovery in oil prices in late 1999.

PROPANE, PIPELINES AND STORAGE

SEMCO's pipelines and storage operations consist of several pipelines and a gas storage facility. SEMCO has partial ownership interests or equity interests in certain of these operations. The pipelines and storage operations are all located in Michigan. In March 1998, we entered the propane distribution business with the acquisition of Hotflame Gas, Inc. and Hotflame Transport Co., Inc. (together known as "Hotflame"). Hotflame supplies approximately 5 million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin. Because propane is used principally for heating, most of the operating income for the propane business is generated in the first and fourth quarters of the calendar year.

The retail propane industry is highly fragmented with the largest firm in the industry serving less than 10% of the national market and the vast majority of propane companies individually having less than one percent market share. Propane is transported easily in pressurized containers and is generally the fuel used in rural areas where natural gas pipelines and distribution systems do not exist or are uneconomical to build. SEMCO purchases the majority of its propane from BP Amoco PLC. The propane operation competes with other energy sources such as natural gas, fuel oil, electricity and other regional propane providers. The basis of the competition is generally price and service. The propane business has become increasingly competitive and less profitable, which necessitates large-scale operations to be successful in the long term. We will continue to assess regional growth opportunities and the strategic fit of the propane business over the coming year.

BUSINESS STRATEGY

SEMCO's business strategy is to expand significantly both its gas distribution and diversified businesses through normal market growth and acquisitions that meet pre-determined financial criteria and provide incremental revenue, cost synergies, additional business opportunities and ultimately higher shareholder value. Management has experience in operating non-contiguous gas distribution properties based on operating its Michigan properties. As such, we will continue to evaluate acquisition opportunities throughout the United States. With respect to the diversified business segments, SEMCO's vision is to become one of the largest engineering and construction companies in the United States in the pipeline/underground infrastructure business. The key to SEMCO's business strategy is the acquisition of a number of companies which provide engineering and construction services to companies in the natural gas, telecommunications, water and electric industries. The Company desires to consolidate these acquisitions to achieve the synergies and lower administrative and financing costs usually present in a large firm, while maintaining the entrepreneurial spirit of a small company. A cornerstone of SEMCO's strategy is to build complementary businesses capable of providing a large menu of engineering and construction services in the pipeline/underground infrastructure industry which can be packaged in full turnkey services for higher profit potential. Other major benefits of SEMCO's consolidation strategy is the development of greater depth and overall strength of management, more sophisticated systems, enhanced purchasing capabilities, and better utilization of equipment and resources. We anticipate that this group of diversified businesses could contribute an increasing share of SEMCO's consolidated net income. In addition to this increased contribution, such engineering and construction businesses provide a counter-seasonal earnings pattern to our traditional gas distribution business. These engineering and construction businesses tend to have higher earnings in the spring through fall months. The gas distribution business has higher earnings in the late fall and winter that is associated with colder weather.

THE TRUSTS

We created three Delaware business trusts pursuant to three trust agreements executed by us as sponsor for each trust, appointed trustees for each trust and filed a certificate of trust for each trust with the Delaware Secretary of State. The trusts are named SEMCO Capital Trust I, SEMCO Capital Trust II and SEMCO Capital Trust III, which we refer to herein as, collectively, the "trusts" and, individually, each a "trust." The amended and restated trust agreement for each trust, (as so amended and restated, the "trust agreement") which is filed as an exhibit to the registration statement of which this prospectus forms a part, states the terms and conditions for each trust to issue and sell its trust preferred securities and trust common securities, which we refer to herein, together with the trust preferred securities, as the trust securities.

Each trust will exist solely to:

- issue and sell its trust securities;
- use the proceeds from the sale of its trust securities to purchase and hold a series of our debt securities;
- maintain its status as a grantor trust for federal income tax purposes; and
- engage in other activities that are necessary or incidental to these purposes.

We will purchase all of the trust common securities of each trust. The trust common securities will represent an aggregate liquidation amount equal to at least 3% of each trust's total capitalization. The trust common securities will have terms substantially identical to, and will rank equal in priority of payment with, the trust preferred securities. However, if we default on the subordinated debt securities, then cash distributions and liquidation, redemption and other amounts payable on the trust common securities will be subordinate to the trust preferred securities in priority of payment.

We will guarantee the trust preferred securities as described later in this prospectus.

The trust's business and affairs will be conducted by the trustees (the "Trustees") appointed by us, as holder of the trust common securities. The duties and obligations of the trustees will be governed by the trust agreement. Pursuant to each trust agreement, the number of trustees will initially be four. Two of the trustees (the "Administrative Trustees") will be persons who are our employees or officers of or affiliated with us. The third Trustee will be a corporation which maintains a principal place of business in the State of Delaware that will serve for the sole purpose of complying with certain Delaware laws (the "Delaware Trustee"). The fourth trustee will be a financial institution unaffiliated with us which will serve as property trustee under each trust agreement and as indenture trustee for purposes of the Trust Indenture Act (the "Property Trustee"). Bank One Delaware, Inc. will act as the Delaware Trustee and Bank One Trust Company, National Association as the Property Trustee, in each case until removed or replaced by the holder of the trust common securities. The Property Trustee will also act as indenture trustee under the indenture and guarantee trustee under the Trust Guarantee (the "Guarantee Trustee"). See "Description of the Trust Guarantee." We, as the holder of all the trust common securities, will have the right to appoint, remove or replace any trustee and to increase the number of trustees, provided that the number of trustees will be at least three, two of which will be the Administrative Trustees.

The Property Trustee will hold title to the subordinated debt securities for the benefit of the holders of the trust securities, and will have the power to exercise all rights, powers and privileges as the holder of the subordinated debt securities under the indenture pursuant to which the subordinated debt securities are issued. In addition, the Property Trustee will maintain exclusive control of a segregated non-interest bearing bank account to hold all payments made in respect of the subordinated debt securities for the benefit of the holders of the trust securities. The Property Trustee will make payments of distributions and payments on liquidation, redemption and otherwise to the holders of the trust securities out of funds from the property account. The Guarantee Trustee will hold the guarantee by us of the trust securities for the benefit of the holders of the trust preferred securities.

In addition, unless the Property Trustee maintains a principal place of business in the State of Delaware, and otherwise meets the requirements of applicable law, another trustee of each trust, the Delaware trustee, will either be a natural person who is a resident of the State of Delaware or an entity which has its principal place of business or resides in the State of Delaware. We have appointed Bank One Delaware, Inc., as Delaware trustee. We will pay all fees and expenses related to each trust and each offering of the related trust preferred securities and will pay all ongoing costs and expenses of each trust, except such trust's obligations under the related trust securities.

The rights of the holders of the trust preferred securities, including economic rights, rights to information and voting rights, are set forth in each trust's trust agreement and the Delaware Business Trust Act, as amended, and the Trust Indenture Act. The principal place of business of the trusts is c/o SEMCO Energy, Inc., 405 Water Street, Port Huron, Michigan 48060, and their telephone number is 810-987-2200.

USE OF PROCEEDS

Except as may otherwise be described in the prospectus supplement relating to an offering of securities, the net proceeds from the sale of the securities will be used to finance acquisitions, repay our short-term borrowings and for other general corporate purposes. Prior to such uses, the net proceeds from the sale of securities may be invested in certificates of deposit or other highly liquid investments with short-term maturities. Any specific allocation of the net proceeds of an offering of securities to a specific purpose will be determined at the time of such offering and will be described in the related prospectus supplement. A significant portion of the net proceeds from the sale of these securities are expected to be used to refinance a $290,000,000 short-term, unsecured bridge loan facility that was used to acquire the assets and some of the liabilities of ENSTAR Natural Gas Company and the outstanding stock of Alaska Pipeline Company. This bridge loan facility matures on October 30, 2000. We currently plan to retire the bridge loan by publicly issuing a combination of medium-term notes, trust preferred securities and common stock, however, our ability to secure permanent financing for this amount on a timely basis or on

commercially reasonable terms depends to an extent on factors beyond our control such as the state of the financial markets and general economic conditions.

ACCOUNTING TREATMENT RELATING TO TRUST SECURITIES

The financial statements of each trust that has issued trust securities will be consolidated with our financial statements, with the trust preferred securities of each trust shown on our consolidated financial statements as our obligated mandatory redemption preferred securities of a consolidated trust. Our financial statements will include a footnote that discloses, among other things, that the sole asset of each trust included therein consists of our subordinated deferrable interest debentures and will specify the designation, principal amount, interest rate and maturity date of such subordinated deferrable interest debentures.

CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth the consolidated ratios of earnings to fixed charges for SEMCO and its subsidiaries for the years indicated:

	YEARS ENDED DECEMBER 31,				
RATIO OF EARNINGS TO:	1999	1998	1997(3)	1996(3)	1995
Fixed Charges(1)	2.18	2.17	2.42	(2)	2.21
Fixed Charges and Preferred Dividends(1)	2.18	2.17	2.42	(2)	2.20

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(1) In January 1998, SEMCO, through a subsidiary of SEMCO Energy Ventures, SEMCO Arkansas Pipeline Company, sold its 32.07% partnership interest in NOARK Pipeline System L.P. ("NOARK"). NOARK had been generating losses since it was placed in service in 1992. Earnings reflect a share of NOARK's operating losses and fixed charges include a share of NOARK's interest expense equal to SEMCO's percentage interest in NOARK.

For purposes of calculating the ratios, "earnings" represent the sum of (a) pretax income from continuing operations (excluding extraordinary charges from the early retirement of debt in 1994 and 1998) and (b) fixed charges. "Fixed charges" represent the sum of (i) interest incurred by SEMCO and its subsidiaries plus their share of interest on debt to outsiders incurred by less-than-fifty-percent-owned persons, (ii) amortization of debt expense and (iii) the preferred stock dividend requirements of SEMCO's subsidiaries, increased to an amount representing the pretax earnings required to cover such dividend requirement. "Preferred Dividends" represents dividends on SEMCO's Cumulative Convertible Preferred Stock which was called for redemption in November 1999.

(2) For the year ended December 31, 1996, fixed charges exceeded earnings by $20.0 million. Earnings as defined include a $32.3 million non-cash pretax write-down of the NOARK (1) investment. Excluding the NOARK write-down the ratio of earnings to fixed charges and ratio of earnings to fixed charges and preferred dividends would have been 1.84 and 1.84, respectively.

(3) Restated to account for a 1998 acquisition as a pooling of interests. Years prior to 1996 were not restated for the pooling of interests as the effects were not material.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 40,000,000 shares of common stock, $1.00 par value ("common stock"), 500,000 shares of cumulative preferred stock, $1.00 par value ("preferred stock"), and 3,000,000 shares of preference stock, $1.00 par value ("preference stock"). At February 29, 2000, there were outstanding 17,918,619 shares of common stock and no shares of preferred stock. 2,000,000 shares of the preference stock are reserved for issuance pursuant to a Shareholder Rights Plan described below; no preference stock is outstanding.

The following is a summary description of our common stock and preferred stock. You should look at our restated articles of incorporation which are filed as an exhibit to the Registration Statement for a complete description. The following summary is subject in all respects to the provisions of our restated articles of incorporation and does not relate to or give effect to the provisions of the statutory or common law of the State of Michigan. The summary given below is qualified in its entirety by reference to our restated articles of incorporation and the laws of the State of Michigan.

COMMON STOCK

Dividend Rights. The holders of common stock are entitled to dividends when, as and if, declared by the Board of Directors out of our surplus after full cumulative dividends on the preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to the preferred stock and preference stock, if any, have been satisfied.

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements. With respect to the payment of dividends or any other distributions in respect of our capital stock, such agreements provide that we may not declare and pay any dividends (except dividends or other distributions payable in shares of our capital stock), redeem or retire our capital stock (or any warrants, rights, or options to purchase or acquire our capital stock), or make other distributions with respect to our capital stock (such declarations or payments of dividends, purchases, redemptions or retirements of capital stock and warrants, rights or options and all such other payments or distributions being collectively referred to as "Restricted Payments") if, after giving effect thereto, (i) any event of default under such agreements exists; (ii) the aggregate amount of Restrictive Payments since January 1, 1994 would exceed our consolidated net income for the same period plus an adjustment factor of $21,000,000; or (iii) would cause our consolidated net worth to be less than $80,000,000.

After September 30, 1999, the adjustment factor of $21,000,000 is reduced each quarter by $625,000 until the adjustment factor equals $11,000,000. Under the most restrictive terms, as of December 31, 1999, $7,720,000 is available for dividends.

Voting Rights. The holders of Common Stock are entitled to one vote for each share on all matters voted upon by our shareholders and, subject to any voting rights of the holders of the preferred stock and preference stock described below, the holders of such shares currently possess all voting power. Our Articles of Incorporation provide for cumulative voting for the election of our directors.

Preemptive Rights. No holder of common stock has any preemptive right to subscribe to any additional securities which we may issue.

Liquidation Rights. Subject to the preferential rights of holders of the preferred stock and preference stock, upon our liquidation the holders of the common stock are entitled to share on a pro rata basis in our net assets which remain after satisfaction of all liabilities.

PREFERRED STOCK

The Board of Directors is authorized, without further action by shareholders, to issue preferred stock, in one or more series, from time to time, with such rights and preferences as may be provided in a resolution adopted by the Board of Directors. The authority of the Board includes, but is not limited to,

the determination or fixing of the following with respect to shares of such class or any series thereof: (i) the rate of dividends and the extent of further participation in dividend distribution, if any; (ii) the price at and the terms and conditions on which the shares are redeemable; (iii) the amount payable upon shares in event of voluntary or involuntary liquidation; (iv) sinking fund provisions for the redemption or purchase of shares; and (v) the terms and conditions on which shares are convertible.

The terms of each series of preferred stock will be described in any prospectus supplement related to such series of preferred stock and may include the following:

(1) the title and stated value of such preferred stock;

(2) the number of shares of such preferred stock offered and the offering price and liquidation preference per share of such preferred stock;

(3) the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to such preferred stock;

(4) the date from which dividends on such preferred stock shall accumulate, if applicable;

(5) the provision for a sinking fund, if any, for such preferred stock;

(6) the provision for redemption, if applicable, of such preferred stock;

(7) any listing of such preferred stock on any securities exchange;

(8) a discussion of federal tax considerations applicable to such preferred stock;

(9) any voting rights of holders of such preferred stock;

(10) any other specific terms, preferences, rights, limitations or restrictions of such preferred stock;

(11) the relative ranking and preference of such preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

(12) any limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and

(13) the terms and condition. if applicable, upon which such preferred stock will be convertible into or participate in dividends, if any, paid on the common stock, including the conversion price (or manner of calculation thereof).

In the event of our liquidation or dissolution, the holders of preferred stock are entitled to receive a fixed amount for each series before any distribution is made to the holders of common stock. As long as any preferred stock remains outstanding, we may not purchase any shares of our common stock or redeem any preference stock.

As long as any preferred stock remains outstanding, we may not without the consent of the holders of at least two-thirds of the outstanding preferred stock authorize any class of stock having a priority or preference over or ranking on a parity with the preferred stock as to dividends or distribution of assets.

If at any time we fail to declare and pay or set apart for payment in full eight quarterly dividends (whether or not consecutive) on all of the outstanding preferred stock, then the holders of the outstanding preferred stock shall have the right, voting as a single class irrespective of series, to elect such number of our directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors, and such right shall continue (and may be exercised at any annual or other meeting of shareholders for the election of directors) until we shall have paid or declared and set apart for payment all accrued dividends on the preferred stock for all past quarterly dividend periods.

At February 29, 2000, no shares of preferred stock were outstanding.

PREFERENCE STOCK

The Board of Directors has the authority to divide the 3,000,000 shares of preference stock into series and, within the limitations set forth in the laws of the State of Michigan and in the Articles of Incorporation, to fix and determine the relative rights and preferences of the shares of any series so established. The preference stock ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, except to the extent that a specific series of preferred stock provides otherwise.

SERIES A PREFERENCE STOCK

In January, 1997, the Board of Directors created a series of preference stock designated as Series A preference stock with the number of shares constituting such series set at 2,000,000. No shares of preference stock are outstanding.

If Series A preference stock was outstanding, dividends would accrue and be cumulative in an amount per share per quarter equal to the greater of (i) $10.00 or (ii) the Adjustment Number (as defined below) times the per share amount of all cash dividends, and the Adjustment Number times the per share amount (payable in kind) of all non-cash dividends or other distributions (other than a dividend payable in shares of common stock or a subdivision of the shares of common stock), declared on the common stock since the preceding quarterly dividend payment date, or, if later, since the issuance or such Series A preference stock. Upon our liquidation or dissolution the holders of Series A preference stock are entitled to receive $100 per share plus all accrued and unpaid dividends. The Series A preference stock is not redeemable and ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, unless the terms of any series provides otherwise. If Series A preference stock was outstanding, a holder of Series A preference stock would be entitled to the number of votes equal to the Adjustment Number times the number of votes to which a holder of common stock is entitled. Except as otherwise provided below or by law, Series A preference stock and common stock shall vote together as one class on all matters submitted to a vote of the holders of common stock. If any dividends on Series A preference stock shall be in arrears for six or more quarterly dividends, a "default period" shall begin. The default period shall end when all accrued dividends shall have been paid or set apart for payment. During a default period, Series A preference stock shall have the right to elect two directors. This vote shall be as a class for all series of preference stock entitled to vote.

The Articles of Incorporation initially set the Adjustment Number at 100. If we shall (i) pay any dividend on common stock in shares of common stock, (ii) subdivide the common stock, or (iii) combine the common stock into a smaller number of shares, the Adjustment Number shall be modified by multiplying it by a fraction, the numerator of which is the number of shares of common stock outstanding immediately after such event and the denominator of which is the number of shares of common stock outstanding immediately prior to such event.

DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN

We sponsor a direct stock purchase and dividend reinvestment plan under which investors may purchase shares of common stock without paying brokerage fees and other expenses. Under the plan, the plan administrator may purchase common stock in the open market, through private transactions or from SEMCO. If shares are purchased on the open market, or through private transactions, the price of the shares purchased through the plan will be the weighted average price paid in the stock market for the particular investment date. If the plan administrator purchases shares from SEMCO, the price paid for those shares will be the average of the closing prices on the three trading days prior to the 15th of each month as quoted on the New York Stock Exchange. We initially reserved 2,000,000 shares of common stock for issuance under the plan. As of February 29, 2000, 1,202,047 shares were available for issuance under the plan.

OTHER PROVISIONS

Articles of Incorporation. The following provisions of our Articles of Incorporation may delay, defer or prevent a person from acquiring us or changing control of the Board of Directors. Our Articles of

Incorporation divide the Board into three classes with staggered terms; each director is elected for a three year term. Approximately one-third of the Board positions are filled by a shareholder vote each year. Directors may be removed but only for cause, at an annual meeting of shareholders and by the affirmative vote of a majority of the shares then entitled to vote for the election of directors. In addition to requirements imposed under Section 7A of the Michigan Business Corporation Act (the "MBCA"), our Articles of Incorporation provide that a business combination cannot occur unless a written opinion is obtained from an independent investment banker that the consideration to be paid to our shareholders is fair and reasonable; provided, however, the directors may waive this requirement. Our Articles of Incorporation also contain provisions limiting the personal liability of directors.

Anti-Takeover Statutes. We are subject to Chapter 7A of the MBCA, which provides that business combinations subject to Chapter 7A between a Michigan corporation and a beneficial owner of shares entitled to 10% or more of the voting power of such corporation generally require the affirmative vote of 90% of the votes of each class of stock entitled to vote, and not less than 2/3 of each class of stock entitled to vote (excluding voting shares owned by such 10% owner), voting as a separate class. Such requirements do not apply if (i) the corporation's board of directors approves the transaction prior to the time the 10% owner becomes such or (ii) the transaction satisfies certain fairness standards, certain other conditions are met and the 10% owner has been such for at least five years.

We are also subject to Chapter 7B of the MBCA which provides that, unless a corporation's articles of incorporation or bylaws provide that Chapter 7B does not apply, "control shares" of a corporation acquired in a control share acquisition have no voting rights except as granted by the stockholders of the corporation. "Control shares" are shares which, when added to shares previously owned by a stockholder, increase such stockholder's ownership of voting stock to more than 20% but less than 33 1/3%, more than 33 1/3% but less than a majority, or more than a majority, of the votes to which all of the capital stock of the corporation is entitled. Voting rights of control shares must be approved by the affirmative vote of a majority of all shares entitled to vote excluding voting shares owned by the acquirer and certain officers and directors. However, no such approval is required for gifts or other transactions not involving consideration, for a merger to which the corporation is a party or certain other transactions described in Chapter 7B.

Rights to Purchase Preference Stock. In January 1997, we adopted a Shareholder's Rights Plan pursuant to which 2,000,000 shares of Series A preference stock are reserved under the plan for sale to holders of common stock. The common stock currently trades with a right to purchase such Series A preference stock. The right is intended to protect shareholders in the event of an unsolicited attempt to acquire us and becomes exercisable upon the occurrence of certain triggering events. The right is transferred automatically with the transfer of the common stock until separate rights certificates are distributed upon the occurrence of certain events. The right could have the effect of delaying, deferring or preventing a person from acquiring us or accomplishing a change in control of the board of directors.

Registration Rights. In connection with certain of our acquisitions, we agreed, among other things, to file with the Commission registration statements for shares of common stock received by the shareholders of such companies. As of February 29, 2000, approximately 1,044,874 shares of our common stock in the aggregate are subject to such agreements.

Transfer Agent. Norwest Bank Minnesota, N.A. is our transfer agent and registrar for our common stock.

The common stock is traded on the New York Stock Exchange under the symbol SEN.

DESCRIPTION OF DEBT SECURITIES

GENERAL

Our senior debt securities and subordinated debt securities (collectively, for purposes of this section of the Prospectus, the "Debt Securities"), consisting of notes, debentures and other evidence of indebtedness

may be issued from time to time in one or more series, in the case of the Senior Debt Securities, under an indenture, dated as of October 23, 1998, as supplemented from time to time (the "Senior Indenture") between us and Bank One Trust Company, National Association, as trustee (the "Senior Indenture Trustee"), and in the case of the Subordinated Debentures, under an indenture as supplemented from time to time (the "Subordinated Indenture"), between us and Bank One Trust Company, National Association, as trustee (the "Subordinated Indenture Trustee"). The term "Indenture Trustee," as used herein, shall refer to the Senior Indenture Trustee or the Subordinated Indenture Trustee, as appropriate. The form of Senior Indenture and the form of the Subordinated Indenture being sometimes referred to herein collectively as the "Indentures" and individually as an "Indenture" are filed, along with the form of Supplemental Indenture in the case of the Subordinated Indenture, as exhibits to the Registration Statement to which this Prospectus is a part and, upon execution and delivery, will be available for inspection at the corporate trust offices of the Senior Indenture Trustee and the Subordinated Indenture Trustee, or as described under "Available Information." The Indentures are subject to and governed by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act" or "TIA"). The following statements relating to the Debt Securities and the Indentures are summaries of the provisions thereof and do not purport to be complete and are qualified in their entirety by reference to the Indentures and the Debt Securities. All Section references herein are to sections of the Indentures, and capitalized terms used but not defined herein shall have the respective meanings set forth in the Indentures and the Debt Securities. The Subordinated Debentures are further described under "Additional Description of Subordinated Debentures to be Issued to Trust" below.

TERMS

The Debt Securities will be our direct, unsecured obligations. The indebtedness represented by the Senior Debt will rank on a parity with all our other unsecured and unsubordinated indebtedness. The indebtedness represented by the Subordinated Debentures will be subordinated in right of payment to the prior payment in full of all our existing and future Senior Indebtedness, as described below under "Subordination." Each Indenture provides that the Debt Securities may be issued without limit as to aggregate principal amount, in one or more series, in each case as established from time to time by our Board of Directors or as established in one or more indentures supplemental to such Indenture. Debt Securities may be issued with terms different from those of Debt Securities previously issued. All Debt Securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the holders of the Debt Securities of such series, for issuances of additional Debt Securities of such series (Section 301 of each Indenture).

Each Indenture provides that there may be more than one Indenture Trustee thereunder, each with respect to one or more series of Debt Securities. Any Indenture Trustee under either Indenture may resign or be removed with respect to one or more series of Debt Securities, and a successor Indenture Trustee may be appointed to act with respect to such series (Section 608 of each Indenture). In the event that two or more persons are acting as Indenture Trustee with respect to different series of Debt Securities, each such Indenture Trustee shall be an Indenture Trustee of a trust under the applicable Indenture separate and apart from the trust administered by any other Indenture Trustee (Section 609 of each Indenture), and, except as otherwise indicated herein, any action described herein to be taken by an Indenture Trustee may be taken by each such Indenture Trustee with respect to, and only with respect to, the one or more series of Debt Securities of which it is Indenture Trustee under the applicable Indenture.

The Prospectus Supplement relating to the series of Debt Securities being offered will contain the specific terms thereof, including, without limitation:

(1) The title and any series of such Debt Securities and whether such Debt Securities are Senior Debt or Subordinated Debentures;

(2) The aggregate principal amount of such Debt Securities and any limit on such principal amount;

(3) The percentage of the principal amount at which such Debt Securities will be issued and, if other than the principal amount thereof, the portion of the principal amount thereof payable upon declaration of acceleration of the maturity thereof;

(4) The date or dates, or the method for determining such date or dates, on which the principal of such Debt Securities will be payable and the amount of principal payable thereon;

(5) The rate or rates (which may be fixed or variable) at which such Debt Securities will bear interest, if any, or the method by which such rate or rates shall be determined, the date or dates, or the method for determining such date or dates, from which any such interest will accrue, the dates on which any such interest will be payable, the record dates for such interest payment dates, or the method by which such dates shall be determined, the persons to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;

(6) The place or places where the principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, where such Debt Securities may be surrendered for registration of transfer or exchange and where notices or demands to or upon us in respect of such Debt Securities and the applicable Indenture may be served;

(7) If applicable, whether the interest payment periods may be extended by us and, if so, the terms of any such extension;

(8) The period or periods within which, the price or prices at which, and other terms and conditions upon which such Debt Securities may be redeemed, as a whole or in part, at our option, if we are to have such an option;

(9) Our obligation, if any, to redeem, repay or purchase such Debt Securities pursuant to any sinking fund or analogous provision or at the option of a holder thereof, and the period or periods within which or the date or dates on which, the price or prices at which, and other terms and conditions upon which such Debt Securities will be redeemed, repaid or purchased, as a whole or in part, pursuant to such obligation;

(10) Whether the amount of payments of principal of (and premium, if any) or interest, if any, on such Debt Securities may be determined with reference to an index, formula or other method and the manner in which such amounts shall be determined;

(11) Provisions, if any, granting special rights to the holders of such Debt Securities upon the occurrence of such events as may be specified;

(12) Any deletions from, modifications of or additions to the Events of Default or our covenants with respect to such Debt Securities, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth in the applicable Indenture;

(13) Whether such Debt Securities will be issued in certificated or book-entry form;

(14) Whether such Debt Securities will be in registered or bearer form and, if in registered form, the denominations thereof if other than $1,000 and any integral multiple thereof and, if in bearer form, the denominations thereof and terms and conditions relating thereto;

(15) The applicability if any, of the defeasance and covenant defeasance provisions described herein, or any modification thereof;

(16) Whether and under what circumstances we will pay any Additional Amounts as defined and contemplated in the applicable Indenture on such Debt Securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem such Debt Securities in lieu of making such payment; and

(17) Any other terms of such Debt Securities not inconsistent with the provisions of the applicable Indenture (Section 301 of each Indenture).

The Debt Securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof ("Original Issue Discount Securities"). Special U.S. federal income tax, accounting and other considerations applicable to Original Issue Discount Securities will be described in the applicable Prospectus Supplement.

Except as set forth below under "Certain Covenants" and as may be set forth in any Prospectus Supplement, the Indentures will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of Debt Securities protection in the event of a highly leveraged or similar transaction involving us or in the event of a change of control. You should refer to the applicable Prospectus Supplement for information with respect to any deletions from, modifications of, or additions to the events of default or covenants of us that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

DENOMINATIONS, INTEREST, REGISTRATION AND TRANSFER

Unless otherwise described in the applicable Prospectus Supplement, the Debt Securities of any series issued in registered form will be issuable in denominations of $1,000 and integral multiples thereof. Unless otherwise specified in the applicable Prospectus Supplement, the Debt Securities of any series issued in bearer form will be issuable in denominations of $5,000 (Section 302 of each Indenture).

Unless otherwise specified in the applicable Prospectus Supplement, the principal of (and premium if any) and interest on any series of Senior Debt will be payable at the corporate trust office of the Senior Indenture Trustee, and the principal of (and premium, if any) and interest on any series of Subordinated Debentures will be payable at the corporate trust office of the Subordinated Indenture Trustee; provided that, at our option, payment of interest on any series of Debt Securities may be made by check mailed to the address of the Person entitled thereto as it appears in the applicable register for such Debt Securities or by wire transfer of funds to such person at an account maintained within the United States (Sections 301, 307 and 1002 of each Indenture).

Any interest not punctually paid or duly provided for on any interest payment date with respect to a Debt Security ("Defaulted Interest") will forthwith cease to be payable to the holder on the applicable Regular Record Date and may either be paid to the Person in whose name such Debt Security is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest to be fixed by the Indenture Trustee, notice whereof shall be given to the holder of such Debt Security not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more completely described in the applicable Indenture (Section 307 of each Indenture).

Subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series will be exchangeable for other Debt Securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such Debt Securities at the corporate trust office of the applicable Indenture Trustee referred to above. In addition, subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series may be surrendered for registration of transfer or exchange thereof at the corporate trust office of the applicable Indenture Trustee. Every Debt Security surrendered for registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any Debt Securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith (Section 305 of each Indenture). If the applicable Prospectus Supplement refers to any transfer agent (in addition to the applicable Indenture Trustee) initially designated by us with respect to any series of Debt Securities, we may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that the trust will be required to maintain a transfer agent in each place of payment for such series. We may at any time designate additional transfer agents with respect to any series of Debt Securities (Section 1002 of each Indenture).

Neither we nor any Indenture Trustee shall be required to (i) issue, register the transfer of or exchange of Debt Securities of any series which are issued in registered form during a period beginning at the opening of business 15 days before any selection of Debt Securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; (ii) register the transfer of or exchange any Debt Security or portion thereof, called for redemption, except the unredeemed portion of any Debt Security which is issued in registered form being redeemed in part; or (iii) issue, register the transfer of or exchange any Debt Security which is issued in registered form that has been surrendered for repayment at the option of the holder, except the portion, if any, of such Debt Security not to be so repaid (Section 305 of each Indenture).

MERGER, CONSOLIDATION OR SALE

The Senior Indenture provides that we will be permitted to consolidate with, or sell, lease or convey all or substantially all of our assets to, or merge with or into, any other entity provided that (a) either we shall be the continuing entity, or the successor entity (if other than us) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume payment of the principal of (and premium, if any) and interest on all of the Senior Debt and the due and punctual performance and observance of all of the covenants and conditions contained in the Senior Indenture; (b) immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation of us or any Subsidiary as a result thereof as having been incurred by us or such Subsidiary at the time of such transaction, no Event of Default under the Senior Indenture, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Indenture Trustee (Sections 801 and 803 of the Senior Indenture). The provisions of the Subordinated Indenture regarding merger, consolidation and sale are discussed in "Additional Description of Subordinated Debentures to be Issued to Trust -- Consolidation, Merger and Sale" below.

CERTAIN COVENANTS

Limitations on Liens. The Indentures provide that we shall not, and shall not cause or permit any Subsidiary to, issue, assume or guarantee any Debt secured by a Lien upon any of our property or assets (other than cash) or that of such Subsidiary, as applicable, without effectively providing that the outstanding Debt Securities (together with, if we so determine, any other indebtedness or obligation then existing or thereafter created ranking equally with such Debt Securities) shall be secured equally and ratably with (or prior to) such Debt so long as such Debt shall be so secured. The foregoing restriction on Liens will not, however, apply to:

(a) Liens in existence on the date of original issue of such Debt Securities;

(b) (i) any Lien created or arising over any property which is acquired, constructed or created by us, or any of our Subsidiaries, but only if (A) such Lien secures only principal amounts (not exceeding the cost of such acquisition, construction or creation) raised for the purposes of such acquisition, construction or creation, together with any costs, expenses, interest and fees incurred in relation thereto or a guarantee given in respect thereof, (B) such Lien is created or arises on or before 90 days after the completion of such acquisition, construction or creation and (C) such Lien is confined solely to the property so acquired, constructed or created; or (ii) any Lien to secure our Debt or the Debt of a Subsidiary incurred in connection with a specifically identifiable project where the Lien relates to and is confined to a property or properties (including, without limitation, shares or other rights of ownership in the entities which own such property or project) involved in such project and acquired by us or a Subsidiary after the date of original issue of the Debt Securities of any series and the recourse of the creditors in respect of such Debt is limited to any or all of such project and property (including as aforesaid);

(c) any Lien securing amounts not more than 90 days overdue or otherwise being contested in good faith;

(d) (i) rights of financial institutions to offset credit balances in connection with the operation of cash management programs established for our benefit or the benefit of a Subsidiary or in connection with the issuance of letters of credit for the benefit of the us or a Subsidiary; (ii) any Lien securing our Debt or the Debt of a Subsidiary incurred in connection with the financing of accounts receivable; (iii) any Lien incurred or deposits made in the ordinary course of business, including, but not limited to, (A) any mechanics', materialmens', carriers', workmens', vendors' or other like Liens and (B) any Liens securing amounts in connection with workers' compensation, unemployment insurance and other types of social security; (iv) any Lien upon specific items of inventory or other goods and proceeds of us or a Subsidiary securing obligations of us or a Subsidiary in respect of bankers' acceptances issued or created for the account of such person to facilitate the purchase, shipment or storage of such inventory or other goods; (v) any Lien incurred or deposits made securing the performance of tenders, bids, leases, trade contracts (other than for borrowed money), statutory obligations, surety bonds, appeal bonds, government contracts, performance bonds, return-of-money bonds and other obligations of like nature incurred in the ordinary course of business; (vi) any Lien constituted by a right of set off or right over a margin call account or any form of cash or cash collateral or any similar arrangement for obligations incurred in respect of the hedging or management of risks under transactions involving any currency or interest rate swap, cap or collar arrangements, forward exchange transaction, option, warrant, forward rate agreement, futures contract or other derivative instrument of any kind; (vii) any Lien arising out of title retention or like provisions in connection with the purchase of goods and equipment in the ordinary course of business; and (viii) any Lien securing reimbursement obligations under letters of credit, guaranties and other forms of credit enhancement given in connection with the purchase of goods and equipment in the ordinary course of business;

(e) Liens in favor of us or a Subsidiary;

(f) (i) Liens on any property or assets acquired from a corporation which is merged with or into us or a Subsidiary, or any Liens on the property or assets of any corporation or other entity existing at the time such corporation or other entity becomes a Subsidiary of us and, in either such case, is not created in anticipation of any such transaction (unless such Lien is created to secure or provide for the payment of any part of the purchase price of such corporation); (ii) any Lien on any property or assets existing at the time of acquisition thereof and which is not created in anticipation of such acquisition (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such property or assets); and (iii) any Lien created or outstanding on or over any asset of any Person which becomes a Subsidiary on or after the date of the issuance of such Debt Securities when such Lien is created prior to the date on which such Person becomes a Subsidiary;

(g) (i) Liens required by any contract or statute in order to permit us or a Subsidiary to perform any contract or subcontract made by us or it with or at the request of a governmental entity or any department, agency or instrumentality thereof, or to secure partial, progress, advance or any other payments by us or a Subsidiary to such governmental unit pursuant to the provisions of any contract or statute; (ii) any Lien securing industrial revenue, development or similar bonds issued by or for the benefit of us or a Subsidiary, provided that such industrial revenue, development or similar bonds are nonrecourse to us or such Subsidiary; and (iii) any Lien securing taxes or assessments or other applicable governmental charges or levies;

(h) (i) any Lien which arises pursuant to any order of attachment, distrait or similar legal process arising in connection with court proceedings and any Lien which secures the reimbursement obligation for any bond obtained in connection with an appeal taken in any court proceeding, so long as the execution or other enforcement of such Lien arising pursuant to such legal process is effectively stayed and the claims secured thereby are being contested in good faith and, if appropriate, by appropriate legal proceedings, or any Lien in favor of a plaintiff or defendant in any action before a court or tribunal as security for costs and/or other expenses; or (ii) any Lien arising by operation of law or by order of a court or tribunal or any Lien arising by an agreement of similar effect, including, without limitation, judgment liens; or

(i) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, or any Liens referred to in the foregoing clauses, for amounts not exceeding the principal amount of the Debt secured by the Lien so extended, renewed or replaced, provided that such extension, renewal or replacement Lien is limited to all or a part of the same property or assets that were covered by the Lien extended, renewed or replaced (plus improvements on such property or assets) (Section 1011 of each Indenture).

Limitations on Sale and Leaseback Transactions. The Indentures also provide that we will not, and will not permit any Subsidiary to, enter into any arrangement with any Person (other than us or a Subsidiary), providing for the leasing to us or a Subsidiary of any assets which have been or are to be sold or transferred by us or such Subsidiary to such Person (a "Sale and Lease-Back Transaction") unless: (a) such transaction involves a lease for a temporary period not to exceed three years; (b) such transaction is between us or a Subsidiary and an affiliate of ours; (c) we would be entitled to incur debt secured by a Lien on the assets or property involved in such transaction at least equal in amount to the Attributable Debt with respect to such Sale and Lease-Back Transaction, without equally and ratably securing the Debt Securities, pursuant to the limitation on Liens described above; (d) such transaction is entered into within 90 days after the initial acquisition by us of the assets or property subject to such transaction; (e) after giving effect thereto, the aggregate amount of all Attributable Debt with respect to all such Sale and Lease-Back Transactions does not exceed 10% of Consolidated Net Tangible Assets; or (f) we or a Subsidiary within the twelve months preceding the sale or transfer or the twelve months following the sale or transfer, regardless of whether such sale or transfer may have been made by us or such Subsidiary, apply in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair value of the assets so leased at the time of entering into such arrangement (as determined by our Board of Directors or the Board of Directors of such Subsidiary), (i) to the retirement of debt, incurred or assumed by us or a Subsidiary, which by its terms matures at, or is extendible or renewable at the option of the obligor to, a date more than twelve months after the date of incurring, assuming or guaranteeing such debt or (ii) to investment in any of our assets or the assets of any Subsidiary (Section 1012 of each Indenture).

Existence. Except as permitted under "Merger, Consolidation or Sale," we will be required to do or cause to be done all things necessary to preserve and keep in full force and effect our existence, rights and franchises; provided, however, that we shall not be required to preserve any right or franchise if we determine that the preservation thereof is no longer desirable in the conduct of our business (Section 1004 of each Indenture).

Maintenance of Properties. We will be required to cause all of our material properties used or useful in the conduct of our business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in our judgment may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times (Section 1005 of each Indenture).

Insurance. We will be required to, and will be required to cause each of our Subsidiaries to, keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value with insurers of recognized responsibility and, if described in the applicable Prospectus Supplement, having a specified rating from a recognized insurance rating service (Section 1006 of each Indenture).

Payment of Taxes and Other Claims. We will be required to pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon us or any Subsidiary or upon our income, profits or property or, that of any Subsidiary, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a material lien upon our property or that of any Subsidiary; PROVIDED, HOWEVER, that we shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment,

charge or claim whose amount, applicability or validity is being contested in good faith (Section 1007 of each Indenture).

Provision of Financial Information. Whether or not we are subject to Section 13 or 15(d) of the Exchange Act, we will be required, within 15 days of each of the respective dates by which we would have been required to file annual reports, quarterly reports and other documents with the Commission if we were so subject, to (i) transmit by mail to all holders of Debt Securities, as their names and addresses appear in the applicable register for such Debt Securities, without cost to such holders, copies of the annual reports, quarterly reports and other documents that we would have been required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such sections, (ii) file with the applicable Indenture Trustee copies of the annual reports, quarterly reports and other documents that we would have been required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act if we were subject to such Sections, and (iii) promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to any prospective holder (Section 1008 of each Indenture).

Additional Covenants. Any of our additional covenants with respect to any series of Debt Securities will be set forth in the Prospectus Supplement relating thereto.

EVENTS OF DEFAULT, NOTICE AND WAIVER

Each Indenture will provide that the following events are "Events of Default" with respect to any series of Debt Securities issued thereunder: (a) default for 30 days in the payment of any installment of interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series; (b) default in the payment of principal of (or premium, if any, on) any Debt Security of such series at its maturity; (c) default in making any sinking fund payment as required for any Debt Security of such series; (d) default in the performance or breach of any other covenant or warranty of ours contained in the Indenture (other than a covenant added to the Indenture solely for the benefit of a series of Debt Securities issued thereunder other than such series), continued for 60 days after written notice as provided in the Indenture; (e) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed by us (including obligations under leases required to be capitalized on the balance sheet of the lessee under generally accepted accounting principles but not including any indebtedness or obligations for which recourse is limited to property purchased) in an aggregate principal amount in excess of $5,000,000 or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us (including such leases, but not including such indebtedness or obligations for which recourse is limited to property purchased) in an aggregate principal amount in excess of $5,000,000, whether such indebtedness now exists or shall hereafter be created which default shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable or such obligations being accelerated, without such acceleration having been rescinded or annulled; (f) certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of us or any Significant Subsidiary of ours; and (g) any other event of default provided with respect to a particular series of Debt Securities (Section 501 of each Indenture). The term "Significant Subsidiary" means each of our significant subsidiaries (as defined in Regulation S-X promulgated under the Securities Act).

If an Event of Default under either Indenture with respect to Debt Securities of any series at the time outstanding occurs and is continuing, then in every such case the Indenture Trustee or the holders of not less than 25% in principal amount of the outstanding Debt Securities of that series will have the right to declare the principal amount (or, if the Debt Securities of that series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms thereof) of, and premium, if any, on all of the Debt Securities of that series to be due and payable immediately by written notice thereof to us (and to the Indenture Trustee if given by the holders). However, at any time after such a declaration of acceleration with respect to Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) has been made, but before a

judgment or decree for payment of the money due has been obtained by the Indenture Trustee, the holders of not less than a majority in principal amount of outstanding Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) may rescind and annul such declaration and its consequences if (a) we shall have deposited with the applicable Indenture Trustee all required payments of the principal of (and premium, if any) and interest, and any Additional Amounts, on the Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be), plus certain fees, expenses, disbursements and advances of such Indenture Trustee and (b) all Events of Default, other than the non-payment of accelerated principal (or specified portion thereof and the premium, if any) or interest, with respect to Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) have been cured or waived as provided in the applicable Indenture (Section 502 of each Indenture). Each Indenture also provides that the holders of not less than a majority in principal amount of the outstanding Debt Securities of any series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) may waive any past default with respect to such series and its consequences, except a default (x) in the payment of the principal of (or premium, if any) or interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series or (y) in respect of a covenant or provision contained in the applicable Indenture that cannot be modified or amended without the consent of the holder of each outstanding Debt Security affected thereby (Section 513 of each Indenture).

Each Indenture Trustee will be required to give notice to the holders of Debt Securities within 90 days of a default under the applicable Indenture unless such default shall have been cured or waived; PROVIDED, HOWEVER, that such Indenture Trustee may withhold notice to the holders of any series of Debt Securities of any default with respect to such series (except a default in the payment of the principal of (or premium, if any) or interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series or in the payment of any sinking fund installment in respect of any Security of such series) if specified responsible officers of such Indenture Trustee consider such withholding to be in the interest of such holders (Section 601 of each Indenture).

Each Indenture will provide that no holders of Debt Securities of any series may institute any proceedings, judicial or otherwise, with respect to such Indenture or for any remedy thereunder, except in the cases of failure of the Indenture Trustee, for 60 days, to act after it has received a written request to institute proceedings in respect of an event of default from the holders of not less than 25% in principal amount of the outstanding Debt Securities of such series, as well as an offer of indemnity reasonably satisfactory to it (Section 507 of each Indenture). This provision will not prevent, however, any holder of Debt Securities from instituting suit for the enforcement of payment of the principal of (and premium, if any), interest on and Additional Amounts, or Additional Interest, as applicable, payable with respect to, such Debt Securities at the respective due dates thereof.

Subject to provisions in each Indenture relating to its duties in case of default, each Indenture Trustee will not be under any obligation to exercise any of its rights or powers under the applicable Indenture at the request or direction of any holders of any series of Debt Securities then outstanding under such Indenture, unless such holders shall have offered to the Indenture Trustee thereunder reasonable security or indemnity (Section 602 of each Indenture). The holders of not less than a majority in principal amount of the outstanding Debt Securities of any series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or of exercising any trust or power conferred upon such Indenture Trustee. However, an Indenture Trustee may refuse to follow any direction which is in conflict with any law or the Indenture, which may involve the Indenture Trustee in personal liability or which may be unduly prejudicial to the holders of Debt Securities of such series not joining therein (Section 512 of each Indenture).

Within 120 days after the close of each fiscal year, we will be required to deliver to each Indenture Trustee a certificate, signed by one of our several specified officers, stating whether or not such officer has knowledge of any default under the applicable Indenture and, if so, specifying each such default and the nature and status thereof (Section 1009 of each Indenture).

Additional provisions of the Subordinated Indenture regarding Events of Default are discussed in "Additional Description of Subordinated Debentures to be Issued to Trust -- Subordinated Indenture Additional Events of Default" below.

MODIFICATION OF THE INDENTURES

Modifications and amendments of either Indenture will be permitted to be made only with the consent of the holders of not less than a majority in principal amount of all outstanding Debt Securities issued under each Indenture which are affected by such modification or amendment; PROVIDED, HOWEVER, that no such modification or amendment may, without the consent of the holder of each such Debt Security affected thereby, (a) change the stated maturity of the principal of (or premium, if any), or any installment of principal of or interest payable on, any such Debt Security; (b) reduce the principal amount of, or the rate or amount of interest on, or any premium payable on redemption of, or Additional Amounts, or Additional Interest, as applicable, payable with respect to, any such Debt Security, or reduce the amount of principal of an Original Issue Discount Security that would be due and payable upon declaration of acceleration of the maturity thereof or would be provable in bankruptcy, or adversely affect any right of repayment of the holder of any such Debt Security; (c) change the place of payment, or currency, for payment of principal of (and premium, if any), or interest on, or any Additional Amounts, or Additional Interest, as applicable, payable with respect to, any such Debt Security; (d) impair the right to institute suit for the enforcement of any payment on or with respect to any such Debt Security; (e) reduce the above-stated percentage of outstanding Debt Securities of any series necessary to modify or amend the applicable Indenture, to waive compliance with certain provisions thereof or certain defaults and consequences thereunder or to reduce the quorum or voting requirements set forth in the Indenture; or (f) modify any of the foregoing provisions or any of the provisions relating to the waiver of certain past defaults or certain covenants, except to increase the required percentage to effect such action or to provide that certain other provisions may not be modified or waived without the consent of the holder of such Debt Security (Section 902 of each Indenture).

The holders of not less than a majority in principal amount of outstanding Debt Securities issued under either Indenture will have the right to waive compliance by us with certain covenants in such Indenture (Section 1013 of each Indenture).

Modifications and amendments of each Indenture will be permitted to be made by us and the applicable Indenture Trustee thereunder without the consent of any holder of Debt Securities for any of the following purposes: (i) to evidence the succession of another person to us as obligor under the applicable Indenture; (ii) to add to our covenants for the benefit of the holders of all or any series of Debt Securities or to surrender a right or power conferred upon us in the applicable Indenture; (iii) to add events of default for the benefit of the holders of all or any series of Debt Securities; (iv) to add or change any provisions of the applicable Indenture to facilitate the issuance of, or to liberalize certain terms of, Debt Securities in bearer form, or to permit or facilitate the issuance of Debt Securities in uncertificated form, PROVIDED that such action shall not adversely affect the interests of the holders of the Debt Securities of any series in any material aspect; (v) to change or eliminate any provisions of the applicable Indenture, PROVIDED that any such change or elimination shall become effective only when there are no Debt Securities outstanding of any series created prior thereto which are entitled to the benefit of such provision; (vi) to secure the Debt Securities; (vii) to establish the form or terms of Debt Securities of any series; (viii) to provide for the acceptance of appointment by a successor Indenture Trustee or facilitate the administration of the trusts imposed under the applicable Indenture by more than one Indenture Trustee; (ix) to cure any ambiguity, defect or inconsistency in the applicable Indenture, PROVIDED that such action shall not adversely affect the interests of holders of Debt Securities of any series issued under such Indenture in any material respect; or (x) to supplement any of the provisions of such Indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of such Debt Securities, PROVIDED that such action shall not adversely affect the interests of the holders of the Debt Securities of any series in any material respect (Section 901 of each Indenture).

Each Indenture will provide that in determining whether the holders of the requisite principal amount of outstanding Debt Securities of a series have given any request, demand, authorization, direction, notice, consent or waiver thereunder or whether a quorum is present at a meeting of holders of Debt Securities, (i) the principal amount of an Original Issue Discount Security that shall be deemed to be outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon declaration of acceleration of the maturity thereof, and (ii) Debt Securities owned by us or any other obligor upon the Debt Securities or any affiliate of us or of such other obligor shall be disregarded (Section 104 and Section 101 of each Indenture).

Each Indenture will contain provisions for convening meetings of the holders of Debt Securities of a series (Section 1501 of each Indenture). A meeting will be permitted to be called at any time by the applicable Indenture Trustee, and also, upon request, by us or the holders of at least 10% in principal amount of the outstanding Debt Securities of such series, in any such case upon notice given as provided in the applicable Indenture (Section 1502 of each Indenture). Except for any consent that must be given by the holder of each Debt Security affected by certain modifications and amendments of the applicable Indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum is present may be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding Debt Securities of that series; PROVIDED, HOWEVER, that, except as referred to above, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the holders of a specified percentage, which is less than a majority, in principal amount of the outstanding Debt Securities of a series may be adopted at a meeting or adjourned meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the holders of such specified percentage in principal amount of the outstanding Debt Securities of that series. Any resolution passed or decision taken at any meeting of holders of Debt Securities of any series duly held in accordance with the applicable Indenture will be binding on all holders of Debt Securities of that series. The quorum at any meeting called to adopt a resolution, and at an reconvened meeting, will be persons holding or representing a majority in principal amount of the outstanding Debt Securities of a series; PROVIDED, HOWEVER, that if any action is to be taken at such meeting with respect to a consent or waiver which may be given by the holders of not less than a specified percentage in principal amount of the outstanding Debt Securities of a series, the persons holding or representing such specified percentage in principal amount of the outstanding Debt Securities of such series will constitute a quorum (Section 1504 of each Indenture).

Notwithstanding the foregoing provisions, each Indenture will provide that if any action is to be taken at a meeting of holders of Debt Securities of any series with respect to any request, demand, authorization, direction, notice, consent, waiver and other action that the Indenture expressly provides may be made, given or taken by the holders of a specified percentage in principal amount of all outstanding Debt Securities affected thereby, or of the holders of such series and one or more additional series: (i) there shall be no minimum quorum requirement for such meeting, and (ii) the principal amount of the outstanding Debt Securities of such series that vote in favor of such request, demand, authorization, direction, notice, consent, waiver or other action shall be taken into account in determining whether such request, demand, authorization, direction, notice, consent, waiver or other action has been made, given or taken under the Indenture (Section 1504 of each Indenture).

SUBORDINATION

Upon any distribution to our creditors in a liquidation, dissolution or reorganization, the payment of the principal of and interest on the Subordinated Debentures will be subordinated to the extent provided in the Subordinated Indenture in right of payment to the prior payment in full of all Senior Indebtedness defined below (Sections 1601 and 1602 of the Subordinated Indenture), but our obligation to make payment of the principal and interest on the Subordinated Debentures will not otherwise be affected (Section 1606 of the Subordinated Indenture). No payment of principal or interest may be made on the Subordinated Debentures at any time if (i) any Senior Indebtedness is not paid when due and any applicable grace period has ended or such default has not been waived; (ii) a default on Senior

Indebtedness exists that permits the holders of such Senior Indebtedness to accelerate its maturity or (iii) notice has been given of the exercise of an option to require repayment or prepayment of Senior Indebtedness (Section 1603 of the Subordinated Indenture). After all Senior Indebtedness is paid in full and until the Subordinated Debentures are paid in full, holders will be subrogated to the rights of holders of Senior Indebtedness to the extent that distributions otherwise payable to holders have been applied to the payment of Senior Indebtedness (Section 1605 of the Subordinated Indenture). By reason of such subordination, in the event of a distribution of assets upon insolvency, certain of our general creditors may recover more, ratably, than holders of the Subordinated Debentures.

Senior Indebtedness is defined in the Subordinated Indenture as, (i) any payment due in respect of indebtedness of a Person, whether outstanding at the date of execution of the Subordinated Indenture or thereafter incurred, created or assumed, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by such Person which, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations of such Person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other Persons the payment of which such Person is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other Persons secured by any lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), except for (1) any such indebtedness that is by its terms subordinated to or pari passu with the Subordinated Debentures and (2) any unsecured indebtedness between or among such Person or its Affiliates. At February 29, 2000, Senior Indebtedness aggregated approximately $543,600,000. There are no restrictions in the Subordinated Indenture upon the creation of additional Senior Indebtedness.

Upon payment in full of all amounts due on the Senior Indebtedness then outstanding, the rights of the holders of the Subordinated Debentures will be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions applicable to such Senior Indebtedness until all amounts owing on the Subordinated Debentures are paid in full.

In addition, because we are a holding company our right, and hence the right of our creditors (including any holder of Subordinated Debentures), to participate in any distribution of the assets of any subsidiary upon its liquidation or recognition or otherwise is necessarily subject to the prior claims of creditors of such subsidiary, except to the extent that our claims as a creditor of such subsidiary may be recognized. There is no restriction in the Subordinated Indenture against our subsidiaries incurring secured or unsecured indebtedness or issuing secured or unsecured securities. Our ability to make payments of principal and interest on the Subordinated Debentures will be dependent upon the payment to it by its subsidiaries of dividends, loans or advances.

DISCHARGE, DEFEASANCE AND COVENANT DEFEASANCE

Under each Indenture, we may discharge certain obligations to holders of any series of Debt Securities issued thereunder that have not already been delivered to the applicable Indenture Trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the applicable Indenture Trustee, in trust, funds in an amount sufficient to pay the entire indebtedness on such Debt Securities in respect of principal (and premium, if any) and interest and any Additional Amounts, or Additional Interest, as applicable, payable to the date of such deposit (if such Debt Securities have become due and payable) or to the stated maturity or redemption date, as the case may be (Section 401 of each Indenture).

Each Indenture will provide that, if the provisions of Article Fourteen thereof are made applicable to the Debt Securities of or within any series pursuant to Section 301 of such Indenture, we may elect either (a) to defease and be discharged from any and all obligations with respect to such Debt Securities (except for the obligations to pay Additional Amounts, or Additional Interest, as applicable, if any, upon the occurrence of certain events of tax, assessment or governmental charge with respect to payments on such Debt Securities and the obligations to register the transfer or exchange of such Debt Securities, to replace temporary or mutilated, destroyed, lost or stolen Debt Securities, to maintain an office or agency in respect of such Debt Securities and to hold moneys for payment in trust) ("defeasance") (Section 1402 of each Indenture) or (b) to be released from our obligations with respect to such Debt Securities under Sections 1004 to 1008, inclusive, and Sections 1011 and 1012 under such Indenture (being the restrictions described under "Certain Covenants") or, if provided pursuant to such Indenture, our obligations with respect to any other covenant, and any omission to comply with such obligations shall not constitute an event of default with respect to such Debt Securities ("covenant defeasance") (Section 1403 of each Indenture), in either case upon the irrevocable deposit by us with the applicable Indenture Trustee, in trust, of an amount of money, or Government Obligations (as defined below), or both, applicable to such Debt Securities which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on such Debt Securities, and any mandatory sinking fund or analogous payments thereon, on the scheduled due dates therefor (Section 1404 of each Indenture).

Such a trust will only be permitted to be established if, among other things, we have delivered to the applicable Indenture Trustee an opinion of counsel (as specified in each Indenture) to the effect that the holders of such Debt Securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance had not occurred, and such opinion of counsel, in the case of defeasance, will be required to refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable United States federal income tax law occurring after the date of such Indenture (Section 1404 of each Indenture).

"Government Obligations" means securities which are (i) direct obligations of the United States of America, for which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt, PROVIDED that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depository receipt (Section 101 of each Indenture).

In the event we effect covenant defeasance with respect to any Debt Securities and such Debt Securities are declared due and payable because of the occurrence of any Event of Default other than the Event of Default described in clause (d) under "Events of Default, Notice and Waiver" with respect to Sections 1004 to 1008, inclusive, and Sections 1011 and 1012 of either Indenture (which sections would no longer be applicable to such Debt Securities) or described in clause (g) under "Events of Default, Notice and Waiver" with respect to any other covenant as to which there has been covenant defeasance, the amount in which such Debt Securities are payable, and Government Obligations on deposit with the applicable Indenture Trustee, will be sufficient to pay amounts due on such Debt Securities at the time of their stated maturity but may not be sufficient to pay amounts due on such Debt Securities at the time of the acceleration resulting from such Event of Default. However, we would remain liable to make payment of such amounts due at the time of acceleration.

The applicable Prospectus Supplement may further describe the provisions, if any, permitting such defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the Debt Securities of or within a particular series.

GLOBAL SECURITIES

The Debt Securities of a series may be issued in whole or in part in the form of one or more global securities (the "Global Securities") that will be deposited with, or on behalf of, a depositary identified in the applicable Prospectus Supplement relating to such series. Global Securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depositary arrangement with respect to a series of Debt Securities will be described in the applicable Prospectus Supplement relating to such series.

GOVERNING LAW

The Indentures, each Supplemental Indenture thereto, the Senior Debt and the Subordinated Debentures will be governed by the laws of the State of New York.

DESCRIPTION OF TRUST PREFERRED SECURITIES

Each trust may issue only one series of Trust Preferred Securities having terms described in the prospectus supplement relating thereto. Each Trust Agreement will be qualified as an indenture under the Trust Indenture Act and will contain the terms of Trust Preferred Securities.

The Property Trustee will act as indenture trustee for purposes of the Trust Indenture Act. The Trust Preferred Securities will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferred or other special rights or such restrictions as will be set forth in the Trust Agreement or made part of the Trust Agreement by the Trust Indenture Act and which will correspond to the terms of the Subordinated Debentures held by the Trust and described in the Prospectus Supplement relating thereto.

The Prospectus Supplement relating to the Trust Preferred Securities of a trust will include the specific terms of the series of trust preferred securities being issued, including:

(i) the distinctive designation of the Trust Preferred Securities;

(ii) the number of Trust Preferred Securities issuable by the Trust;

(iii) the annual distribution rate (or method of determining such rate) for Trust Preferred Securities and the date or dates upon which such distributions will be payable;

(iv) whether distributions on Trust Preferred Securities will be cumulative, and, in the case of Trust Preferred Securities having such cumulative distribution rights, the date or dates or method of determining the date or dates from which distributions on Trust Preferred Securities will be cumulative;

(v) the amount or amounts which will be paid out of the assets of the Trust to the holders of Trust Preferred Securities upon voluntary or involuntary dissolution, winding-up or termination of the Trust;

(vi) the obligation, if any, of the Trust to purchase or redeem Trust Preferred Securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which Trust Preferred Securities will be purchased or redeemed, in whole or in part, pursuant to such obligation;

(vii) the voting rights, if any, of holders of Trust Preferred Securities in addition to those required by law, including the number of votes per Trust Preferred Security and any requirement for

approval by the holders of such Trust Preferred Securities, as a condition to specified action or amendments to the Trust Agreement;

(viii) the terms and conditions, if any, upon which the Subordinated Debentures owned by the Trust may be distributed to holders of Trust Preferred Securities;

(ix) if applicable, any securities exchange upon which the Trust Preferred Securities will be listed; and

(x) any other relevant rights, preferences, privileges, limitations or restrictions of Trust Preferred Securities not inconsistent with the Trust Agreement or with applicable law.

We will guarantee distributions on Trust Preferred Securities to the extent set forth below under "Description of the Trust Guarantee." Certain United States federal income tax considerations applicable to Trust Preferred Securities will be described in a Prospectus Supplement relating to the Trust Preferred Securities.

Each Trust will issue a series of Trust Common Securities in connection with the issuance of Trust Preferred Securities. Except for voting rights, the terms of Trust Common Securities will be substantially identical to the terms of Trust Preferred Securities. Trust Common Securities will rank pari passu with Trust Preferred Securities except that, upon an event of default under the Trust Agreement, the rights of holders of Trust Common Securities to payments will be subordinated to the rights of holders of Trust Preferred Securities. The Trust Common Securities will also carry the right to vote to appoint, remove or replace any Trustee of the Trust. We will own all of the Trust Common Securities.

ENFORCEMENT OF CERTAIN RIGHTS BY HOLDERS OF TRUST PREFERRED SECURITIES

If an Event of Default as defined and provided in a Trust Agreement occurs and is continuing, then the holders of Trust Preferred Securities of such Trust would rely on the enforcement by the Property Trustee of such Trust of its rights as a holder of the applicable series of Subordinated Debentures against us. In addition, the holders of a majority in aggregate liquidation amount of Trust Preferred Securities of such Trust will have the right to direct the time, method and place of conducting any proceeding for any remedy available to such Property Trustee or to direct the exercise of any trust or power conferred upon such Property Trustee under such Trust Agreement, including the right to direct such Property Trustee to exercise the remedies available to it as a holder of Subordinated Debentures provided that such direction shall not be in conflict with any rule of law or with such Trust Agreement, and could not involve such Property Trustee in personal liability in circumstances where reasonable indemnity would not be adequate. If such Property Trustee fails to enforce its rights under the Subordinated Debentures held by such Trust, a holder of Trust Preferred Securities of such Trust may, to the extent permitted by law, institute a legal proceeding directly against us to enforce such Property Trustee's rights under such Trust Agreement without first instituting any legal proceeding against such Property Trustee or any other entity or person, including such Trust; it being understood and intended that no one or more of such holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of such Trust Agreement to affect, disturb or prejudice the rights of any other of such holders or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under such Trust Agreement, except in the manner herein provided and for the equal and ratable benefit of all such holders. Notwithstanding the foregoing, a holder of Trust Preferred Securities of such Trust may institute a proceeding directly against us without first instituting a legal proceeding against or requesting that action be taken by such Property Trustee or any other Person for enforcement of payment to such holder of the principal of or interest on the Subordinated Debentures held by such Trust having a principal amount equal to the aggregate stated liquidation amount of such Trust Preferred Securities of such holder (a "Direct Action") on or after the due dates specified or provided for in such Subordinated Debentures. In connection with such Direct Action, we will be subrogated to the rights of such holder of Trust Preferred Securities under the Trust Agreement to the extent of any payment made by us to such holder of Trust Preferred Securities in such Direct Action.

DESCRIPTION OF TRUST GUARANTEES

The following is a summary of information concerning the guarantees of the trust preferred securities of each trust, which we refer to as the Trust Guarantees. Each Trust Guarantee will be executed by us for the benefit of holders of Trust Preferred Securities. Each Trust Guarantee will be qualified as an indenture under the Trust Indenture Act. A Prospectus Supplement with respect to the Trust Preferred Securities will identify the indenture trustee for purposes of the Trust Indenture Act (the "Trust Guarantee Trustee").

The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified by its entirety by reference to, the form of Trust Guarantee, which is filed as an exhibit to the Registration Statement of which this Prospectus forms a part. The Trust Guarantee will be held by the Property Trustee for the benefit of holders of Trust Preferred Securities.

GENERAL

To the extent set forth in the Trust Guarantee, we will agree to pay in full the Guarantee Payments, described below, without duplication of amounts theretofore paid by or on behalf of the Trust, as and when due regardless of defense, right of set off or counter-claim which we may have. The following payments or distributions are referred to herein as the Guarantee Payments and, with respect to trust preferred securities issued by a trust, to the extent not paid or made by such trust will be subject to the Trust Guarantee:

(i) any accrued and unpaid distributions on Trust Preferred Securities, to the extent such Trust has funds legally and immediately available therefor;

(ii) the redemption price, including all accrued and unpaid distributions to the date of redemption (the "Redemption Price"), with respect to the Trust Preferred Securities called for redemption by the Trust to the extent such Trust has funds legally and immediately available therefor with respect to Trust Preferred Securities called for redemption; and

(iii) upon voluntary or involuntary termination, dissolution or winding up of such Trust (other than in connection with the distribution of Subordinated Debentures to holders of Trust Preferred Securities or the redemption of all Trust Preferred Securities), the lesser of:

(a) the aggregate of the liquidation amount and all accrued and unpaid distributions on such Trust Preferred Securities to the date of payment, to the extent such Trust has funds legally and immediately available therefor and

(b) the amount of assets of the Trust remaining available for distribution to holders of Trust Preferred Securities in liquidation of the Trust.

The redemption price and liquidation amount will be fixed at the time the Trust Preferred Securities are issued. Our obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by us to the holders of such Trust Preferred Securities or by causing the Trust to pay such amounts to such holders.

Each Trust Guarantee will not apply to any payment or distribution except to the extent such Trust has funds legally available therefor. If we do not make interest payments on the Subordinated Debentures purchased by a Trust, such Trust will not pay distributions on such Trust Preferred Securities issued by such Trust and will not have funds legally available therefor. The Trust Guarantee, when taken together with our obligations under the Subordinated Debentures, the Subordinated Indenture and the Trust Agreement, including our obligation to pay costs, expenses, debt, and liabilities of such Trust (other than with respect to the Trust Securities), will be a full and unconditional guarantee, on a subordinated basis, by us of payments due on the Trust Preferred Securities from the time of issuance, but will not apply to the payment of distributions and other payments on the Trust Preferred Securities when the Property Trustee does not have sufficient funds in the Property Account of the Trust to make such distributions or

other payments. If we do not make interest payments on the Subordinated Debentures held by the Property Trustee, the Trust will not make distributions on the Trust Preferred Securities and will not have funds available therefor. See "Additional Description of the Subordinated Debentures to be Issued to Trust -- Certain Covenants."

AMENDMENT OF TRUST GUARANTEE; ASSIGNMENT

Except for changes which do not materially adversely affect the rights of holders of Trust Preferred Securities, each Trust Guarantee may be amended only with the approval of not less than 66 2/3% in liquidation amount of Trust Preferred Securities issued by the applicable Trust. The manner of obtaining any such approval will be as set forth in Article Six of the applicable Trust Agreement. The Trust Guarantee will bind the successors, assigns receivers, trustees and representatives of us and continue to benefit the Trust Guarantee Trustee and holders of Trust Preferred Securities. Except in connection with a consolidation, merger, conveyance, transfer or lease involving us, permitted under Article Eight of the Subordinated Indenture, we may not assign its rights or delegate our obligations under the Trust Guarantee.

TERMINATION OF THE TRUST GUARANTEE

Each Trust Guarantee will terminate as to the Trust Preferred Securities issued by the applicable Trust (a) upon full payment of the Redemption Price of all Trust Preferred Securities of such trust, (b) upon distribution of Subordinated Debentures held by such Trust to the holders of and in exchange for all of the Trust Preferred Securities or (c) upon full payment of amounts payable in accordance with the Trust Agreement upon liquidation of such Trust. See "Status of the Trust Guarantee" and "Additional Description of Subordinated Debentures to be Issued to Trust -- Subordinated Indenture Additional Events of Default" for a description of the events of default and enforcement rights of the holders of Subordinated Debentures. The Trust Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of Trust Preferred Securities must repay any sums paid to them under the Trust Preferred Securities or Trust Guarantee.

EVENTS OF DEFAULT

An event of default under a Trust Guarantee will occur if we fail to make the payments required by the Trust Guarantee.

The holders of a majority in liquidation amount of Trust Preferred Securities relating to such Trust Guarantee have the right to direct the time, method and place of conducting any proceeding for any remedy available to such Trust Guarantee Trustee or to direct the exercise of any trust or power conferred upon such Trust Guarantee Trustee under the Trust Guarantee. Accordingly if the Trust Guarantee Trustee fails to enforce such Trust Guarantee, any holder of record of Trust Preferred Securities relating to such Trust Preferred Guarantee may institute a legal proceeding directly against us to enforce the Trust Guarantee Trustee's rights, without first instituting any other legal proceeding.

STATUS OF TRUST GUARANTEE

The Trust Guarantee will constitute our unsecured obligation and will rank:

(i) subordinate and junior in right of payment to all of our other liabilities, including the Subordinated Debentures, except those made pari passu or subordinate by their terms,

(ii) pari passu with the most senior preferred or preference stock which may now or hereafter be issued or guaranteed by us; and

(iii) senior to our Common Stock.

The terms of the Trust Preferred Securities provide that each holder of Trust Preferred Securities issued by such trust, by acceptance thereof, agrees to the subordination provisions and other terms of the

Trust Guarantee relating thereto. Each Trust Guarantee will constitute a guarantee of payment and not of collection (i.e., the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under such Trust Guarantee without instituting a legal proceeding against any other person or entity). Each Trust Guarantee will be deposited with the applicable Guarantee Trustee to be held for the benefit of the holders of such Trust Preferred Securities. Except as otherwise noted herein, the Guarantee Trustee has the right to enforce the Trust Guarantee on behalf of the holders of the related Trust Preferred Securities. Except as described under "Termination of the Trust Guarantee" above, the Trust Guarantee will not be discharged except by payment of the Guarantee Payments in full (without duplication of amounts theretofore paid by the Trust).

INFORMATION CONCERNING TRUST GUARANTEE TRUSTEE

The Trust Guarantee Trustee, prior to the occurrence of a default with respect to the Trust Guarantee and after the curing or waiving of all such defaults that may have occurred, undertakes to perform only such duties as are specifically set forth in the Trust Guarantee and, during the continuance of any default, will exercise the same degree of care as a prudent individual would exercise in the conduct of such individual's own affairs. Subject to such provisions, the Trust Guarantee Trustee is under no obligation to exercise any of the powers vested in it by the Trust Guarantee at the request of any holder of Trust Preferred Securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby; but the foregoing shall not relieve the Trust Guarantee Trustee, upon the occurrence of an Event of Default under such Trust Guarantee, from exercising the rights and powers vested in it by such Trust Guarantee. The Trust Guarantee Trustee also serves as Property Trustee. We and our officers and directors have no material relationship with the initial Trust Guarantee Trustee other than normal banking relationships.

GOVERNING LAW

The Trust Guarantee will be governed by the laws of the State of New York.

THE AGREEMENT AS TO EXPENSES AND LIABILITIES

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by us under the Trust Agreement, we will irrevocably and unconditionally guarantee to each person or entity to whom the Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of the Trust other than obligations of the Trust to pay to the holders of the related Trust Securities or other similar interests in the Trust the amounts due such holders pursuant to the terms of such Trust Securities or such other similar interests, as the case may be.

ADDITIONAL DESCRIPTION OF SUBORDINATED DEBENTURES TO BE ISSUED TO TRUST

Set forth below is a description of the terms of the Subordinated Debentures which each Trust will hold as trust assets. The general provisions of the Subordinated Debentures are set forth under "Description of Debt Securities" above. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Indenture (as defined in "Description of Debt Securities" above), as supplemented by the Supplemental Indenture creating the Subordinated Debentures. The Subordinated Indenture and the Supplemental Indenture are filed as exhibits to the Registration Statement of which this Prospectus forms a part. The terms of the Subordinated Debentures will include those stated in the Subordinated Indenture and the related Supplemental Indenture and those made a part of the Subordinated Indenture by reference to the Trust Indenture Act.

Upon a dissolution of a Trust, Subordinated Debentures held by such Trust may be distributed to the holders of Trust Securities in liquidation of such Trust.

If any Subordinated Debentures are distributed to holders of Trust Preferred Securities, we will use our best efforts to have such Subordinated Debentures traded on the same stock exchange as the related Trust Preferred Securities are traded.

GENERAL

Subordinated Debentures will be issued in a principal amount equal to the aggregate stated Liquidation Amount of Trust Preferred Securities plus our investment in Trust Common Securities.

The entire principal amount of the Subordinated Debentures held by each Trust will mature and become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest (as defined herein), if any, on the date set forth in the applicable Prospectus Supplement.

The covenants contained in the Subordinated Debenture Indenture would not necessarily afford protection to holders of the Subordinated Debentures in the event of a decline in our credit quality resulting from takeovers, recapitalizations or similar restructurings.

If Subordinated Debentures held by a Trust are distributed to holders of Trust Preferred Securities of such Trust in liquidation of such holders' interests in such Trust, such Subordinated Debentures will initially be issued as a Global Security. Under certain limited circumstances, Subordinated Debentures may be issued in certificated form in exchange for a Global Security. In the event Subordinated Debentures are issued in certificated form, such Subordinated Debentures will be in denominations as specified in the applicable Prospectus Supplement and integral multiples thereof and may be transferred or exchanged at the offices described therein. Payments on Subordinated Debentures issued as a Global Security will be made to the Depositary for the Subordinated Debentures. In the event Subordinated Debentures are issued in certificated form, principal and interest will be payable, the transfer of the Subordinated Debentures will be registrable and Subordinated Debentures will be exchangeable for Subordinated Debentures of other denominations of a like aggregate principal amount at the corporate trust office of the Debt Trustee in New York, New York; provided, that payment of interest may be made at our option by check mailed to the address of the persons entitled thereto.

The Indenture does not contain provisions that afford holders of the Subordinated Debentures protection in the event we are involved in a highly leveraged transaction.

CERTAIN COVENANTS

If there has occurred any event that would constitute an Indenture Event of Default, then (a) we may not declare or pay any dividend on, make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock and, (b) we may not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Trust Guarantee) issued by us which rank pari passu with or junior to the Subordinated Debentures. The preceding sentence, however, shall not restrict (A) any of the actions described in the preceding sentence resulting from any reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (B) repurchases, redemptions or other acquisition of shares of our capital stock in connection with any employment contract benefit plan or other similar arrangement with or for the benefit of employees, officers or directors or a stock purchase and dividend reinvestment plan, (C) dividends or distributions of our capital stock, or (D) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provision of such capital stock or the security being converted or exchanged.

We will covenant, as long as Trust Preferred Securities of a Trust remain outstanding, (i) to maintain 100% ownership of Trust Common Securities of such Trust, and (ii) to use its reasonable efforts to cause such Trust (a) to remain a statutory business trust, except in connection with the distribution of Subordinated Debentures held by such Trust to the holders of Trust Securities in liquidation of such Trust, the redemption of all Trust Securities, or certain mergers, consolidations or amalgamations, each as

permitted by the Trust Agreement, and (b) to otherwise continue to be classified as a grantor trust for United States federal income tax purposes.

OPTIONAL REDEMPTION

We will have the right to redeem the Subordinated Debentures, in whole or in part, from time to time, without premium or penalty, on or after the date set forth in the applicable Prospectus Supplement, upon not less than thirty (30) or more than sixty (60) days' notice, at a redemption price equal to a percentage of the principal amount to be redeemed plus any accrued and unpaid interest, including Additional Interest (as defined herein), if any, to the Redemption Date, as specified in the applicable Prospectus Supplement. If a partial redemption of the Trust Preferred Securities resulting from a partial redemption of the Subordinated Debentures held by a trust would result in the delisting of the Trust Preferred Securities of such Trust, we may only redeem such Subordinated Debentures held by such trust in whole. In addition, upon the occurrence of a Special Event, we may, upon not less than thirty (30) or more than (60) days notice, within ninety (90) days following the occurrence thereof and subject to the terms and conditions of the Subordinated Indenture, redeem such Subordinated Debentures, in whole, at a price equal to 100% of the principal amount to be redeemed plus any accrued but unpaid interest (including Additional Interest, if any) to the Redemption Date. In the event of redemption of such Subordinated Debentures in part only, new Subordinated Debentures for the unredeemed portion shall be issued in the name or names of the holders thereof upon the surrender thereof.

INTEREST

Each Subordinated Debenture will bear interest at the rate set forth in the applicable Prospectus Supplement from the original date of issuance, payable quarterly in arrears on dates which will be specified in the Prospectus Supplement (each, an "Interest Payment Date"), to the person in whose name such Subordinated Debenture is registered, subject to certain exceptions, on the record date specified in the applicable Prospectus Supplement.

The amount of interest payable for any period will 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 the Subordinated Debentures is not a Business Day, then payment of the 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.

OPTION TO EXTEND INTEREST PAYMENT PERIOD

Except to the extent set forth in the applicable Prospectus Supplement, we will have the right at any time to defer payments of interest on Subordinated Debentures by extending the interest payment period for up to 20 consecutive quarters, during which Extension Period we will have the right to make partial payments of interest on Interest Payment Dates. At the end of such an Extension Period, we will pay all interest then accrued and unpaid (including any Additional Interest, together with interest thereon at the rate specified and to the extent permitted by applicable law). We covenant in the Supplemental Indenture for the benefit of the holders of a series of Subordinated Debentures, that, subject to the next succeeding sentence, (a) we shall not declare or pay any dividend on, or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock, and (b) we shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Trust Guarantee) issued by us which rank pari passu with or junior to said series of Subordinated Debentures (i) if at such time we shall have given notice of our election to extend an interest payment period for a series of Subordinated Debentures and such extension shall be continuing or (ii) if at such time an Event of Default with respect to a series of Subordinated Debentures shall have occurred and be continuing. The preceding sentence, however, shall not restrict (A) any of the actions described in the preceding sentence resulting from any reclassification

of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (B) repurchases, redemptions or other acquisitions of shares of our capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers or directors or a stock purchase and dividend reinvestment plan, and (C) dividends or distributions in our capital stock, or (D) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

Prior to the termination of any such Extension Period for a series of Subordinated Debentures, we may further defer payments of interest on such Subordinated Debentures, by extending the interest payment period, provided that such Extension Period together with all such previous and further extensions thereof for such series of Subordinated Debentures may not exceed 20 consecutive quarters or extend beyond the maturity of such series of Subordinated Debentures.

Upon the termination of any Extension Period for a series of Subordinated Debentures, and the payment of all accrued and unpaid interest on the Subordinated Debentures then due, we may select a new Extension Period for such series of Subordinated Debentures, as if no Extension Period had previously been declared, subject to the above requirements. No interest on a series of Subordinated Debentures during an Extension Period, except at the end thereof, will be due and payable on such series of Subordinated Debentures.

If the Property Trustee is the sole holder of the Subordinated Debentures, we will give the Property Trustee notice of our selection of such Extension Period for such series of Subordinated Debentures one Business Day prior to the earlier of (i) the Regular Record Date relating to the Interest Payment Date on which the Extension Period is to commence or relating to the Interest Payment Date on which an Extension Period that is being extended would otherwise terminate or (ii) the date a Trust is required to give notice to the applicable self-regulatory organization or to holders of such Trust Preferred Securities on the record date or the date such distribution is payable, but in any event not less than one Business Day prior to such record date. The Administrative Trustees shall give notice of our selection of such Extension Period to the holders of such Trust Preferred Securities. If the Property Trustee is not the sole holder of a series of Subordinated Debentures, we will give the holders of such Subordinated Debentures notice of our selection of such Extension Period ten Business Days prior to the earlier of (i) the Regular Record Date relating to the Interest Payment Date on which the Extension Period is to commence or relating to the Interest Payment Date on which an Extension Period that is being extended would otherwise terminate or (ii) the date we are required to give notice to the applicable self-regulatory organization or to holders of such Subordinated Debentures, but in any event at least two Business Days before such record date.

We have no present intention to defer interest payments.

ADDITIONAL INTEREST

If a Trust is required to pay any taxes, duties, assessments or other governmental charges (other than withholding taxes) imposed by the United States, or any other taxing authority, we will pay as additional interest ("Additional Interest") such additional amounts as shall be required so that the net amounts received and retained by a Trust after paying any such charges will be equal to the amount such Trust would have received had no such charge been imposed.

SUBORDINATED INDENTURE ADDITIONAL EVENTS OF DEFAULT

In addition to the Events of Default described under "Description of Debt Securities -- Events of Default," the following will be an additional Event of Default:

the voluntary or involuntary dissolution, winding up or termination of a Trust except in connection with

(i) the distribution of Subordinated Debentures to holders of Trust Securities in liquidation of a Trust,

(ii) the redemption of all outstanding Trust Securities of such Trust, or

(iii) certain mergers or consolidations permitted by the Trust Agreement.

The holders of not less than a majority in aggregate principal amount of Subordinated Debentures of any series may waive any past default, except (i) a default in payment of principal, premium, interest or Additional Interest or (ii) a default in a covenant or provision which under Article Nine of the Subordinated Indenture may not be modified or amended without the consent of each holder of a Subordinate Debenture of the affected series. The holders of Trust Preferred Securities in certain circumstances have the right to direct the Property Trustee to exercise its rights as holder of Subordinated Debentures.

PAYMENT AND PAYING AGENTS

Payment of principal and premium (if any) on Subordinated Debentures will be made only if the holder of Subordinated Debentures surrenders them to the Paying Agent of the Subordinated Debentures.

Principal of and any premium and interest, if any, on Subordinated Debentures will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as we may designate from time to time pursuant to the Subordinated Debenture Indenture. Payment of interest on the Subordinated Debentures on any Interest Payment Date will be made to the person in whose name the Subordinated Debenture (or predecessor security) is registered at the close of business on the Regular Record Date for such interest payment.

The Subordinated Indenture Trustee will act as Paying Agent with respect to the Subordinated Debentures. We may at any time designate additional Paying Agents or rescind the designation of any Paying Agent or approve a change in the office through which any Paying Agent acts, except that we will be required to maintain a Paying Agent at the place of payment.

CONSOLIDATION, MERGER AND SALE

The Subordinated Indenture provides that we will be permitted to consolidate with, or sell, lease or convey all or substantially all of its assets to, or merge with or into, any other entity provided that (a) either we shall be the continuing entity, or the successor entity (if other than us) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume our obligations under the Trust Guarantee and the payment of the principal of (and premium, if any) and interest including all Additional Interest on all of the Subordinated Debentures and the due and punctual performance and observance of all of the covenants and conditions contained in the Subordinated Indenture; (b) immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation of ours or any Subsidiary as a result thereof as having been incurred by us or such Subsidiary at the time of such transaction, no Event of Default under the Subordinated Indenture or the Trust Guarantee, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Indenture Trustee (Sections 801 and 803 of the Subordinated Indenture).

INFORMATION CONCERNING SUBORDINATED DEBENTURE TRUSTEE

The Subordinated Indenture Trustee, prior to default and after the curing of all defaults, if any, undertakes to perform only such duties as are specifically set forth in the Subordinated Indenture and, after a default (that has not been cured or waived), will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Indenture Trustee is under no obligation to exercise any of the powers vested in it by the

Subordinated Indenture at the request of any holder of Subordinated Indentures, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby; but the foregoing will not relieve the Subordinated Indenture Trustee, upon the occurrence of an Indenture Event of Default, from exercising the rights and powers vested in it by the Subordinated Indenture. The Subordinated Indenture Trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the Subordinated Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

MISCELLANEOUS

We will have the right at all times to assign any of our rights or obligations under the Subordinated Indenture to a direct or indirect wholly-owned subsidiary of ours; provided that, in the event of any such assignment, we will remain liable for all of such obligations. Subject to the foregoing, the Subordinated Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns.

EFFECT OF OBLIGATIONS UNDER SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES GUARANTEE

As long as payments are made when due on Subordinated Debentures, the Trust will have sufficient funds to be able to make all appropriate payments on Trust Securities. This is primarily because (i) the aggregate principal amount of the Subordinated Debentures will be equal to the sum of the aggregate stated liquidation amount of such Trust Securities; (ii) the interest rate and interest and other payment dates on the Subordinated Debentures will match the distribution rate and distribution and other payment dates for the Trust Securities; (iii) we will pay for all costs and expenses of each Trust; and (iv) the Trust Agreement provides that the Trustees may not cause or permit the Trust to, among other things, engage in any activity that is not consistent with the purposes of the Trust.

Payments of distributions and other payments due on the Trust Preferred Securities (to the extent funds are available therefor) are guaranteed by us to the extent set forth under "Description of the Trust Guarantee." If we do not make interest payments on Subordinated Debentures, it is expected that the Trust will not have sufficient funds to pay distributions on its Trust Preferred Securities. The Trust Guarantee is a full and unconditional guarantee, but does not apply to any payment unless the Trust has sufficient funds for such payment.

If we fail to make payments on Subordinated Debentures when due (taking into account any Extension Period), the Trust Agreement will provide a mechanism whereby holders of Trust Preferred Securities may direct the Property Trustee to enforce its rights, including proceeding directly against us. Accordingly, if the Property Trustee fails to enforce its rights, a holder of Trust Preferred Securities may sue us directly to enforce those rights, without first instituting legal proceedings against the Trust, the Property Trustee or any other person or entity.

If we fail to make payments under the Trust Guarantee, the Trust Guarantee provides a mechanism whereby the holders of Trust Preferred Securities may direct the Trust Guarantee Trustee to enforce its rights. If the Trust Guarantee Trustee fails to enforce its rights, any holder of Trust Preferred Securities may institute a legal proceeding against us directly to enforce those rights without first instituting legal proceedings against the Trust, the Trust Guarantee Trustee or any other person or entity.

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by the Company under the Trust Agreement, we will irrevocably and unconditionally guarantee to each person or entity to whom the Trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of the Trust other than obligations of the Trust to pay to the holders of the related Trust Securities or other similar interests in the Trust the amounts due such holders pursuant to the terms of such Trust Securities or such other similar interests, as the case may be.

The above mechanisms and obligations, taken together, are equivalent to a full and unconditional guarantee by us of payments due on Trust Preferred Securities to the extent of funds available to the Trust.

DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

We may issue stock purchase contracts, including contracts obligating holders to purchase from us, and us to sell to the holders, a specified number of shares of common stock at a future date or dates, which we refer to herein as "stock purchase contract." The consideration per share of common stock may be fixed at the time stock purchase contracts are issued or may be determined by reference to a specific formula set forth in the stock purchase contracts. The stock purchase contracts may be issued separately, or as part of units consisting of a stock purchase contract and debt securities, trust preferred securities or debt obligations of third parties, including U.S. treasury securities, securing the holders' obligations to purchase the common stock under the stock purchase contracts, which we refer to herein as "stock purchase units." The stock purchase contracts may require us to make periodic payments to the holders of the stock purchase units or vice versa, and such payments may be unsecured or prefunded on some basis. The stock purchase contracts may require holders to secure their obligations thereunder in a specified manner.

The applicable prospectus supplement will describe the terms of any stock purchase contracts or stock purchase units. The description in the prospectus supplement will not necessarily be complete, and reference will be made to the stock purchase contract, and, if applicable, collateral or depositary arrangements, relating to such stock purchase contracts or stock purchase units. Material United States federal income tax considerations applicable to the stock purchase units and the stock purchase contracts will be discussed in the prospectus supplement relating thereto.

PLAN OF DISTRIBUTION

We and the trusts may sell securities in any of three ways: (1) through underwriters or dealers; (2) directly to a limited number of institutional purchasers or to a single purchaser; or (3) through agents. Any such dealer or agent, in addition to any underwriter, may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended. The terms of the offering of the securities with respect to which this prospectus is being delivered will be set forth in the applicable prospectus supplement and will include:

- the name or names of any underwriters, dealers or agents;
- the purchase price of such securities and the proceeds to us from such sale;
- any underwriting discounts and other items constituting underwriters' compensation;
- the public offering price; and
- any discounts or concessions which may be allowed or reallowed or paid to dealers and any securities exchanges on which the securities may be listed.

If underwriters are used in the sale of securities, such securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by one or more underwriters acting alone. Unless otherwise set forth in the applicable prospectus supplement, the obligations of the underwriters to purchase the securities described in the applicable prospectus supplement will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all such securities if any are so purchased by them. Any public

offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

The securities may be sold directly by us or the applicable trust or through agents designated by us or the applicable trust from time to time. Any agents involved in the offer or sale of the securities in respect of which this prospectus is being delivered, and any commissions payable by us or the applicable trust to such agents, will be set forth in the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

If dealers are utilized in the sale of any securities, we or the applicable trust will sell the securities to the dealers, as principals. Any dealer may resell the securities to the public at varying prices to be determined by the dealer at the time of resale. The name of any dealer and the terms of the transaction will be set forth in the prospectus supplement with respect to the securities being offered.

Securities may also be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing upon their purchase, in accordance with a redemption or repayment pursuant to their terms, or otherwise, by one or more firms, which we refer to herein as the "remarketing firms," acting as principals for their own accounts or as our or a trust's agents, as applicable. Any remarketing firm will be identified and the terms of its agreement, if any, with us or the applicable trust and its compensation will be described in the applicable prospectus supplement. Remarketing firms may be deemed to be underwriters, as that term is defined in the Securities Act of 1933, as amended, in connection with the securities remarketed thereby.

If so indicated in the applicable prospectus supplement, we or the applicable trust will authorize agents, underwriters or dealers to solicit offers by certain specified institutions to purchase the securities to which this prospectus and the applicable prospectus supplement relates from us or the applicable trust at the public offering price set forth in the applicable prospectus supplement, plus, if applicable, accrued interest, pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Such contracts will be subject only to those conditions set forth in the applicable prospectus supplement, and the applicable prospectus supplement will set forth the commission payable for solicitation of such contracts.

Underwriters will not be obligated to make a market in any securities. No assurance can be given regarding the activity of trading in, or liquidity of, any securities.

Agents, dealers, underwriters and remarketing firms may be entitled, under agreements entered into with us or the applicable trust (or both), to indemnification by us or the applicable trust (or both) against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribution to payments they may be required to make in respect thereof. Agents, dealers, underwriters and remarketing firms may be customers of, engage in transactions with, or perform services for, us and/or the applicable trust in the ordinary course of business.

Each series of securities will be a new issue and, other than the common stock, which is listed on NASDAQ, will have no established trading market. We may elect to list any series of securities on an exchange, and in the case of the common stock, on any additional exchange, but, unless otherwise specified in the applicable prospectus supplement, we shall not be obligated to do so. No assurance can be given as to the liquidity of the trading market for any of the securities.

Agents, underwriters, dealers and remarketing firms may be customers of, engage in transactions with, or perform services for, us and our subsidiaries in the ordinary course of business.

LEGAL MATTERS

The validity of the securities offered here and certain related matters will be passed upon for us, and certain United Stated federal income taxation matters will be passed upon for us and the Trusts by Dickinson Wright PLLC, Detroit, Michigan. Certain matters of Delaware law relating to the validity of

the Trust Preferred Securities will be passed upon on behalf of the Trusts by Richards, Layton & Finger, P.A., Wilmington, Delaware. Certain legal matters will be passed upon for the Underwriters by Dewey Ballantine LLP, New York, New York.

EXPERTS

The consolidated financial statements of SEMCO Energy, Inc. as of December 31, 1999 and 1998, and for the three years ended December 31, 1999, incorporated by reference in this prospectus have been audited by Arthur Andersen LLP, independent public accountants, and the SEMCO Energy, Inc. pro forma Combined Statement of Income for the year ended December 31, 1999, incorporated by reference in this prospectus has been examined by Arthur Andersen LLP, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The combined financial statements of ENSTAR Natural Gas Company (a division of SEMCO Energy, Inc.) and Alaska Pipeline Company (a subsidiary of SEMCO Energy, Inc.) as of December 31, 1999 and 1998, and for each of the years in the three year period ended December 31, 1999, have been incorporated by reference in this prospectus in reliance upon the report of KPMG LLP, independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

Our future Financial Statements and the reports thereon of Arthur Andersen LLP also will be incorporated by reference in this prospectus in reliance upon the authority of that firm as experts in giving those reports to the extent that said firm has audited said Financial Statements and consented to the use of their reports thereon.

NO DEALER, SALESPERSON OR OTHER PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS. YOU MUST NOT RELY ON ANY UNAUTHORIZED INFORMATION OR REPRESENTATIONS. THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS DO NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY UNDER CIRCUMSTANCES OR IN JURISDICTIONS WHERE IT IS UNLAWFUL TO DO SO. THE INFORMATION CONTAINED IN THE PROSPECTUS SUPPLEMENT AND THE PROSPECTUS IS CURRENT ONLY AS OF ITS DATE.

$30,000,000

SEMCO Energy, Inc.

6.49% Senior Notes
Due 2009

PROSPECTUS SUPPLEMENT

MCDONALD INVESTMENTS INC.

U.S. BANCORP PIPER JAFFRAY INC.

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Form 424B3

SEMCO ENERGY INC - SEN

Filed: September 10, 2003 (period:)

Form of prospectus reflecting facts events constituting substantive change from last form

PROSPECTUS

Filed pursuant to Rule 424(b)(3)
File No. 333-103674

P R O S P E C T U S

[LOGO]

COMMON STOCK

DIRECT STOCK PURCHASE
AND DIVIDEND REINVESTMENT PLAN

The Direct Stock Purchase and Dividend Reinvestment Plan ("Plan") of SEMCO Energy, Inc. (the "Company") provides investors with a convenient way to purchase shares of Common Stock of the Company by making cash payments and/or by reinvesting dividends.

This Prospectus describes the Plan effective September 10, 2003.

The Plan is administered by National City Bank ("National City").

Shareholders with shares registered in their name may join the Plan without making an initial investment. Investors who do not have shares registered in their name may join by enrolling in the Plan, paying a one-time account set-up fee of $10 and making an initial investment of at least $250 and not more than $100,000.

Participants in the Plan may:

- Reinvest all or a portion of Common Stock dividends;
- Enroll in direct deposit of dividends not reinvested;
- Make optional cash payments of not less than $25.00 per payment and not more than $100,000 per year;
- Make optional payments by automatic deductions from checking or savings;
- Deposit Common Stock certificates into the Plan for safekeeping;
- Receive Common Stock certificates for whole Plan shares;
- Transfer all or a portion of Plan shares to make a gift, a private sale, or for any other purpose;
- Sell Plan shares through the Plan;
- Terminate participation in the Plan.

Under the Plan, shares of the Company's Common Stock are issued the last business day of each week ("Investment Date") or as soon thereafter as feasible. National City may purchase those shares in the open market, through private transactions or from the Company. If shares are purchased on the open market, or through private transactions, the price of the shares purchased through the Plan will be the weighted average price paid in the stock market for the particular investment date. If National City purchases shares from the Company, the price paid for those shares will be the average of the closing prices on the three trading days prior to the Investment Date. Participants do not pay any brokerage commission or service charge for purchases under the Plan. On September 8, 2003 the closing price on the New York Stock Exchange (NYSE) was $4.50 per share.

The price Participants will receive for shares sold through the Plan is the weighted average price of shares sold through the Plan on the days when those shares are sold. Participants will be charged a transaction fee of $10.00 for each sale request (regardless of the number of shares) and a brokerage commission (commission currently $.05 per share sold).

It is suggested that this Prospectus be retained for future reference.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES

COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is September 10, 2003.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION. THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, files reports and other information with the Securities and Exchange Commission. Such reports, proxy and information statements, and other information can be inspected and copied at the Public Reference Room of the Commission at its principal office: 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. This Prospectus does not contain all information set forth in the Registration Statement and Exhibits thereto which the Company has filed with the Commission under the Securities Act of 1933 and to which reference is made hereby. The Commission maintains a Web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding the Company. The Company also maintains an Internet site at www.semcoenergy.com.

Any person, receiving a copy of this Prospectus from the Company or National City may obtain without charge, upon written or oral request, a copy of any of the documents incorporated by reference herein, except for the exhibits to such documents. See "INCORPORATION OF CERTAIN INFORMATION BY REFERENCE" below. Requests should be directed to Investor Relations, SEMCO Energy, Inc., 28470 13 Mile Road, Ste. 300, Farmington Hills, Michigan 48334, Telephone Number (248) 702-6000 or (800) 225-7647.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Company incorporates herein the following documents, which have also been filed with the Securities and Exchange Commission ("Commission"): (a) the Company's Annual Report on Form 10-K for the year ended December 31, 2002; (b) the Company's Current Reports on Form 8-K dated February 6, 2003, May 7, 2003, May 21, 2003, June 19, 2003; (c) the Company's definitive proxy statement for its Annual Meeting of Shareholders held on April 15, 2003; (d) the Company's Quarterly Reports on Form 10-Q for the quarters ending March 31, 2003 and June 30, 2003.

All documents subsequently filed pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, prior to the termination of this offering of the Company's Common Stock shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents.

The Prospectus does not set forth all material and information included in the Registration Statement filed with the Commission of which it is a part.

THE COMPANY

The Company is a Michigan Corporation with its principal executive offices at 28470 13 Mile Road, Ste. 300, Farmington Hills, Michigan 48334 and its telephone number is (248) 702-6000.

The Company was established as a holding company in 1977 and is the parent company of five direct subsidiaries. Most of the Company's assets are invested in natural gas operations, which are subject to regulation by various regulatory bodies. Weather has a significant impact on the Company's revenues.

The Company and its subsidiaries operate four business segments: (1) gas distribution; (2) construction services; (3) information technology services; and (4) propane, pipelines and storage. The Company's gas distribution business segment distributes and transports natural gas to approximately 272,000 customers in the state of Michigan and approximately 111,000 customers in the state of Alaska. The Alaska-based operation and the Michigan-based operation are known together as the "Gas Distribution Business" and operate as divisions of SEMCO Energy, Inc. The construction services segment ("Construction Services") currently conducts most of its business in the midwestern, southern and southeastern areas of the United States. Its primary service is the installation and upgrade of compressor stations and underground natural gas mains and service lines. The information technology services segment ("IT Services") is headquartered in Michigan and provides IT infrastructure outsourcing services and other IT services with a focus on mid-range computers, particularly the IBM I-Series (AS-400) platform. The Company's other business segments accounted for approximately 79% of IT Services' revenues during 2002. The propane, pipelines and storage segment sells more than 4 million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin and operates natural gas transmission and storage facilities in Michigan.

The above information about the Company is not comprehensive. For significant detail about the business of the Company and its subsidiaries, please refer to the documents incorporated into this Prospectus. See "Incorporation of Certain Information by Reference" above.

DESCRIPTION OF THE PLAN

FREQUENTLY USED TERMS

-- ACCOUNT AUTHORIZATION FORM: the application to begin Plan participation for initial investors and to change Plan participation for investors who are Record Shareholders.

-- COMMON SHAREHOLDER: an owner of the Company's Common Stock.
-- DIVIDEND: a cash dividend paid on the Common Stock.
-- DIVIDEND PAYMENT DATE: typically the 15th of February, May, August and November.

-- INDEPENDENT AGENT: National City or a brokerage firm acting on behalf of National City.

-- INVESTMENT DATES: the last business day of each week (or as soon thereafter as feasible). The effective date as of which shares will be credited to a participant's account.

-- INVESTMENT STATEMENT: the statement sent to a Participant reflecting purchases and sales of Plan Shares and Dividends.
-- INVESTMENT STATEMENT FORM: the detachable top portion of the Investment Statement used to submit cash payments, request a sale of Plan Shares, request issuance of certificate(s), and implement other Plan transactions.
-- PARTICIPANT: any person participating in the Plan.
-- PLAN: this Direct Stock Purchase and Dividend Reinvestment Plan.
-- PLAN SHARES: Common Stock held in the Plan for Participants.
-- RECORD SHARES: Plan Shares and shares registered in a shareholder's name.
-- RECORD SHAREHOLDER: Common Shareholder with Record Shares.

PURPOSE

The purpose of the Plan is to encourage long-term investment by providing a convenient method of making periodic Common Stock purchases without paying a brokerage commission or service charge.

ADVANTAGES TO PARTICIPANTS

Investment is Simple and Easy. Participants may:

-- reinvest all or a percentage of Dividends automatically.

-- invest optional cash payments of not less than $25 per payment and not more than $100,000 per year.

-- invest amounts deducted automatically from a checking or savings account.

Automatic Deposit of Dividends

-- Participants may have Dividends which they do not reinvest deposited directly into a checking or savings account.

No Commission for Purchases

-- There is no brokerage commission or service charge to purchase Plan Shares.

Simplified Safekeeping. Participants:

-- Avoid the necessity of safekeeping certificates.

-- May deposit Common Stock certificates they hold into the Plan.

Transfer of Plan Shares.

-- Participants may transfer all or a portion of Plan Shares as a gift, a private sale or for any other purpose.

Simplified Record-Keeping.

-- Investment Statement will be mailed for each week in which the Participant purchases Plan Shares.

Simplified Sales. Participants

-- May sell their Plan Shares through the Plan.

-- Are charged a transaction fee of $10.00 for each sale through the Plan plus a brokerage commission, which is currently $.05 per share.

Internet Transactions.

-- Participants may obtain forms for performing transactions by accessing their account through NCStockAccess.

Telephone Transactions.

-- Participants may contact National City by telephone to initiate transactions from their Plan accounts.

DISADVANTAGES TO PARTICIPANTS

Price uncertainty.

-- Participants have no control over the purchase price or sale price of Plan Shares.

No interest.

-- No interest is paid on cash received by National City.

PLAN ADMINISTRATION

Administration of Plan activities will be carried out by National City. National City is also the Transfer Agent and Registrar for the Common Stock.

Limited liability.

Neither the Company, National City, nor their agents will be liable for any act done in good faith or for any good faith failure to act.

Participants should recognize that no one can assure them of a profit or protect them against a loss on their Plan Shares.

Costs.

Costs and expenses of Plan administration will be, except as otherwise described in this Prospectus, paid by the Company, including brokerage fees or commissions in connection with the purchase of Plan Shares.

However, non-shareholders are charged an enrollment fee of $10.00 when sending their initial cash investment and Participants are charged a transaction fee of $10.00 plus brokerage commission (currently $.05 per share sold) for sales of Plan Shares.

PARTICIPATION/PLAN ENROLLMENT

Any person may become a Participant.

Participants who wish to change their participation in any way may do so by letter or by submitting an Account Authorization Form.

Record Shareholders may join the Plan at any time by letter or by completing and signing an Account Authorization Form.

New Record Shareholders automatically receive an Account Authorization Form.

Any other interested person may become a Participant by completing an Account Authorization Form, paying the $10 one-time set up fee and making an initial cash investment of not less than $250 and not more than $100,000.

To request forms, or copies of this Prospectus, contact National City. See "Participant Questions, Requests, Etc." below.

Cash investments may be made by personal check or money order payable to "National City Bank." PLEASE DO NOT SEND CURRENCY.

Any form received after the dividend record date regarding any requested Dividend treatment will be effective the next quarter.

DIVIDEND OPTIONS

The Account Authorization Form allows the Participant to choose from the following three Dividend options:

Full Reinvestment -- All Dividends on Record Shares are reinvested.
Partial Reinvestment -- A percentage of the Dividends on Record Shares are reinvested.
Cash Payments Only -- No reinvestment of Dividends on Record Shares.

A Participant may change Dividend Options by use of the Account Authorization Form.

Regardless of the Dividend Option chosen, Optional Cash Payments may be made at any time.

DIRECT DEPOSIT

Participants may request that Dividends, which are not reinvested, be deposited in a U.S. bank or credit union.

OPTIONAL CASH PAYMENTS

Initial cash payments must accompany the Account Authorization Form for non-record holders. Optional Cash Payments may accompany an Investment Statement Form or be made by electing the Automatic Optional Cash Payments feature, as described below. Personal checks or money orders must be made payable to "National City Bank". (DO NOT SEND CURRENCY).

Initial cash payments must be at least $250 and not more than $100,000. Optional Cash Payments cannot be less than $25 per payment or more than $100,000 per year. The same amount of money need not be sent each time and there is no obligation to make cash payments.

AUTOMATIC OPTIONAL CASH PAYMENTS

Participants may make Optional Cash Payments by automatic deduction from a checking or savings account. To do so, the Participant must complete an appropriate Plan form (Account Authorization Form).

REFUNDS OF CASH PAYMENTS

Cash payments will be refunded if a written request is received at least one full business day prior to the day it would have been invested.

PURCHASE OF PLAN SHARES

The number of Plan Shares purchased depends on the amount invested and the purchase price. Each Participant's account will be credited with that number of Plan Shares, including fractions computed to three decimal places, equal to the total amount invested divided by the purchase price for that Investment Date.

Purchased Plan Shares will be credited as of the Investment Date.

National City may purchase shares in the open market, through private transactions or from the Company. If shares are purchased on the open market or through private transactions, the price paid by Participants is the weighted average of prices paid by National City for those shares. If National City purchases shares from the Company, the price paid for the shares will be the average of the closing prices on the three trading days prior to the Investment Date.

Participants do not have the ability to order the purchase of a specified number of Plan Shares or the purchase of Plan Shares at a specified price.

SALE OF PLAN SHARES

Participants may sell all or part of their Plan Shares by use of an Investment Statement Form.

Sales for Participants will be made at least once per week. Requests to sell Plan Shares will be aggregated and processed periodically by the Independent Agent in its sole discretion. Sales will be made at prevailing market prices.

When a Participant sells Plan Shares, the price per share the Participant receives will be the average price from all Plan Shares sold by the Independent Agent during the applicable sales period, less brokerage commission (currently $.05 per share sold) and a transaction fee of $10.00.

STOCK CERTIFICATES

All Plan Shares will be held by National City. Participants may obtain, at any time and without charge, a certificate for all or part of their Plan Shares by using the Investment Statement Form. Certificates for fractional shares will not be issued under any circumstances. A Participant who wishes to pledge Plan Shares must withdraw those shares.

CERTIFICATE SAFEKEEPING

A Participant may deposit Common Stock certificates ("deposited shares") into the Plan by sending them with a properly completed Investment Statement Form or letter of instruction. Do NOT endorse the certificates. Some of the advantages of depositing certificates are:

-- Protection against the cost of replacing stock certificates which may otherwise be lost, stolen or destroyed.

-- Deposited shares are treated in the same manner as other Plan Shares and may be conveniently sold or transferred through the Plan.

-- Dividends on deposited shares will continue to be treated the same as before deposit unless changed by the Participant.

-- Common Stock certificates deposited for safekeeping will be credited promptly upon receipt.

TRANSFER OF PLAN SHARES

If Participants wish to change the ownership of Plan Shares through gift, private sale or otherwise, they may request transfer by mailing a properly executed stock power, along with a letter of instruction, to National City. A request for transfer is subject to the same requirements applicable to the transfer of Common Stock certificates including the requirement of an approved medallion signature-guarantee on the stock power. National City will provide a form of stock power upon request.

No certificate for Plan Shares transferred to another Participant will be issued unless requested. Otherwise, transferred Plan Shares will be credited to the transferee's Plan account. If the transferee is not a Participant, a Plan account will be opened for the transferee. Both the transferring Participant and the transferee participant will be sent confirmation.

TERMINATION OF PARTICIPATION

A Participant may use the Investment Statement Form to terminate participation at any time.

No termination will be processed between the dividend record date and the dividend payable date.

STATEMENTS TO PARTICIPANTS

Investment Statements will be mailed daily to any Participant having a Plan transaction. These statements should be retained for income tax purposes.

In addition, each Participant will receive copies of communications sent to all Common Shareholders.

PARTICIPANT QUESTIONS, REQUESTS, ETC.

All correspondence regarding the Plan should be addressed to:

National City Bank
Corporate Trust Operations
P.O. Box 94946
Cleveland, OH 44101-4946

Telephone inquiries may also be made to National City at 1-800-622-6757 or 1-216-257-8663 Monday through Friday between 8:00 a.m. and 5:00 p.m. Eastern Time.

Email inquiries may also be made to shareholder.inquiries@nationalcity.com.

OTHER INFORMATION

If a Participant sells or transfers all his Common Stock, other than Plan Shares, his participation in the Plan will generally not be affected.

Common Stock distributed as a result of a stock dividend or stock split on Plan Shares and on Common Stock otherwise registered in the Participant's name will be added to the Participant's Plan Shares. Participants requiring a stock certificate can request one at any time.

Each Participant may vote Plan Shares and will be sent a Proxy to do so.

Notwithstanding any other provision of the Plan, the Company reserves the right to suspend, modify or terminate the Plan at any time. Notice of any such suspension, modification or termination will be sent to all Participants. Also, the Company or National City may, by written notice, terminate an individual's participation in the Plan at any time.

DESCRIPTION OF COMMON STOCK

The Company's authorized capital stock consists of 40,000,000 shares of Common Stock, 500,000 shares of Cumulative Preferred Stock, issuable in series, and 3,000,000 shares of Preference Stock, issuable in series.

At August 29, 2003, the outstanding Common Stock consisted of approximately 27,904,000 shares. Two million shares of the Preference Stock are reserved for issuance pursuant to a Shareholder Rights Plan. No Preferred Stock nor Preference Stock is outstanding.

Subject to the rights of Preferred and Preference Stockholders to receive full quarterly dividends, Common Stockholders are entitled to receive dividends when declared by the Board of Directors in its discretion.

Common Stockholders currently have exclusive voting rights and have cumulative voting for the election of Directors.

Common Stock is traded on the New York Stock Exchange under the symbol SEN.

ANTI-TAKEOVER PROVISIONS

Articles of Incorporation. The following provisions of the Company's Articles of incorporation may delay, defer or prevent a person from acquiring the Company or changing control of the Board of Directors. The Articles of Incorporation divide the Board into three classes with staggered terms; each Director is elected for a three-year term. Approximately one-third of the board positions are filled by a shareholder vote each year. Directors may be removed, but only for cause, at an annual meeting of shareholders and by the affirmative vote of a majority of the shares then entitled to vote for the election of directors. In addition to requirements imposed under Section 7A of

the Michigan Business Corporation Act (the "MBCA") discussed below, the Articles of Incorporation provide that a business combination cannot occur unless a written opinion is obtained from an independent investment banker that the consideration to be paid to the shareholders is fair and reasonable; provided, however, the directors may waive this requirement. The Articles of Incorporation also contain provisions limiting the personal liability of Directors.

Anti-Takeover Statutes. The Company is subject to Chapter 7A of the MBCA, which provides that certain business combinations with anyone controlling 10% or more of shareholder votes require the affirmative vote of 90% of the votes of each class of stock entitled to vote, and not less than 2/3 of each class of stock entitled to vote (excluding voting shares owned by such 10% owner), voting as a separate class. Such requirements do not apply if (i) the corporation's board of directors approves the transaction prior to the time the 10% owner becomes such or (ii) the transaction satisfies certain fairness standards, certain other conditions are met and the 10% owner has been such for at least five years.

The Company is also subject to Chapter 7B of the MBCA which provides that "control shares" of a corporation acquired in a control share acquisition have no voting rights except as granted by the stockholders of the corporation. "Control shares" are shares which, when added to shares previously owned by a stockholder, increase such stockholder's ownership of voting stock to more than 20% but less than 33 1/3%, more than 33 1/3% but less than a majority, or more than a majority, of the votes to which all of the stock is entitled. Voting rights of control shares must be approved by the affirmative vote of a majority of all shares entitled to vote excluding voting shares owned by the acquirer and certain officers and directors. However, no such approval is required for gifts or other transactions not involving consideration, for a merger to which the corporation is a party or certain other transactions described in Chapter 7B.

Rights to Purchase Preference Stock. In January 1997, the Company adopted a Shareholders Rights Plan pursuant to which 2,000,000 shares of Series A preference stock are reserved under the plan for sale to holders of common stock. The common stock currently trades with a right to purchase such Series A preference stock. The right is intended to protect shareholders in the event of an unsolicited attempt to acquire us and becomes exercisable upon the occurrence of certain triggering events. The right is transferred automatically with the transfer of the common stock until separate rights certificates are distributed upon the occurrence of certain events. The right could have the effect of delaying, deferring or preventing a person from acquiring the Company or accomplishing a change in control of the Board of Directors.

FEDERAL INCOME TAX MATTERS

Reinvested Dividends are treated for federal income tax purposes in the same manner as if the participant had received the Dividends in cash on the applicable Dividend Payment Date. Brokerage commissions paid by SEMCO on behalf of a participant are treated as taxable dividend income to the participant and reported accordingly.

For a foreign Participant whose Dividends are subject to United States income tax withholding or a Participant subject to backup withholding, Dividends reinvested will reflect a reduction for the amount of tax required to be withheld.

A Participant will not realize any taxable income when he receives certificates for whole Plan Shares. However, a Participant who receives a cash adjustment for a fraction of a Plan Share will realize a gain or loss with respect to such fraction. Gain or loss will also be realized by the Participant when he sells Plan Shares. The amount of such gain or loss will be the difference between the amount which the Participant receives and his tax basis for the Plan Shares sold.

PARTICIPANTS SHOULD RETAIN ALL INVESTMENT STATEMENTS BECAUSE THEY ARE THE ONLY RECORD OF TRANSACTION PRICES FOR PLAN SHARES.

The information set forth above is a summary of federal tax law only and does not purport to be a complete description of all tax matters regarding participation in the Plan. The description may be affected by future legislation, IRS rulings and regulations, or court decisions. In addition, the

taxation of foreign shareholders, except as noted, is not discussed in this Prospectus. Participants should consult with their own tax advisors with respect to any tax questions about their participation in the Plan.

USE OF PROCEEDS

When National City purchases Plan Shares in the open market or otherwise not from the Company, the Company will receive no proceeds from the Plan. If National City purchases Plan Shares from the Company, the net proceeds will be used for the Company's (and its subsidiaries') general corporate purposes. The Company cannot predict how many such shares, if any, will be sold to National City, and, therefore, cannot estimate the amount of net proceeds that it will receive.

EXPERTS

The financial statements as of December 31, 2002 and for the year ended December 31, 2002 incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2002 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

Certain of the Company's financial statements for the years ended December 31, 2000 and 2001 incorporated by reference in this prospectus have been audited by Arthur Andersen LLP ("Andersen"), independent public accountants, as indicated in their reports with respect to the financial statements, and are incorporated by reference to this prospectus in reliance upon the authority of Andersen as experts in giving such reports. On May 2, 2002, the Company notified Andersen that the Company would engage other principal accountants upon completion of Andersen's review of the Company's financial statements for the first quarter period ended March 31, 2002. The Company has not obtained a reissued report from Andersen and has been unable to obtain, after reasonable efforts, Andersen's written consent to incorporate by reference Andersen's reports on the financial statements. Under these circumstances, Rule 437a under the Securities Act of 1933, as amended ("Securities Act"), permits this prospectus to be filed without a written consent from Andersen. The absence of such written consent from Andersen may limit a shareholder's ability to assert claims against Andersen under Section 11(a) of the Securities Act for any untrue statement of a material fact contained in the financial statements audited by Andersen or any omissions to state a material fact required to be stated in the financial statements.

INDEMNIFICATION

The Bylaws of the Company provide that Directors and Officers, former Directors and Officers, their heirs, executors and administrators are generally entitled to indemnification to the extent and under the circumstances permitted by law including, where permitted and upon satisfaction of any undertaking required, advance of expenses.

The Michigan Business Corporation Act provides in connection with the indemnification of officers and directors of Michigan corporations (and persons acting on behalf of a Michigan corporation as director, officer, employee or agent of another business entity) as follows:

(a) In actions other than by or in the right of the corporation, corporate power to indemnify against expenses (including attorneys' fees), judgments, penalties, fines and amounts paid in settlement, actually and reasonably incurred, if the director or officer acted in good faith and in a manner he reasonably believed to be in and not opposed to the best interests of the corporation or its shareholders (or if a criminal proceeding, had no reasonable cause to believe his conduct was unlawful) (Section 561).

(b) In actions by or in the right of the corporation, corporate power to indemnify against expenses (including attorneys' fees), and amounts paid in settlement if the director or officer acted in good faith and in a manner he reasonably believed to be in and not opposed to the best interests of the

corporation or its shareholders, except that no indemnification may be made if such person shall have been found liable to the corporation (unless a court determination is made that such person is fairly and reasonably entitled to such indemnification) (Section 562).

(c) A right to indemnification against expenses (including attorneys' fees), incurred in the event the director or officer has been successful on the merits or otherwise in defense of any such actions or incurred in a proceeding brought to enforce this right of indemnification (Section 563).

(d) The indemnification or advancement of expenses provided under the above-discussed Sections is not exclusive of other rights to which a person seeking indemnification or advancement of expenses may be entitled under the Articles of Incorporation, Bylaws, or a contractual agreement. However, the total amount of expenses advanced or indemnified from all sources combined shall not exceed the amount of actual expenses incurred by the person seeking indemnification or advancement of expenses (Section 565).

Section 567 of the Michigan Business Corporation Act provides for corporate power to purchase and maintain insurance on behalf of directors and officers (including persons acting as a director, officer, employee or agent of another business entity on behalf of the corporation) against any liability due to such status, whether or not the corporation would have power to indemnify such person against such liability. The Company provides such insurance.

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the 1933 Act and is therefore unenforceable.

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DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN

_____

PROSPECTUS

SEPTEMBER 10, 2003

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Form 424B3

SEMCO ENERGY INC - SEN

Filed: December 08, 2003 (period:)

Form of prospectus reflecting facts events constituting substantive change from last form

QuickLinks -- Click here to rapidly navigate through this document

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-107200

PROSPECTUS

$300,000,000



SEMCO Energy, Inc.

Exchange Offer for All Outstanding
$150,000,000 in 7 1/8 % Senior Notes due 2008
(CUSIP Nos. 78412DAH2 and U81559AA1)
for new
7 1/8 % Senior Notes Due 2008
and
$150,000,000 in 7 3/4 % Senior Notes due 2013
(CUSIP Nos. 78412DAK5 and U81559AB9)
for new
7 3/4 % Senior Notes due 2013
This Exchange Offer will expire at 5:00 p.m., New York City time,
on December 18, 2003, unless extended.

Terms of the Exchange Offer:

- We will exchange all outstanding notes that are validly tendered and not withdrawn prior to the expiration of the exchange offer.

- You may withdraw tendered outstanding notes at any time prior to the expiration of the exchange offer.

- The exchange of outstanding notes will not be a taxable exchange for United States federal income tax purposes.

- The terms of the new notes to be issued are substantially identical to the terms of the outstanding notes, except that transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes do not apply.

- Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933, as amended. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities.

- There is no existing market for the new notes to be issued and we do not intend to apply for their listing on any securities exchange.

- As of June 30, 2003, the notes would have ranked equal in right of payment to $336.2 million of unsecured senior indebtedness.

- We may redeem the 2008 notes at any time, in whole or in part, in cash at a redemption price that includes a "make-whole" premium. We may redeem some or all of the 2013 notes at any time on or after May 15, 2008 at the redemption prices set forth in this prospectus. We may redeem up to 35% of the aggregate principal amount of the 2008 notes issued under the 2008 notes indenture and up to 35% of the aggregate principal amount of the 2013 notes issued under the 2013 notes indenture using net proceeds of certain public equity offerings completed on or prior to May 15, 2006. See the section entitled "Description of Notes—Optional Redemption" beginning on page 87 for more information on the redemption provisions applicable to the notes. There is no sinking fund for the notes. Upon a change of control, we may be required to purchase each holder's notes at 101% of the principal amount. See the section entitled "Description of Notes—Repurchase at the Option of the Holders" beginning on page 88 for more information on the repurchase provisions applicable to the notes.

- Pursuant to the terms of the indentures, we may issue additional notes.

See the "Description of Notes" section beginning on page 85 for more information about the new notes to be issued in this exchange offer.

See the section entitled "Risk Factors" beginning on page 18 for a discussion of the risks associated with the new notes.

Neither the Securities and Exchange Commission nor any state securities and exchange commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Prospectus dated November 13, 2003

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You should rely only on the information contained herein or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these notes. The information in this document may only be accurate as of the date of this document.

This prospectus incorporates important business and financial information about SEMCO Energy, Inc. that is not included in or delivered with the document. This information is available to you free of charge upon written or oral request to Fifth Third Bank, Attn: Curt Ballast, Corporate Trust Department (MDROPS 53) 1850 E. Paris Avenue, S.E., Grand Rapids, MI 49546. The telephone number is (616) 653 8716. To obtain timely delivery you must request this information no later than December 11 , 2003, which is five business days before the date you must make your investment decision.

PROSPECTUS SUMMARY

This summary contains material information about us and this exchange offer but may not contain all of the information that is important to you. For a more complete understanding of this exchange offer, we encourage you to read this entire prospectus and the documents we refer you to. You should carefully consider the information set forth under "Risk Factors." In addition, certain statements are forward-looking statements which involve risks and uncertainties. See "Special Note Regarding Forward-Looking Statements."

The Exchange Offer

Notes offered	$150,000,000 aggregate principal amount of new 7 1/8% Senior Notes due 2008 and $150,000,000 aggregate principal amount of new 7 3/4 % Senior Notes due 2013, all of which will have been registered under the Securities Act. The terms of the new notes offered in the exchange offer are substantially identical to those of the outstanding notes, except that certain transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes do not apply to the registered new notes. See "Description of Notes" for a full description of which restrictions, rights and interest provisions do not apply to the new notes.
Outstanding notes	$150,000,000 aggregate principal amount of 7 1/8 % Senior Notes due 2008 issued on May 21, 2003 and $150,000,000 aggregate principal amount of new 7 3/4 % Senior Notes due 2013 issued on May 15 and 21, 2003.
The exchange offer	We are offering to issue registered new notes in exchange for a like principal amount and like denomination of our outstanding notes. We are offering to issue these registered new notes to satisfy our obligations under a registration rights agreement that we entered into with the initial purchasers of the outstanding notes when we sold the outstanding notes in a transaction that was exempt from the registration requirements of the Securities Act. You may tender your outstanding notes for exchange by following the procedures described under the caption "The Exchange Offer."
Tenders; Expiration date; Withdrawal	The exchange offer will expire at 5:00 p.m., New York City time, on December 18, 2003, which is 30 days after the exchange offer is commenced, unless we extend it. If you decide to exchange your outstanding notes for new notes, you must acknowledge that you are not engaging in, and do not intend to engage in, a distribution of the new notes. You may withdraw any outstanding notes that you tender for exchange at any time prior to the expiration of the exchange offer. If we decide for any reason not to accept any outstanding notes you have tendered for exchange, those outstanding notes will be returned to you without cost promptly after the expiration or termination of the exchange offer. See "The Exchange Offer—Terms of the Exchange Offer" for a more complete description of the tender and withdrawal provisions.

Conditions to the exchange offer	The exchange offer is subject to customary conditions, some of which we may waive. See "The Exchange Offer—Conditions to the Exchange Offer" for a description of the conditions. Other than the federal securities laws, we are not subject to federal or state regulatory requirements in connection with the exchange offer.
U.S. federal income tax considerations	Your exchange of outstanding notes for new notes to be issued in the exchange offer will not result in any gain or loss to you for U.S. federal income tax purposes.
Use of proceeds	We will not receive any cash proceeds from the exchange offer.
Exchange agent	Fifth Third Bank
Consequences of failure to exchange your outstanding notes	Outstanding notes that are not tendered or that are tendered but not accepted will continue to be subject to the restrictions on transfer that are described in the legend on those notes. In general, you may offer or sell your outstanding notes only if they are registered under, or offered or sold under an exemption from, the Securities Act and applicable state securities laws. Except in limited circumstances with respect to specific types of holders of outstanding notes, we, however, will have no further obligation to register the outstanding notes. If you do not participate in the exchange offer, the liquidity of your outstanding notes could be adversely affected. See "Description of Notes—Registration Rights; Additional Interest" for a description of the limited circumstances under which we have a further obligation to register the outstanding notes.
Consequences of exchanging your outstanding notes	Based on interpretations of the staff of the SEC, we believe that you may offer for resale, resell or otherwise transfer the new notes that we issue in the exchange offer without complying with the registration and prospectus delivery requirements of the Securities Act if you:
	• acquire the new notes issued in the exchange offer in the ordinary course of your business;
	• are not participating, do not intend to participate, and have no arrangement or undertaking with anyone to participate, in the distribution of the new notes issued to you in the exchange offer; and
	• are not an "affiliate" of our company as defined in Rule 405 of the Securities Act.

If any of these conditions is not satisfied and you transfer any new notes issued to you in the exchange offer without delivering a proper prospectus or without qualifying for a registration exemption, you may incur liability under the Securities Act. We will not be responsible for or indemnify you against any liability you may incur.

Any broker-dealer that acquires new notes in the exchange offer for its own account in exchange for outstanding notes which it acquired through market-making or other trading activities, must acknowledge that it will deliver a prospectus when it resells or transfers any new notes issued in the exchange offer. See "Plan of Distribution" for a description of the prospectus delivery obligations of broker-dealers in the exchange offer.

The Notes

The terms of the new notes we are issuing in this exchange offer and the outstanding notes are identical in all material respects, except the new notes offered in the exchange offer:

- will have been registered under the Securities Act;
- will not contain transfer restrictions and registration rights that relate to the outstanding notes; and
- will not contain provisions relating to the payment of additional interest to be made to the holders of the outstanding notes under circumstances related to the timing of the exchange offer.

A brief description of the material terms of the notes follows:

Issuer	SEMCO Energy, Inc.
Notes offered	$150,000,000 in aggregate principal amount of 7 1/8 % Senior Notes due 2008 and $150,000,000 in aggregate principal amount of 7 3/4 % Senior Notes due 2013.
Maturity dates	The 2008 notes mature on May 15, 2008, and the 2013 notes mature on May 15, 2013.
Interest	7 1/8 % per annum with respect to the 2008 notes and 7 3/4 % per annum with respect to the 2013 notes, payable semi-annually in arrears on May 15 and November 15, commencing on November 15, 2003.
Ranking	The notes will rank: • equal in right of payment to all of our existing and future unsecured senior indebtedness, including indebtedness under our credit facility; and • senior in right of payment to our existing and future subordinated indebtedness.

	As of June 30, 2003, the notes would have ranked:
	• equal in right of payment to $336.2 million of unsecured senior indebtedness (consisting of $56.4 million of borrowings under our credit facility and $279.8 million of existing debt); and
	• senior in right of payment to $38.4 million of subordinated indebtedness.
Optional redemption	We may redeem any of the 2013 notes at any time on or after May 15, 2008, in whole or in part, in cash at the redemption prices described in this prospectus and may redeem the 2008 notes at any time, in whole or in part, in cash at a redemption price that includes a "make-whole" premium described in this prospectus, in each case, plus accrued and unpaid interest and additional interest, if any, to the date of redemption.
	In addition, on or before May 15, 2006, we may redeem up to 35% of the aggregate principal amount of the 2008 notes issued under the 2008 notes indenture and up to 35% of the aggregate principal amount of the 2013 notes issued under the 2013 notes indenture with the net cash proceeds of certain equity offerings. We may redeem the 2008 notes only if, after the redemption, at least 65% of the aggregate principal amount of the 2008 notes remains outstanding and we may redeem the 2013 notes only if, after the redemption, at least 65% of the aggregate principal amount of the 2013 notes remains outstanding.
	If less than all of the outstanding 2008 or 2013 notes are to be redeemed, the trustee will select the notes for redemption in compliance with the requirements of a principal national securities exchange, if the notes are listed on such an exchange, or on a *pro rata* basis, by lot or such other method as the trustee shall deem fair and appropriate, if the notes are not listed on any national securities exchange.
	See "Description of Notes—Optional Redemption."
Change of control	Upon a change of control, we may be required to make an offer to purchase each holder's notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, to the date of purchase. See "Description of Notes—Repurchase at the Option of Holders—Change of Control."
Events of default	Each of the following is an event of default under the indentures:
	• failure for 30 days to pay interest, or additional interest, if any, when due on the notes;
	• failure to pay principal of, or premium, if any, on the notes when due;

- failure to perform specified covenants with respect to the notes for 30 days after notice of failure to so comply;
- failure to perform any other agreement contained in the indentures for 60 days after notice of failure to so comply;
- any payment default or acceleration of indebtedness prior to maturity under any existing or future mortgage, indenture or instrument of indebtedness with aggregate principal amount of $10.0 million or more;
- failure to pay final judgments in excess of $10.0 million or more, which are not paid, discharged or stayed within 60 days;
- except as permitted by the indentures, any guarantee relating to the notes being held in any judicial proceeding to be unenforceable, invalid or cease to be in effect or such guarantee is otherwise disaffirmed; and
- certain events of bankruptcy or insolvency involving us or any of our restricted subsidiaries.

In the case of an event of default arising from certain events of bankruptcy or insolvency, all outstanding notes will become due and payable immediately without further action or notice. If any other event of default occurs and is continuing, the applicable trustee or Holders of at least 25% in principal amount of the then outstanding notes of the applicable series may declare all of that series of notes to be due and payable immediately. See "Description of Notes—Events of Default and Remedies."

Certain covenants

We issued each series of notes under a separate indenture. The indentures contain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- incur additional indebtedness;
- create certain liens;
- permit payment or dividend restrictions on certain of our subsidiaries;
- pay dividends on, redeem or repurchase our capital stock;
- make investments;
- sell all or substantially all of our assets or consolidate or merge with or into other companies; and
- engage in transactions with affiliates.

These limitations are subject to a number of important qualifications and exceptions. Once a series of notes has an investment grade rating from both Moody's Investors Service, Inc., or Moody's, and Standard and Poor's Ratings Group, or S&P, and no default or event of default shall have occurred or be continuing, we may not be subject to many of these limitations with respect to that series of notes, including, among other things, payment or dividend restrictions on certain of our subsidiaries, our ability to incur additional indebtedness and our ability to engage in transactions with affiliates. See "Description of Notes—Certain Covenants."

Our Company

We are a diversified energy and infrastructure services company, headquartered in southeastern Michigan. Our two primary businesses are: (1) a regulated gas distribution business with operations in Michigan and Alaska; and (2) an unregulated diversified business group with operations in construction services; propane, pipelines and storage; and information technology, or IT, services. Our gas distribution operations in Michigan and Alaska operate as divisions of SEMCO Energy while our diversified business operations are organized as subsidiaries of SEMCO Energy.

We had total consolidated operating revenues, EBITDA (as defined in "—Summary Consolidated Financial Data") and operating income for the year ended December 31, 2002 of $481.0 million, $95.8 million and $56.7 million, respectively, and for the six months ended June 30, 2003 of $306.6 million, $26.7 million and $31.3 million, respectively. Operating revenues, EBITDA and operating income (loss), including intercompany transactions, from our gas distribution business for the year ended December 31, 2002 were $364.7 million, $85.0 million and $59.1 million, respectively, and for the six months ended June 30, 2003 were $270.9 million, $49.6 million and $36.6 million, respectively. Operating revenues and operating income (loss), including intercompany transactions, from our diversified business group for the year ended December 31, 2002 were $135.9 million and $0.5 million, respectively, and for the six months ended June 30, 2003 were $43.6 million and $(3.9) million, respectively. For the twelve months ended June 30, 2003, our EBITDA was $64.6 million.

Our ratio of earnings to fixed charges, as defined under Item 503 of SEC Regulation S-K, for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 were 2.17, 2.18, 1.60, 1.04 and 1.32, respectively, and for the twelve months ended June 30, 2003 was 0.60. This ratio is more strictly defined than the fixed charges coverage ratio used to determine compliance with our debt covenants discussed below. See "Risk Factors."

Gas Distribution Business. We purchase, transport and distribute natural gas to approximately 383,000 residential, commercial and industrial customers in Michigan and Alaska. Our Michigan gas operations are known as SEMCO Gas, and our Alaskan operations are known as ENSTAR. Our gas distribution business is our largest business segment and contributed approximately 89% of our EBITDA in 2002.

SEMCO Gas provides natural gas and associated services and products to approximately 273,000 residential, commercial and industrial customers in Michigan. Our largest concentration of customers, approximately 113,000, is located in southeastern Michigan. Our Michigan customer base is very diverse with approximately 65% of our Michigan gas sales revenue coming from residential customers. Our average number of customers in Michigan increased by an average of approximately 2.6% annually during 1999 through 2001. By comparison, recent surveys by the American Gas Association indicate that the customer growth rate for the U.S. gas distribution industry averaged approximately 1.3% annually during the same three-year period.

ENSTAR is the sole provider of natural gas distribution services to more than 112,000 customers in the Anchorage, Alaska metropolitan and adjoining areas. ENSTAR's service area encompasses approximately 50% of the population of Alaska. ENSTAR has two types of customers: gas sales

customers and gas transportation customers. Gas sales customers are primarily residential and commercial. ENSTAR provides transportation services, on behalf of gas producers and gas marketers, to primarily commercial facilities. Our average number of customers in Alaska increased by an average of approximately 2.8% annually during 1999 through 2001, which is well above the three-year national average recently published by the American Gas Association. According to data supplied by the American Gas Association, ENSTAR also has one of the highest consumption of natural gas per residential customer among investor-owned utilities in the United States.

Diversified Business Group. Our diversified business group includes: (1) construction services; (2) propane, pipelines and storage; and (3) IT services. All three of our unregulated business segments are complementary to our core gas distribution operations. Specifically, our IT service business uses existing technical infrastucture and services required to support our core gas distribution business for external customers, whereby we realize additional revenue and income.

The principal source of revenue for our construction services business is the installation and upgrade of compressor stations and underground natural gas mains and service lines. Our construction services business operates in the mid-western, southern and southeastern regions of the United States and has offices in Georgia, Illinois, Iowa, Michigan and Texas. The construction services industry is primarily characterized by small to medium sized local contractors. Accordingly, our larger size, broader geographic scope and depth of expertise enable us to compete cost effectively for both long-term contracts and new projects. The customers in our construction services business primarily include natural gas distribution companies and gas transmission pipeline companies.

Our propane, pipelines and storage business is primarily conducted in two related areas: pipelines and storage; and propane distribution. The pipelines and storage business consists of three gas pipelines and an underground gas storage facility, all of which are located in Michigan in or adjacent to our principal regulated service territory. Our pipelines and storage business principal customers are SEMCO Gas, Detroit Edison Company, Panhandle Eastern Pipeline Company and Ohio Gas Company. Our propane distribution business, operating under the tradename "Hotflame," supplies more than four million gallons of propane annually to retail customers in Michigan's upper peninsula and in northeast Wisconsin.

Our IT services business, which began operations in April 2000, provides IT infrastructure outsourcing services under the Aretech Information Services brand name. Aretech primarily provides data hosting and IT consulting services to small and medium-sized businesses in southeast Michigan.

Business Strategy

Our business strategy has two key elements: (1) a continued strong focus on our core competencies in our gas distribution business; and (2) opportunistic and prudent growth of our diversified business group. In our gas distribution business, we seek opportunities to expand our distribution system in an economical manner through the attachment of potential customers located on or near our existing distribution system. In our diversified business group, we intend to continue to exercise financial discipline in evaluating any new business opportunities with a principal focus on expanding our business primarily through internal growth rather than through acquisitions. The principal elements of our business strategy are described below.

Focus on our Core Competence. Growth of our customer base in our gas distribution business and attention to improving the operational efficiencies in our businesses are the key focal points of our business strategy. In addition to seeking growth within our existing service territories for our gas distribution business, we will selectively analyze acquisitions that provide attractive, complementary service territories and additional economies of scale. Over the past several years, a large number of diversified energy companies have elected to aggressively pursue unregulated business opportunities in the merchant power, telephony and internet infrastructure, and commodity trading businesses. As a

result of these expansions, the lack of financial discipline and an unforeseen decline in the general economic environment, many of these companies that expanded aggressively in the recent past now find themselves in difficult financial positions with high levels of debt and unsustainable business models. In contrast, we continue to remain focused on our core business of gas distribution.

Maintain Regulatory Relationships. In our regulated gas distribution business, it is important that we maintain positive relationships with the regulatory bodies under whom we have the authority to provide gas distribution. Because our focus is and has been on our core gas distribution business, we have not been distracted from our efforts to maintain good relationships with the regulatory authorities that regulate our gas distribution business. See "Business—Regulatory Matters" for a description of such regulatory authorities.

Focus on Continued Business Optimization. We intend to continue to operate and only enter new diversified businesses that are complementary to our core gas distribution business. The diversified businesses in which we currently operate benefit from the managerial expertise we have gained from the operation of our gas distribution business. We plan to grow these diversified businesses only where we can do so profitably and within our capital expenditure budgets. As part of our strategy, we have eliminated unprofitable or marginal performers within our diversified business group in the recent past, including the discontinuance of our engineering business. To maintain our objective of prudent and opportunistic growth in our diversified business group, we will continue to focus on expanding our business primarily through internal growth rather than through acquisitions. Although our focus is not on expansion through acquisition, we may consider opportunistic acquisition proposals in our propane, pipelines and storage business.

Competitive Strengths

Barriers to Entry. Our gas distribution business is regulated by state and local governmental authorities, and we are required to obtain franchise and certificate authority to engage in the delivery of gas. We believe that the capital necessary to build, maintain and expand a gas distribution system discourages new competitors from entering into our service territories. We currently have 160 miles and 396 miles of gas transmission pipeline and 5,423 miles and 2,421 miles of gas distribution pipelines in SEMCO Gas and ENSTAR, respectively. Given our expertise in each of our service territories and our success in providing good service at a price that the regulatory bodies deem appropriate, we do not believe it is likely that the regulatory bodies would grant another natural gas distribution franchise in our service territories.

Attractive Service Territories. ENSTAR is the only natural gas distribution company in Anchorage, Alaska and has one of the highest gas consumption per residential customer in the United States. Our gas distribution business in our service territories in Alaska and Michigan has grown well above the national average for customer growth rates in the United States gas distribution industry over the recent past. Our service territories provide ready access to natural gas supplies due to their proximity to supply sources and through our supply contracts. We also benefit from our positive relationships with the regulatory authorities in each service territory.

Strong Supply and Storage Networks with Long-term Fuel Supply. We have sufficient long-term gas supply contracts, storage and pipeline access for our gas distribution business. In Michigan at SEMCO Gas, there are two years remaining on our contracts with BP Canada Energy Marketing Corporation, or BP Canada, to provide gas and transportation and storage asset management services to all of the customers in our service territory. In addition to our agreements with BP Canada, SEMCO Gas has access to natural gas supplies throughout the United States and Canada via major interstate pipelines that run through Michigan. SEMCO Gas has pipeline capacity contracts with ANR Pipeline Company, Great Lakes Gas Transmission Limited Partnership, Northern Natural Gas Company and Panhandle Eastern Pipe Line Company. SEMCO Gas also owns or leases underground storage facilities

in Michigan with a working capacity of approximately 15.3 billion cubic feet, or Bcf. Our owned and leased storage capacity equals approximately 36% of our 2002 annual gas sales volumes in Michigan. In Alaska at ENSTAR, we have gas supply contracts of varying terms with Marathon Oil Company, Chevron U.S.A. Inc., ConocoPhillips Alaska, Inc., Anchorage Municipal Light and Power, Aurora Gas Company and Union Oil Company of California, or Unocal. Collectively, the gas suppliers are obligated to supply all of ENSTAR's gas requirements through 2005. There are no minimum purchase requirements under our gas purchase contracts which are material in relation to the total requirements of either SEMCO Gas or ENSTAR.

Highly Experienced Management Team. Our senior management team is comprised of an experienced group of industry veterans with an average tenure in the utility business of more than 20 years with experience in a wide variety of management functions.

Infrastructure Investments. Over the last few years, we have made material investments in our infrastructure. We have improved technology in our gas distribution business and upgraded equipment used in our construction services business. These investments have resulted in increased customer service and administrative and operational efficiencies in our businesses. Due to these recent investments, we expect to reduce our capital expenditures in 2003 to approximately $33 million.

The Refinancing

In connection with the Offering, we retired our 8.95% Remarketable or Redeemable Securities due 2008, or the ROARS, and repurchased our outstanding 8.00% Senior Notes due 2004, or the 2004 Senior Notes, 7.20% Senior Notes due 2007, or the 2007 Senior Notes, and 8.32% Senior Notes due 2024, or the 2024 Senior Notes. We also amended our credit facility to permit the Offering, to increase the facility to $155 million, as well as to provide an extension of the maturity date of the 364-day component of the facility to May 20, 2004. The amended facility, as described more fully below in "Description of Other Indebtedness—Credit Agreement":

- increased the maximum debt to total capitalization covenant, as defined in our credit facility, from 65% to 70% through the earlier of (1) March 31, 2004 or (2) the sale of Alaska Pipeline Company, or APC, and attendant repayment of certain indebtedness;

- temporarily decreased the minimum fixed charge coverage ratio, as defined in our credit facility, from 1.5x to 1.2x for the first two quarters following the date of the Offering and to 1.33x for the successive two quarters; and

- provided other covenant relief to permit the Offering and allow additional financial flexibility.

The "Refinancing," as used in this prospectus, shall mean the retirement of the ROARS, the repurchase of our 2004 Senior Notes, 2007 Senior Notes and 2024 Senior Notes and the execution of an amended credit facility.

The "Offering," as used in this prospectus, shall mean the offer and sale of (i) the outstanding 7 1/8% Senior Notes due 2008 issued under an indenture dated May 21, 2003 and (ii) the outstanding 7 3/4 % Senior Notes due 2013 issued under an indenture dated May 15, 2003.

Recent Events and Other Matters

September 30, 2003 Results. On November 12, 2003, we issued a press release announcing our results for the three months, nine months and twelve months ended September 30, 2003. The following is a summary of portions of the release.

Results for Three Months

For the three months ended September 30, 2003, we had a net loss of $24.8 million, or $1.07 per share, compared to a net loss of $7.0 million, or $0.38 per share, for the three months ended September 30, 2002. The most significant items contributing to the loss were non-cash charges totaling $20.5 million for impairment of goodwill and equipment at our construction services business which, after adjusting for income taxes, increased our net loss for the quarter ended September 30, 2003 by approximately $17.4 million, or $0.75 per share. Our gas distribution business had operating income of $1.0 million during the third quarter of 2003, compared to an operating loss of $0.7 million for the third quarter of 2002, while our construction services business had an operating loss of $21.2 million, including the impairment charges of $20.5 million, for the third quarter of 2003 compared to operating income of $0.6 million for the third quarter of 2002. Our information technology services business and propane, pipelines and storage business reported operating income of $0.1 million and $0.2 million, respectively, for the third quarter of 2003, which were essentially unchanged from the third quarter of 2002. An increase in interest expense due primarily to an increase in average long-term debt levels of $68.4 million between the third quarter of 2003 and the third quarter of 2002 also contributed to the decrease in earnings for the third quarter of 2003, when compared to the same period in 2002. Dividends on trust preferred securities incurred after July 1, 2003 were reflected in interest expense in accordance with a new accounting pronouncement, SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which also requires that these trust preferred securities be classified as long-term debt. Dividends on trust preferred securities incurred prior to July 1, 2003 are reflected separately in our statement of operations. The dividends on trust preferred securities incurred in the third quarter of 2003 were approximately $11.8 lower before income taxes than those incurred in the third quarter of 2002 as a result of the retirement of approximately $101 million of trust preferred securities associated with our FELINE PRIDES securities.

Results For Nine Months

For the nine months ended September 30, 2003, we had a net loss of $34.8 million, or $1.71 per share, compared to net income of $4.4 million, or $0.24 per share, for the nine months ended September 30, 2002. The decrease in year-to-date results was due primarily to the same items that contributed to the decrease in quarterly results, as well as the debt exchange and extinguishment costs incurred during the second quarter of 2003, which reduced net income by $15.6 million, and a significant decrease in the operating results of our construction services business. For further information on debt exchange and extinguishment costs, refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

Results For Twelve Months

For the twelve months ended September 30, 2003, we had a net loss of $30.2 million, or $1.52 per share, compared to a net loss of $1.1 million, or $0.06 per share, for the twelve months ended September 30, 2002. The decrease in results for the twelve months ended September 30, 2003 was caused in part by the same factors contributing to the decrease in year-to-date results described above. In addition, results for the twelve months ended September 30, 2002, includes losses from discontinued operations, restructuring charges, asset impairments and other unusual items, which amounted to $10.8 million. A significant decrease in operating results for our construction services business also contributed to the reduction in earnings for the twelve months ended September 30, 2003, when compared to the same period of the prior year.

Business Segment Results

Gas Distribution

The gas distribution business reported operating income of $1.0 million during the third quarter of 2003 compared to an operating loss of $0.7 million during the third quarter of 2002. The increase was due primarily to a $2.3 million increase in gas sales margin and a $0.6 million increase in gas transportation revenue, partially offset by a $1.3 million increase in operating expenses. The increase in gas sales margin was due primarily to an increase in customer rates authorized by the Michigan Public Service Commission, or MPSC, effective in May 2003 for customers in service areas under the MPSC's jurisdiction, and the impact of colder temperatures, partially offset by the impact of a reduction in customer rates, effective in September 2002, at ENSTAR, our Alaska-based gas distribution operation. The increase in gas transportation revenue was due primarily to an increase in gas deliveries at ENSTAR. The increase in operating expenses was due primarily to increases in employee benefit costs, including health care expense, pension expense and retiree medical expense, commercial insurance costs and uncollectible customer accounts.

Operating income for the nine months ended September 30, 2003 was $37.6 million compared to $38.0 million for the nine months ended September 30, 2002. The items contributing to the decrease were a $3.5 million increase in operating expenses, partially offset by a $1.8 million increase in gas sales margin and a $1.3 million increase in gas transportation and other operating revenues. The increase in operating expenses was due primarily to increases in employee benefit costs, including health care expense, pension expense and retiree medical expense, commercial insurance costs and uncollectible customer accounts. The primary items contributing to the increase in gas sales margin were the customer rate increase authorized by the MPSC, the addition of new customers and the impact of colder temperatures, partially offset by the decrease in customer rates at ENSTAR and a decrease in gas cost savings realized. The increase in gas transportation revenue and other operating revenues was due primarily to an increase in gas deliveries at ENSTAR and increases in miscellaneous customer charges.

Construction Services

The construction services business reported an operating loss of $21.2 million for the third quarter of 2003 compared to operating income of $0.6 million for the third quarter of 2002. For the first nine months of 2003, the construction services business reported an operating loss of $26.7 million compared to operating income of $1.2 million for the nine months ended September 30, 2002. The operating losses for the three and nine months ended September 30, 2003 include the $20.5 million in non-cash charges discussed previously for the impairment of goodwill and equipment. Operating revenue for the third quarter of 2003 and 2002 was $25.9 million and $33.9 million, respectively. Operating revenue for the first nine months of 2003 and 2002 was $60.8 million and $96.0 million, respectively.

The decrease in revenues and operating results is due primarily to a significant reduction in work levels when compared to last year. The construction services business has bid on numerous projects in 2003 but has not experienced the expected level of success in being awarded these projects due to increased competition in the industry. Furthermore, several of the construction services business's high-margin customers have delayed various projects. Margins are also lower than normal due to decreased market demand, which increased competition for the lower level of available work. The southern division of the construction services business was also affected by an unusually high level of rainfall during the second quarter of 2003, which interrupted work execution for extended periods of time and contributed to the decrease in operating results during the nine months ended September 30, 2003. In addition, temperatures were colder than normal in the northern regions of the United States during the first quarter of 2003. As a result, frost conditions inhibited construction activity and lowered

productivity levels during the entire first quarter of 2003, which also contributed to the decrease in operating results during the nine months ended September 30, 2003.

The analysis of the construction services business for impairment of goodwill and assets, which resulted in the $20.5 million charge, was conducted based on numerous factors: (i) the third quarter 2003 operating results of the construction services business being below our expectations and management's subsequent determination that profits were unlikely in the near term; (ii) the underground gas distribution construction industry continuing to produce weak results due to generally soft economic conditions and increased competition; (iii) several of our construction customers continuing to delay projects; and (iv) our belief that the above-mentioned conditions would continue for a longer period than previously anticipated. In light of these and other factors, management recognized that the value of the construction services business had likely deteriorated and engaged a nationally recognized appraisal company to perform an evaluation on the possible impairment of goodwill and assets. Based on that evaluation, the construction services business recognized an impairment of goodwill, which reduced our net income by $15.6 million, and an impairment of equipment, which reduced our net income by $1.8 million.

Information Technology

The operating income of the information technology services business for the third quarter of 2003 was $0.1 million, which was essentially unchanged from the third quarter of 2002. Operating income for the first nine months of 2003 and 2002 was $0.5 million and $0.4 million, respectively. The increase in operating income was due primarily to reductions in overhead and marketing costs. Operating revenue was $2.3 million during the third quarter of 2003 and $2.5 million during the third quarter of 2002. Operating revenue for the first nine months of 2003 and 2002 was $6.7 million and $7.1 million, respectively.

Propane, Pipelines And Storage

The propane, pipelines and storage business reported operating income of $0.2 million for the third quarter of 2003, which was essentially unchanged from the third quarter of 2002. Operating income for the nine months ended September 30, 2003 was $1.4 million compared to $1.2 million for the nine months ended September 30, 2002. The increase was due primarily to colder temperatures, which increased propane sales and margins, and a decrease in operating expenses and business taxes. Operating revenue was $1.2 million for the three months ended September 30, 2003 and $1.1 million for the three months ended September 30, 2002. Operating revenue during the first nine months of 2003 and 2002 was $5.4 million and $4.8 million, respectively.

SEMCO ENERGY, INC.
News Release Statistics
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
Financial Summary						
Operating revenues	$ 73,234	$ 72,693	$ 379,863	$ 334,704	$ 526,124	$ 467,232
Goodwill impairment charge	17,649	—	17,649	—	17,649	—
Restructuring and asset impairment charges	2,825	—	2,825	—	2,825	6,103
Other operating expenses	73,654	73,039	349,017	296,090	477,183	410,073
Operating income (loss)	(20,894)	(346)	10,372	38,614	28,467	51,056
Other income and (deductions)						
Interest expense	(12,291)	(7,951)	(29,300)	(23,102)	(37,466)	(31,076)
Debt exchange and extinguishment costs	—	—	(24,030)	—	(24,030)	—
Other	673	694	2,152	1,728	2,662	2,353
Total other income and (deductions)	(11,618)	(7,257)	(51,178)	(21,374)	(58,834)	(28,723)
Income tax (expense) benefit	7,671	2,740	10,308	(6,428)	6,597	(9,238)
Minority interest—dividends on trust preferred securities, net of income taxes (1)	—	(2,151)	(4,300)	(6,451)	(6,450)	(8,603)
Income (loss) from continuing operations	(24,841)	(7,014)	(34,798)	4,361	(30,220)	4,492
Income (loss) from discontinued operations, net of income taxes	—	—	—	—	10	(5,564)
Net income (loss) available to common shareholders	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,210)	$ (1,072)
Earnings per share—basic						
Net income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)
Earnings per share—diluted						
Net income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)
Cash dividends declared per share	$ 0.075	$ 0.125	$ 0.200	$ 0.250	$ 0.450	$ 0.670
Average number of common shares outstanding						
Basic	23,308	18,519	20,375	18,422	19,933	18,365
Diluted	23,308	18,519	20,375	18,452	19,933	18,365

(1)
Minority interest—dividends on trust preferred securities was zero for the three months ended September 30, 2003 due to the adoption of a new accounting pronouncement (SFAS 150). All dividends on trust preferred securities incurred after July 1, 2003 are reflected in interest expense. All dividends on trust preferred securities incurred prior to July 1, 2003 are reflected in minority interest — dividends on trust preferred securities.

SEMCO ENERGY, INC.
News Release Statistics
(dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
Business Segment Information						
Operating revenues						
Gas Distribution	$ 48,936	$ 40,474	$ 319,870	$ 242,281	$ 442,300	$ 343,567
Construction Services	25,860	33,868	60,836	95,973	84,117	128,784
Information Technology Services	2,253	2,510	6,675	7,088	9,205	9,755
Propane, Pipelines and Storage	1,198	1,097	5,439	4,751	7,746	6,787
Corporate and Other (includes intercompany eliminations)	(5,013)	(5,256)	(12,957)	(15,389)	(17,244)	(21,661)
Total operating revenues	$ 73,234	$ 72,693	$ 379,863	$ 334,704	$ 526,124	$ 467,232
Operating income (loss) (2) (3)						
Gas Distribution	$ 1,047	$ (690)	$ 37,648	$ 38,037	$ 58,687	$ 57,682
Construction Services	(21,179)	578	(26,700)	1,207	(29,906)	(2,724)
Information Technology Services	81	48	458	367	693	445
Propane, Pipelines and Storage	194	227	1,415	1,217	2,144	1,735
Corporate and Other (includes intercompany eliminations)	(1,037)	(509)	(2,449)	(2,214)	(3,151)	(6,082)
Total operating income	$ (20,894)	$ (346)	$ 10,372	$ 38,614	$ 28,467	$ 51,056
Depreciation and amortization expense						
Gas Distribution	$ 6,346	$ 6,354	$ 19,168	$ 19,047	$ 25,463	$ 25,618
Construction Services	1,972	1,990	6,057	5,998	8,108	8,050
Information Technology Services	175	152	515	418	683	650
Propane, Pipelines and Storage	218	233	767	695	1,003	942
Corporate and Other	87	105	242	329	342	429
Total depreciation and amortization expense	$ 8,798	$ 8,834	$ 26,749	$ 26,487	$ 35,599	$ 35,689
Operating Statistics						
Gas distribution:						
Volumes sold (MMcf)	5,471	5,367	46,016	43,574	67,499	64,039
Volumes transported (MMcf)	12,467	10,213	35,065	33,203	46,783	44,796
Number of customers at end of period	384,930	377,845	384,930	377,845	384,930	377,845
Weather statistics:						
Degree days						
Alaska	835	820	5,811	6,492	8,711	10,579
Michigan	178	97	4,825	4,140	7,353	6,112
Percent colder (warmer) than normal						
Alaska	(8.5)%	(11.1)%	(10.5)%	(.7)%	(14.1)%	3.3%
Michigan	(3.8)%	(44.6)%	10.0%	(5.4)%	9.2%	(9.7)%
Propane Distribution:						
Gallons sold (in thousands)	479	440	3,141	2,826	4,808	4,182

(2)
Operating income for the three, nine and twelve months ended September 30, 2003 includes non-cash charges of $20.5 million for the impairment of goodwill and equipment at the construction services business.

(3)
Operating income for the twelve months ended September 30, 2002 includes restructuring charges and impairment charges of $6.1 million.

Sale of Alaska Pipeline Company and Construction Services Business. As part of our continued commitment to improving our capital structure, on September 16, 2003, we entered into a definitive agreement to sell our wholly-owned subsidiary, APC, to Atlas Pipeline Partners, L.P. for $95 million. APC operates a natural gas transmission pipeline in Alaska, and ENSTAR Natural Gas Company is its only customer. APC is part of our gas distribution business for segment reporting. Under the terms of the sale, ENSTAR will continue to purchase all of APC's gas transmission capacity for at least 10 years and will continue to operate APC's pipelines for a minimum of five years. The sale is subject to approval under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, approval by the Regulatory Commission of Alaska and various consents under contract. Proceeds of the sale will be used to reduce our outstanding debt obligations. As of September 30, 2003, the book value of APC's assets was approximately $89 million. We expect the transaction to close in the first half of 2004.

In addition, on November 12, 2003, we announced that we would pursue a sale of our wholly-owned subsidiary, EnStructure, our construction services business. We anticipate that proceeds of the sale will be used to support the growth of our gas distribution business. As of September 30, 2003 the book value of the construction services business's assets was approximately $40 million. We intend to begin actively marketing the business for sale during the first quarter of 2004. We have not yet determined any timeframe for the sale and we cannot provide any estimate when or on what terms the sale might occur, if at all. Pending a sale, we intend to continue to support the capital requirments, if any, of the construction services business.

Amendment to Credit Agreement. On October 15, 2003, we amended the terms of our credit agreement to exclude from the financial covenants contained therein, all non-cash goodwill and asset impairment charges that may be taken by our construction services business. Under our amended credit agreement, the net book value of the assets of any proposed sale cannot exceed 5% of the net book value of our company on a consolidated basis. As of September 30, 2003, the net book value of the construction services business was under 5% of the net book value of our company on a consolidated basis. See "Description of Other Indebtedness—Credit Agreement" for a more complete description of the amendments to our credit agreement.

Issuance of Common Equity. On August 18, 2003, we issued approximately 8.7 million shares of common stock through the mandatory purchase obligation specified under the FELINE PRIDES. This transaction increased common shareholders' equity by $101 million. In connection with the issuance, we retired approximately $101 million of 9% Trust Preferred Securities. See Note 4 of the Notes to the Consolidated Financial Statements for more details of the FELINE PRIDES.

Risk Factors

Investment in the notes involves certain risks. You should carefully consider the information under "Risk Factors" and all other information included in this prospectus before investing in the notes.

Additional Information

We are a Michigan corporation and our principal executive offices are located at 28470 13 Mile Road, Suite 300, Farmington Hills, Michigan 48334. Our telephone number is (248) 702-6000.

Summary Consolidated Financial Data

The following summary consolidated financial data for the years ended December 31, 2000, 2001 and 2002 and for the six months ended June 30, 2002 and 2003 was derived from, and should be read in conjunction with, our audited consolidated financial statements and the related notes thereto for and as of the years ended December 31, 2000, 2001 and 2002 and our unaudited consolidated financial statements and the related notes thereto for and as of the six months ended June 30, 2002 and 2003, which are included elsewhere in this prospectus.

	Year ended December 31,			Six Months ended June 30,	
	2000	2001	2002	2002	2003
	(in thousands of dollars, except ratios)				
Statement of Operations Data:					
Operating revenue	$ 410,325	$ 445,823	$ 480,965	$ 262,011	$ 306,629
Operating expenses:					
Cost of gas sold	161,945	184,973	220,422	119,292	188,346
Operations and maintenance	140,236	162,289	156,653	79,973	63,204
Depreciation and amortization	33,051	36,505	35,337	17,653	17,951
Property and other taxes	9,860	11,562	11,844	6,133	5,862
Restructuring and impairment charges	—	6,103	—	—	—
Total operating expenses	345,092	401,432	424,256	223,051	275,363
Operating income	65,233	44,391	56,709	38,960	31,266
Interest expense	(34,905)	(31,784)	(31,268)	(15,151)	(17,009)
Other Data:					
EBITDA(1)	101,680	74,440	95,795	57,845	26,666
Capital expenditures	66,636	55,444	34,977	16,317	12,257
Cash flow provided by (used in):					
Operating activities	48,962	36,656	24,945	39,224	42,862
Investing activities	(67,405)	(55,493)	(30,469)	(15,434)	(11,621)
Financing activities	13,578	19,344	5,609	(25,493)	(32,314)
Ratio of net debt to EBITDA	4.34 x	6.38 x	5.07 x		
Ratio of EBITDA to interest expense and dividends on trust preferred securities	2.39x	1.65x	2.15x		
Ratio of net debt to capitalization(2)(3)	61.6%	65.2%	66.1%		

	As of December 31,		As of June 30,	
	2001	2002	2002	2003
	(in thousands of dollars)			
Balance Sheet Data:				
Cash and cash equivalents	$ 1,728	$ 1,813	$ 25	$ 740
Total assets	863,548	876,514	829,366	878,214
Net debt(2)	475,195	486,048	454,978	519,278
Trust preferred securities	139,394	139,436	139,415	139,457
Common shareholders' equity	113,810	110,022	121,097	97,296

(1)
EBITDA represents earnings before interest, dividends on trust preferred securities, taxes, depreciation and amortization. EBITDA is presented here because we believe it is commonly used by investors as an indication of a company's ability to incur and service debt and other capital and is commonly used as an analytical tool to measure liquidity in our industry. We have also presented certain ratios that include EBITDA for the same reasons. While we believe EBITDA and ratios based on EBITDA are useful measures for investors, they are not measurements presented in accordance with United States generally accepted accounting principles, or GAAP, and we do not intend EBITDA or ratios derived therefrom to represent cash flows from operations as defined by GAAP. You should not consider EBITDA or ratios derived therefrom in isolation or as a substitute for net income, cash flows from operations or any other items calculated in accordance with GAAP or an

indicator of our liquidity. Our calculation of EBITDA and ratios based on EBITDA may or may not be consistent with that of other companies. We strongly urge you to review the reconciliation information contained in this prospectus and our financial statements, including the notes thereto. The following are the components of our EBITDA:

	Year ended December 31,			Twelve Months ended June 30, 2003	Six Months ended June 30,	
	2000	2001	2002		2002	2003
	(in thousands of dollars)					
Consolidated						
Net income (loss)	$ 16,693	$ (6,361)	$ 8,949	$ (12,383)	$ 11,375	$ (9,957)
Interest expense	34,905	31,784	31,268	33,126	15,151	17,009
Dividends on trust preferred securities	7,699	13,235	13,232	13,232	6,616	6,616
Income tax expense (benefit)	11,554	6,578	10,139	(1,666)	9,168	(2,637)
Income tax benefit related to dividends on trust preferred securities	(2,695)	(4,632)	(4,631)	(4,631)	(2,316)	(2,316)
Income tax expense (benefit) related to discontinued operations	52	(3,123)	1,276	1,276	—	—
Depreciation and amortization	33,051	36,505	35,337	35,635	17,653	17,951
Depreciation and amortization related to discontinued operations	421	454	225	27	198	—
EBITDA	101,680	74,440	95,795	64,616	57,845	26,666
Gas Distribution Business						
Net income	$ 25,911	$ 19,397	$ 26,058		$ 18,685	$ 17,196
Interest expense	23,906	19,933	18,874		9,364	9,796
Income tax expense	13,930	11,518	14,699		10,783	9,813
Depreciation and amortization	26,272	27,180	25,342		12,693	12,822
EBITDA	90,019	78,028	84,973		51,525	49,627

We view EBITDA as a liquidity measure and, therefore, the nearest GAAP measure is cash flow from operations. The following is a reconciliation of our EBITDA to our cash flow from operations:

	Year ended December 31,			Twelve Months ended June 30, 2003	Six Months ended June 30,	
	2000	2001	2002		2002	2003
	(in thousands of dollars)					
Consolidated						
EBITDA	101,680	74,440	95,795	64,616	57,845	26,666
Interest expense	(34,905)	(31,784)	(31,268)	(33,126)	(15,151)	(17,009)
Dividends on trust preferred securities	(7,699)	(13,235)	(13,232)	(13,232)	(6,616)	(6,616)
Income tax expense (benefit)	(11,554)	(6,578)	(10,139)	1,666	(9,168)	2,637
Income tax benefit related to dividends on trust preferred securities	2,695	4,632	4,631	4,631	2,316	2,316
Income tax (expense) benefit related to discontinued operations	(52)	3,123	(1,276)	(1,276)	—	—
Changes in assets and liabilities and other non-cash items	(1,203)	6,058	(19,566)	5,304	9,998	34,868
Cash flow from operations	$ 48,962	$ 36,656	$ 24,945	$ 28,583	$ 39,224	$ 42,862
Gas Distribution Business						
EBITDA	90,019	78,028	84,973		51,525	49,627

Interest expense	(23,906)	(19,933)	(18,874)	(9,364)	(9,796)
Income tax expense	(13,930)	(11,518)	(14,699)	(10,783)	(9,813)
Changes in assets and liabilities and other non-cash items	14,563	5,685	(288)	29,812	25,489
Cash flow from operations	$ 66,746	$ 52,262	$ 51,112	$ 61,190	$ 55,507

(2)
Net debt represents long-term and short-term debt less cash and cash equivalents.

(3)
The capitalization figure used in the ratio of net debt to capitalization includes net debt, trust preferred securities and common shareholders' equity.

RISK FACTORS

Investing in the notes involves a number of risks. You should carefully consider all of the information contained in this prospectus, including the risk factors set forth below, before investing in the notes offered pursuant to this prospectus. We describe below those risk factors, currently known and unique to us, which make an investment in the notes speculative or risky. We may encounter risks in addition to those described below. In such case, you may lose all or part of your original investment in the notes.

Due to seasonal weather conditions, our operating results during the first and fourth quarters may be more favorable than our operating results during the second and third quarters and our historical performance may not be indicative of our future performance.

Our gas distribution business is a seasonal business and is subject to weather conditions. We receive most of our gas distribution revenues and operating income in the first and fourth quarters when demand for natural gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase a significant amount of our natural gas supplies in the second and third quarters and must increase our borrowings in these periods to finance these purchases. Also, because of our seasonality, our results of operations during the first and fourth quarters may not be indicative of results for a full year. In addition, variability in weather from normal temperatures can materially reduce our results of operations. Warmer than normal weather over the last several years has adversely affected the results of operations of our gas distribution business. Weather has been and will continue to be one of the dominant factors affecting our financial performance. For example, difficult weather conditions this year have inhibited construction activity and have delayed the release of construction projects. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Consolidated Results of Operations—The Impact of Weather."

Our customers may be able to acquire natural gas without using our distribution system which would reduce our revenues.

Consistent with other gas distribution utilities, there is potential risk for industrial customers and electric generating plants, located in close proximity to interstate natural gas pipelines, to bypass us and connect directly to such pipelines, which would reduce our revenues. We can make no assurances that our customers will not bypass us or that we could successfully retain such customers by employing any special efforts. See "Business—Gas Distribution Business—Outlook for Gas Distribution."

Our operating results may be reduced by downturns in the economy.

Many of our commercial and industrial customers use natural gas in the production of their products. During economic downturns, these customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of natural gas they require for production. With respect to our construction services business, during economic downturns, new housing starts often decline which leads to a decrease in gas service line installations and, as a significant portion of the spending by our customers in our construction services business is discretionary, our customers may decide to postpone or eliminate non-essential construction projects. Any of these events would negatively affect our revenues and financial results. See "Business—Gas Distribution Business—Outlook for Gas Distribution."

Volatility in the price of natural gas and alternative energy sources could reduce our profits.

The market price of alternative energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for our gas transportation services. Certain large industrial customers have some ability to convert to another form of energy if the price of natural gas

increases significantly. Should these customers convert their requirements to another form of energy, our revenue could be reduced. We cannot predict the future stability of natural gas prices nor can we make any assurances that the impact of clean air legislation or any special services we offer will outweigh the negative effects of gas price volatility. See "Business—Gas Distribution Business—Outlook for Gas Distribution."

Our natural gas distribution business is subject to utility rate regulation and certain actions of the regulatory bodies may reduce our revenues and our profitability.

We are regulated by the Michigan Public Service Commission, or MPSC, the Regulatory Commission of Alaska, or RCA, and the City Commission of Battle Creek, Michigan, or CCBC. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. Approximately 75% of our revenues are generated by our regulated gas distribution business. The actions of these regulatory bodies, including the failure to grant any requested rate increase, the timing of any rate increase or any other action by them, may reduce our revenues and our profitability. See "Business—Regulatory Matters."

Changes in our regulatory environment and recent events in the energy markets that are beyond our control may reduce our profitability and limit our access to capital markets.

Our rates and operations in our gas distribution business are subject to regulation by various federal, state and local regulators as well as the actions of federal, state and local legislators. As a result of the energy crisis in California during 2000 and 2001, the volatility of natural gas prices in North America, the bankruptcy filings by certain energy companies and investigations by governmental authorities into energy trading activities, the collapse in market values of energy companies and the downgrading by rating agencies of a large number of companies in the energy sector, companies in the regulated and unregulated energy businesses have generally been under an increased amount of scrutiny by federal, state and local regulators, participants in the capital markets and the rating agencies. We cannot predict or control what effect these types of events, or future actions of regulatory agencies in response to such events, may have on our business or our access to the capital markets.

Our credit rating has been recently lowered and any additional reductions in our credit rating may increase our cost of, and possibly decrease our access to, capital which may reduce our earnings and harm our business.

In March 2003, Moody's reduced the credit rating on our senior unsecured debt from Baa3 to Ba2 and announced that we were under further review for another possible downgrade. In May 2003, Moody's confirmed the credit rating on our senior unsecured debt at Ba2 with a stable outlook. In October 2003, Moodys confirmed the credit rating on our senior unsecured debt at Ba2 and changed the outlook to negative. In June 2003, S&P lowered the credit rating on our senior unsecured debt from BBB- to BB with a negative outlook. As a result of these events and other circumstances, two of the pipelines we utilize have required prepayment for their services, one gas supplier has required us to pay multiple times in the month of delivery and other gas suppliers have requested prepayment or letters of credit. We cannot assure you that customers and other suppliers will not impose additional requirements or restrictions on the conduct of our business. As a result of these downgrades, or any future downgrades in our credit ratings, our borrowing costs have increased and may increase further and our access to capital may be limited. This may reduce our earnings and harm our business. We cannot assure you that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency. Any lowering of the rating of our senior unsecured debt would likely reduce the value of the notes offered hereby. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Overview—Rating."

Failure to comply with the covenants in our credit facility could lead to the acceleration of such debt and we then may have difficulty making payments on the notes.

Covenants contained in our amended credit facility require maintenance of a minimum net worth of $215.0 million, a fixed-charge coverage ratio of at least 1.2 until September 30, 2003, at least 1.33 until March 31, 2004 and 1.5 thereafter, and a debt-to-capitalization ratio of less than 0.70 until the earlier of March 31, 2004 or the sale of Alaska Pipeline Company, at which time the debt-to-capitalization ratio must be less than 0.65. As of June 30, 2003, our net worth was $236.8 million, our fixed charge coverage ratio was 1.29 and our debt-to-capitalization ratio was 66.9%. Failure to comply with such covenants may result in a default with respect to the related debt and could lead to the acceleration of such debt or any instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness and we may also have difficulty making payments on the notes. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources—General Financing Matters" and "Description of Other Indebtedness."

Our level of indebtedness may reduce our profitability and limit our growth, and the credit facility and the indentures governing our existing debt contain restrictive covenants that may reduce our flexibility in our business operations and limit our growth, both of which may prevent us from fulfilling our obligations under the notes.

Our business is capital intensive and we have significant amounts of debt. On June 30, 2003, we had total short and long-term debt of $520.0 million. The terms of the indentures relating to certain of our outstanding debt securities (including the notes) and of the credit agreement relating to our credit facility impose significant restrictions on our ability and, in some cases, the ability of our subsidiaries, to take a number of actions that we may otherwise desire to take, including:

- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;

- requiring us to meet certain financial tests, which may affect our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

- limiting our ability to sell assets, make investments or acquire assets of, or merge or consolidate with, other companies;

- limiting our ability to pay dividends or make distributions to our shareholders, repurchase or redeem our stock or enter into transactions with our stockholders or affiliates;

- limiting our ability to grant liens, incur additional indebtedness or contingent obligations or obtain additional financing for working capital, capital expenditures, acquisitions and general corporate and other activities; and

- detracting from our ability to successfully withstand a downturn in our business or the economy generally.

Our ability to meet our debt service obligations, including those related to the notes, and to reduce our total indebtedness will be dependent upon our future performance, which will be subject to weather, general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control.

The notes are structurally subordinated to all existing and future liabilities of our subsidiaries.

The notes are our general unsecured, senior obligations and thus are structurally subordinated to all of our subsidiaries' existing or future debt and other obligations, whether or not secured. Our subsidiaries generated 13.8% of our consolidated revenues for the six months ended June 30, 2003 and held 22.4% of our consolidated total assets as of June 30, 2003. At June 20, 2003, our subsidiaries had total liabilities of $23.3 million, excluding intercompany liabilities, of which $3.6 million were trade payables. Our subsidiaries are only limited in their ability to incur debt by the provisions that we have in our indentures and credit agreement governing our existing debt, which are on a consolidated basis, and are not subject to separate restrictions, and there are no limitations on the amount of trade payables incurred by our subsidiaries. In the event of a bankruptcy, liquidation or reorganization of our subsidiaries, our subsidiaries will be obligated to pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us, thus limiting our funds available to pay any amounts due on the notes.

Despite our substantial indebtedness, we may still be able to incur more debt which could further exacerbate the risks associated with our substantial debt.

We are able to incur additional debt in the future. Restrictions applicable to us on the incurrence of additional debt contained in the indentures and credit agreement governing our existing debt are subject to a number of qualifications and exceptions that allow us to incur additional debt. An increase in the amount of our indebtedness may negatively affect our capital structure and credit ratings. If new debt is added to our current debt levels, the risks that we now face would intensify. See "Description of Other Indebtedness" and "Description of Notes—Certain Covenants" for a description of the qualifications and exceptions to the restrictions on the incurrence of additional debt.

To service our indebtedness, including the notes, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund planned capital expenditures, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to weather, general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the notes, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our credit facility, our existing debt and the notes, on commercially reasonable terms or at all.

We are vulnerable to interest rate risk with respect to our debt which could lead to an increase in interest expense.

We are subject to interest rate risk in connection with the issuance of variable and fixed-rate debt. In order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed and variable-rate interest payment obligations over the life of the arrangements, without exchange of the underlying principal amounts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk Information." We cannot assure you that we will be successful in structuring such swap agreements to effectively manage our risks. If we are unable to do so, our earnings may be reduced.

We may be required to recognize additional impairment charges which would reduce our reported earnings and could result in a default under our credit facility.

Pursuant to generally accepted accounting principles, we are required to perform impairment tests on our goodwill balance annually or at any time when events occur, which could impact the value of our business segments. Our determination of whether an impairment has occurred is based on an estimate of discounted cash flows attributable to our reporting units that have goodwill. We must make long-term forecasts of future revenues, expenses and capital expenditures related to the reporting unit in order to make the estimate of discounted cash flows. These forecasts require assumptions about future demand, future market conditions, regulatory developments and other factors. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period that could substantially reduce our reported earnings in a period of such change. In addition, such charges would reduce our consolidated net worth and our shareholders' equity, increasing our debt to total capitalization ratio, which may result in a default under our credit facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Goodwill."

We are subject to numerous environmental laws and regulations that may increase our cost of operations, impact or limit our business plans or expose us to environmental liabilities.

Laws and regulations relating to environmental health and safety generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals, and may be enforced by both public officials and private individuals. Compliance with these requirements may cause us to incur substantial capital costs and operating expenses and may impose restrictions on the operation of our business, all of which could be substantial. To the extent not fully recoverable from our customers, these costs could reduce our earnings and harm our business.

In addition, we may be named as a responsible party for environmental clean-up at sites identified by environmental agencies or regulatory bodies regardless of whether we currently own or operate those sites, whether the contamination was caused by other parties or whether or not the operations that may have resulted in or contributed to the site contamination were conducted in full compliance with applicable laws. Given the nature of the past operations conducted by us and others at our properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where an environmental site assessment or other investigation has been conducted. Changes in existing laws or policies or their enforcement, future spills or accidents or the discovery of currently unknown contamination may give rise to remediation liabilities which may be material. Based upon the information presently available to us, we expect that we will ultimately incur investigation and remedial action costs at eight of our Michigan sites including seven that were formerly associated with manufactured gas plant operations. Because the extent of the contamination at these sites has not been fully delineated and the scope of our liability (as compared to other responsible parties, if any) has not been finally determined, it is difficult for us to currently estimate the full extent of our liability and we cannot conclude that our share of such liability will not be material.

Environmental health and safety regulations may also require us to install new or updated pollution control equipment, modify our operations or perform other corrective actions, at our facilities. Existing environmental regulations may be revised or new regulations may be adopted or become applicable to us, which may result in increased compliance costs or additional operating restrictions, could reduce our earnings and harm our business, particularly if those costs are not fully recoverable from our customers. See "Business—Regulatory Matters—Safety Regulations" and "Business—Regulatory Matters—Environmental Matters."

Our construction services business' ability to win business is subject to competition in the construction industry which could harm our business and results of operations.

The operating results for our construction services business has declined in the past two years which management believes has been driven, in part, by the state of the U.S. economy, financial issues faced by our construction services business customers and poor productivity in certain regions of our construction services business area. During economic downturns, new housing starts often decline, which leads to a decrease in new gas service line installations. Our construction services business faces competition from regional underground facilities contractors, in-house construction operations of existing or prospective customers and small to medium-sized local contractors. If favorable trends which may lead to increasing demand for natural gas and sustain a continued, long-term increase in the need for natural gas infrastructure expansion do not exist and we do not successfully manage the pressure exerted by our competitors, our business and results of operations could be harmed. See "Business—Diversified Business—Construction Services—Outlook for Construction Services."

Substantial operational risks are involved in operating a natural gas distribution, pipeline and storage system and such operational risks could reduce our revenues and increase our expenses.

There are substantial risks associated with the operation of a natural gas distribution, pipeline and storage system, such as operational hazards and unforeseen interruptions caused by events beyond our control. These include adverse weather conditions, accidents, the breakdown or failure of equipment or processes, the performance of pipeline facilities below expected levels of capacity and efficiency and catastrophic events such as explosions, fires, earthquakes, floods, landslides or other similar events beyond our control. A casualty occurrence might result in injury or loss of life, extensive property damage or environmental damage. Liabilities incurred, and interruptions to the operation of our gas distribution, pipeline or storage system caused by such an event, could reduce revenues generated by us and increase our expenses, thereby impairing our ability to meet our obligations and to make payments under our existing debt and the notes.

Terrorism and the uncertainty of war may restrict our future growth and reduce our operating results.

Terrorist attacks, such as the attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, and future war or risk of war may reduce our results of operations, limit our ability to raise capital and restrict our future growth. The impact that possible terrorist attacks may have on our industry in general, and on us in particular, is not known at this time but could lead to increased volatility in gas rates. Uncertainty surrounding the current military action in Iraq, future military strikes or sustained military campaigns may impact our operations in unpredictable ways, including disruptions of gas supplies and markets, and the possibility that infrastructure facilities, including pipelines, processing plants and storage facilities, could be direct targets of, or indirect casualties of, an act of terror. Terrorist activity may also hinder our ability to transport and deliver gas if transportation facilities or pipelines become damaged as a result of an attack. In addition, war or risk of war may create a downturn in the economy in our service territory. A lower level of economic activity could result in a decline in energy consumption which could reduce our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism or war also could limit our ability to raise capital.

You may not be able to seek remedies against Arthur Andersen LLP, our former independent accountants, with respect to our financial statements that were audited by Arthur Andersen.

On May 28, 2002, we appointed PricewaterhouseCoopers LLP to serve as our independent certified public accountant for fiscal year 2002 after previously dismissing Arthur Andersen. On June 15, 2002, Arthur Andersen LLP, our former independent certified public accountant, was convicted of federal obstruction of justice arising from the government's investigation of Enron Corp.

Arthur Andersen had audited our financial statements for the fiscal years ended December 31, 2000 and December 31, 2001. Purchasers of the notes may have no effective remedy against Arthur Andersen in connection with a material misstatement or omission in those financial statements.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indentures governing the notes.

Upon specific events constituting a change of control, as that term is defined in the indentures governing the notes, we will be required to make an offer in cash to repurchase all or any part of each holder's notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase. We cannot assure you that there will be sufficient funds available for us to make the required repurchase of notes at the time of the change of control. If we fail to repurchase the notes in that circumstance, we will go into default under the indentures governing the notes, the indentures governing our existing debt and our credit facility. Any future debt which we incur may also contain restrictions on repayment upon a change of control. If any change of control occurs, we cannot assure you that we will have sufficient funds to satisfy all of our debt obligations. You may not be able to determine when we have entered into a transaction that constitutes a change of control, and as a result of this uncertainty, it may be difficult for you to determine whether we have violated any of our covenants under the indentures, to declare an event of default and to exercise your acceleration rights. We may disagree as to whether a specific asset sale or sales constitute a change of control event and, in the event you elect to exercise your rights under the indenture and we contest such election, there cannot be any assurance as to the outcome of such dispute. See "Description of Notes—Repurchase at the Option of Holders—Change of Control."

You may have difficulty selling any outstanding notes that you do not exchange.

If you do not exchange your outstanding notes for the new notes offered in this exchange offer, you will continue to be subject to the restrictions on the transfer of your outstanding notes. Those transfer restrictions are described in the indentures governing the outstanding notes and in the legend contained on the outstanding notes, and arose because we originally issued the outstanding notes under exemptions from, and in transactions not subject to, the registration requirements of the Securities Act.

In general, you may offer or sell your outstanding notes only if they are registered under the Securities Act and applicable state securities laws, or if they are offered and sold under an exemption from those requirements. We do not intend to register the outstanding notes under the Securities Act.

If a large number of outstanding notes are exchanged for new notes issued in the exchange offer, it may be more difficult for you to sell your outstanding notes. In addition, if you do not exchange your outstanding notes in the exchange offer, you will no longer be entitled to exchange your outstanding notes for registered notes or to have those outstanding notes registered under the Securities Act. See "The Exchange Offer—Consequences of Failure to Exchange Outstanding Notes" for a discussion of the possible consequences of failing to exchange your notes.

No public market exists for the notes and an active trading market for the new notes may not develop.

The notes are a new issue of securities with no established trading market. We do not intend to list the notes for trading on any national securities exchange or arrange for any quotation system to quote prices for them. We cannot assure you that an active trading market will develop for the notes.

NOTICE TO INVESTORS

The notes described in this prospectus have not been recommended by or approved by the Securities and Exchange Commission, or the SEC, or any other federal or state securities commission or regulatory authority, nor has the SEC or any such state securities commission or authority passed

upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

You should not construe the contents of this prospectus as investment, legal or tax advice. You should consult your counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the notes. We are not making any representation to you regarding the legality of an investment in the notes by you under appropriate legal investment or similar laws.

In making an investment decision regarding the notes offered by this prospectus, you must rely on your own examination of our company and the terms of this exchange offer, including, without limitation, the merits and risks involved. This exchange offer is being made on the basis of this prospectus.

The information contained in this prospectus has been furnished by us and other sources we believe to be reliable. This prospectus contains summaries, believed to be accurate, of some of the terms of specific documents, but reference is made to the actual documents, copies of which will be made available upon request, for the complete information contained in those documents.

No person is authorized in connection with any exchange offer made by this prospectus to give any information or to make any representation not contained in this prospectus, and, if given or made, any other information or representation must not be relied upon as having been authorized by us. The information contained in this prospectus is as of the date hereof and subject to change, completion or amendment without notice. Neither the delivery of this prospectus at any time nor any subsequent commitment to enter into any financing shall, under any circumstances, create any implication that there has been no change in the information set forth in this prospectus or in our affairs since the date of this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements" that are based on current expectations, estimates and projections of SEMCO Energy, Inc. and its subsidiaries. Statements that are not historical facts, including without limitation, statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and any other statements located elsewhere in this prospectus in each case regarding our outlook, beliefs, plans, goals and expectations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- the effects of weather and other natural phenomena;

- the economic climate and growth in the geographic regions where we do business;

- the capital intensive nature of our business;

- increased competition within the energy industry as well as from alternative forms of energy;

- the timing and extent of changes in commodity prices for natural gas and propane;

- the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates;

- our ability to bid on and win construction contracts;

- the impact of energy prices on the amount of projects and business available to our construction services business;

- the nature, availability and projected profitability of potential investments available to us;

- our ability to remain in compliance with our debt covenants and accomplish our financing objectives in a timely and cost-effective manner in light of changing conditions in the capital markets;

- our ability to operate acquired businesses in accordance with our plans; and

- our ability to effectively execute our strategic plan.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this prospectus. These forward-looking statements speak only as of the date of this prospectus. We do not intend to update these statements unless the securities laws require us to do so.

INDUSTRY AND MARKET DATA

Industry and market data used throughout this prospectus were obtained through internal company research, surveys and studies conducted by third parties and industry and general publications. Although we have not independently verified market and industry data from third-party sources, these publications generally indicate that they have obtained information from sources that they believe are reliable, but that they do not provide any assurance as to the accuracy and completeness of the information. While we believe internal company estimates and market and industry data are reliable, neither such estimates nor such data have been verified by any independent sources.

Purpose of the Exchange Offer

When we sold the outstanding notes, we entered into a registration rights agreement with the initial purchasers of those notes. Under the registration rights agreement, we agreed to file by August 13, 2003 a registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act. This prospectus is a part of the registration statement we have filed to satisfy our obligation. We also agreed to use our reasonable best efforts to cause this registration statement to be declared effective by the SEC by November 11, 2003. We also agreed to use our reasonable best efforts to keep this registration statement effective for at least 30 days (or longer if required by law). Under certain limited circumstances, we have also agreed to file a shelf registration statement to cover resales of the outstanding notes. If we are obligated to file a shelf registration statement, we have agreed to use our reasonable best efforts to file the shelf registration statement on or prior to 45 days after such filing obligation arises and to cause the shelf registration statement to be declared effective on or prior to 105 days after such filing obligation arises. See "Description of Notes—Registration Rights; Additional Interest" for more information on our filing obligations. The registration rights agreement provides that we are required to pay additional interest to the holders of the outstanding notes whose notes are subject to transfer restrictions if any of the following events of registration default occur:

- the registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act or a shelf registration statement registering the outstanding notes has not been filed by the applicable deadline;

- the registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act or a shelf registration statement registering the outstanding notes is not declared effective by the applicable deadline;

- the exchange offer has not been consummated on or before the 30th business day, or longer, if required by the federal securities laws, after the registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act is declared effective; or

- the registration statement required to be filed has been declared effective by the SEC but (A) the registration statement thereafter ceases to be effective or (B) the registration statement or this prospectus ceases to be usable in connection with resales of notes subject to transfer restrictions during the periods specified in the registration rights agreement because either (1) any event occurs as a result of which this prospectus would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein in the light of the circumstances under which they were made not misleading, or (2) it shall be necessary to amend the registration statement or supplement this prospectus, to comply with the Securities Act or the Securities Exchange Act of 1934, as amended, or their respective rules.

Additional interest would accrue on the notes from and including the date on which any such events of registration default described above occur but excluding the date on which all such events have been cured, in an amount equal to $.05 per week per $1,000 principal amount of notes for the first 90-day period immediately following the occurrence of such event. The amount of additional interest would increase by an additional $.05 per week per $1,000 principal amount of notes with respect to each subsequent 90-day period until all such events have been cured, up to a maximum amount of additional interest for all such events of $.50 per week per $1,000 principal amount of notes.

A copy of the registration rights agreement is filed as an exhibit to the registration statement.

Each broker-dealer that receives new notes for its own account in exchange for the outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making

activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. See "Plan of Distribution."

Terms of the Exchange Offer

This prospectus and the accompanying letter of transmittal together constitute the exchange offer. Subject to the terms and conditions in this prospectus and the letter of transmittal, we will accept for exchange outstanding notes which are properly tendered on or before the expiration date and are not withdrawn as permitted below. We have agreed to use our reasonable best efforts to keep this registration statement effective for at least 30 days (or longer if required by law). The expiration date for this exchange offer is 5:00 p.m., New York City time, on December 18, 2003, or such later date and time to which we, in our sole discretion, extend the exchange offer.

The form and terms of the new notes being issued in the exchange offer are the same as the form and terms of the outstanding notes, except that the new notes being issued in the exchange offer:

- will have been registered under the Securities Act;

- will not bear the restrictive legends restricting their transfer under the Securities Act; and

- will not contain the registration rights and additional interest provisions contained in the outstanding notes, as described below in "Description of Notes—Registration Rights; Additional Interest."

Notes tendered in the exchange offer must be in denominations of the principal amount of $1,000 and any integral multiple of $1,000.

We expressly reserve the right, in our sole discretion:

- to extend the expiration date;

- to delay accepting any outstanding notes;

- if any of the conditions set forth below under "—Conditions to the Exchange Offer" has not been satisfied, to terminate the exchange offer and not accept any outstanding notes for exchange; and

- to amend the exchange offer in any manner.

We will give oral or written notice of any extension, delay, non-acceptance, termination or amendment as promptly as practicable by a public announcement, and in the case of an extension, no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

During an extension, all outstanding notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us. Any outstanding notes not accepted for exchange for any reason will be returned without cost to the holder that tendered them promptly after the expiration or termination of the exchange offer.

Exchange Offer Procedures

When the holder of outstanding notes tenders and we accept outstanding notes for exchange, a binding agreement between us and the tendering holder is created, subject to the terms and conditions in this prospectus and the accompanying letter of transmittal. Except as set forth below, a holder of

outstanding notes who wishes to tender outstanding notes for exchange must, on or prior to the expiration date:

(1)
transmit a properly completed and duly executed letter of transmittal, including all other documents required by such letter of transmittal, to Fifth Third Bank, the exchange agent, at the address set forth below under the heading "—The Exchange Agent;" or

(2)
if outstanding notes are tendered pursuant to the book-entry procedures set forth below, the tendering holder must transmit an agent's message to the exchange agent at the address set forth below under the heading "—The Exchange Agent."

In addition, one of the following must occur on or prior to the expiration date:

(1)
the exchange agent must receive the certificates for the outstanding notes and the letter of transmittal;

(2)
the exchange agent must receive a timely confirmation of the book-entry transfer of the outstanding notes being tendered into the exchange agent's account at the Depository Trust Company, or DTC, along with the letter of transmittal or an agent's message; or

(3)
the holder must comply with the guaranteed delivery procedures described below.

The term "agent's message" means a message, transmitted to DTC and received by the exchange agent and forming a part of a book-entry transfer, referred to as a "book-entry confirmation," which states that DTC has received an express acknowledgment that the tendering holder agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against such holder.

The method of delivery of the outstanding notes, the letters of transmittal and all other required documents is at the election and risk of the holders. If such delivery is by mail, we recommend registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letters of transmittal or notes should be sent directly to us.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the outstanding notes surrendered for exchange are tendered:

(1)
by a holder of outstanding notes who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the letter of transmittal; or

(2)
for the account of an eligible institution.

An "eligible institution" is a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

If signatures on a letter of transmittal or notice of withdrawal are required to be guaranteed, the guarantor must be an eligible institution. If outstanding notes are registered in the name of a person other than the signer of the letter of transmittal, the outstanding notes surrendered for exchange must be endorsed by, or accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by us in our sole discretion, duly executed by the registered holder with the holder's signature guaranteed by an eligible institution.

We will determine all questions as to the validity, form, eligibility (including time of receipt) and acceptance of outstanding notes tendered for exchange in our sole discretion. Our determination will be final and binding. We reserve the absolute right to:

(1)
reject any and all tenders of any outstanding note improperly tendered;

(2)
refuse to accept any outstanding note if, in our judgment or the judgment of our counsel, acceptance of the outstanding note may be deemed unlawful;

(3)
waive any defects or irregularities as to any particular outstanding note either before or after the expiration date; and

(4)
waive any conditions of the exchange offer before the expiration date, including the right to waive the ineligibility of any class of holders that seek outstanding notes in the exchange offer.

If such waiver described above constitutes a material change, such waiver must occur 5 business days prior to the expiration of the offer.

Our interpretation of the terms and conditions of the exchange offer as to any particular notes either before or after the expiration date, including the letter of transmittal and the instructions to it, will be final and binding on all parties. Holders must cure any defects and irregularities in connection with tenders of notes for exchange within such reasonable period of time as we will determine, unless we waive such defects or irregularities. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of us incur any liability for failure to give such notification.

If a person or persons other than the registered holder or holders of the outstanding notes tendered for exchange signs the letter of transmittal, the tendered outstanding notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders that appear on the outstanding notes.

If trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity sign the letter of transmittal or any notes or any power of attorney, such persons should so indicate when signing, and you must submit proper evidence satisfactory to us of such person's authority to so act unless we waive this requirement.

By tendering, each holder will represent to us that, among other things, the person acquiring new notes in the exchange offer is obtaining them in the ordinary course of its business, whether or not such person is the holder, and that neither the holder nor such other person has any arrangement or understanding with any person to participate in the distribution of the new notes. If any holder or any such other person is an "affiliate," as defined in Rule 405 under the Securities Act, of our company, or is engaged in or intends to engage in or has an arrangement or understanding with any person to participate in a distribution of the new notes, such holder or any such other person:

(1)
may not rely on the applicable interpretations of the staff of the SEC; and

(2)
must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

Each broker-dealer that receives new notes for its own account in exchange for the outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. See "Plan of Distribution."

Acceptance of Outstanding Notes for Exchange; Delivery of New Notes Issued in the Exchange Offer

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, promptly after the expiration date, all outstanding notes properly tendered and will issue new notes registered under the Securities Act. For purposes of the exchange offer, we will be deemed to have accepted properly tendered outstanding notes for exchange when, as and if we have given oral or written notice to the exchange agent, with written confirmation of any oral notice to be given promptly thereafter. See "—Conditions to the Exchange Offer" for a discussion of the conditions that must be satisfied before we accept any notes for exchange.

For each outstanding note accepted for exchange, the holder will receive a new note registered under the Securities Act having a principal amount equal to, and in the denomination of, that of the surrendered outstanding note. Accordingly, registered holders of new notes that are outstanding on the relevant record date for the first interest payment date following the consummation of the exchange offer will receive interest accruing from the issue date of the outstanding notes, or, if interest has been paid, the most recent date to which interest has been paid. Outstanding notes that we accept for exchange will cease to accrue interest from and after the date of consummation of the exchange offer. Under the registration rights agreement, we may be required to make additional payments in the form of additional interest to the holders of the outstanding notes under circumstances relating to the timing of the exchange offer.

In all cases, we will issue new notes in the exchange offer for outstanding notes that are accepted for exchange only after the exchange agent timely receives:

(1)
certificates for such outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent's account at DTC;

(2)
a properly completed and duly executed letter of transmittal or an agent's message; and

(3)
all other required documents.

If for any reason set forth in the terms and conditions of the exchange offer we do not accept any tendered outstanding notes, or if a holder submits outstanding notes for a greater principal amount than the holder desires to exchange, we will return such unaccepted or non-exchanged outstanding notes without cost to the tendering holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC, such non-exchanged outstanding notes will be credited to an account maintained with DTC. We will return the outstanding notes or have them credited to DTC promptly after the expiration or termination of the exchange offer.

Book-Entry Transfers

The exchange agent will make a request to establish an account at DTC for purposes of the exchange offer within two business days after the date of this prospectus. Any financial institution that is a participant in DTC's system must make book-entry delivery of outstanding notes by causing DTC to transfer the outstanding notes into the exchange agent's account at DTC in accordance with DTC's procedures for transfer. Such participant should transmit its acceptance to DTC on or prior to the expiration date or comply with the guaranteed delivery procedures described below. DTC will verify such acceptance, execute a book-entry transfer of the tendered outstanding notes into the exchange agent's account at DTC and then send to the exchange agent confirmation of such book-entry transfer. The confirmation of such book-entry transfer will include an agent's message confirming that DTC has received an express acknowledgment from such participant that such participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against such participant. Delivery of new notes issued in the exchange offer may be effected through book-entry transfer at DTC as applicable. However, the letter of transmittal or facsimile thereof or an agent's message, with any required signature guarantees and any other required documents, must:

(1)
be transmitted to and received by the exchange agent at the address set forth below under "—Exchange Agent" on or prior to the expiration date; or

(2)
comply with the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

If a holder of outstanding notes desires to tender such notes and the holder's notes are not immediately available, or time will not permit such holder's outstanding notes or other required

documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

(1)
the holder tenders the outstanding notes through an eligible institution;

(2)
prior to the expiration date, the exchange agent receives from such eligible institution a properly completed and duly executed notice of guaranteed delivery, substantially in the form we have provided, by facsimile transmission, mail or hand delivery, setting forth the name and address of the holder of the outstanding notes being tendered and the amount of the outstanding notes being tendered. The notice of guaranteed delivery will state that the tender is being made and guarantee that within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed letter of transmittal or agent's message with any required signature guarantees and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

(3)
the exchange agent receives the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed letter of transmittal or agent's message with any required signature guarantees and any other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

Withdrawal Rights

You may withdraw tenders of your outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, you must send via telegram, telex, facsimile or transmission letter, a written notice of withdrawal to the exchange agent at one of the addresses set forth below under "—Exchange Agent." Any such notice of withdrawal must:

(1)
specify the name of the person having tendered the outstanding notes to be withdrawn;

(2)
include a statement that the holder of the outstanding notes is withdrawing such holder's election to have such outstanding notes exchanged;

(3)
identify the outstanding notes to be withdrawn, including the principal amount of such outstanding notes; and

(4)
where certificates for outstanding notes are transmitted, specify the name in which outstanding notes are registered, if different from that of the withdrawing holder.

If certificates for outstanding notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an eligible institution unless such holder is an eligible institution. If outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of such facility. We will determine all questions as to the validity, form and eligibility (including time of receipt) of such notices and our determination will be final and binding on all parties. Any tendered outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any outstanding notes which have been tendered for exchange but which are not exchanged for

any reason will be returned to the holder of those notes without cost to the holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC, the outstanding notes withdrawn will be credited to an account maintained with DTC for the outstanding notes. The outstanding notes will be returned or credited to this account promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn notes may be retendered by following one of the procedures described under "—Exchange Offer Procedures" above at anytime on or prior to 5:00 p.m., New York City time, on the expiration date.

Conditions to the Exchange Offer

We are not required to accept for exchange, or to issue new notes in the exchange offer for, any outstanding notes. We may terminate or amend the exchange offer at any time before the acceptance of outstanding notes for exchange if:

(1)
any federal law, statute, rule or regulation is adopted or enacted which, in our judgment, would reasonably be expected to impair our ability to proceed with the exchange offer;

(2)
any stop order is threatened or is in effect with respect to either (i) the registration statement of which this prospectus constitutes a part or (ii) the qualification of the indentures under the Trust Indenture Act of 1939, as amended;

(3)
there is a change in the current interpretation by staff of the SEC which permits the new notes issued in the exchange offer in exchange for the outstanding notes to be offered for resale, resold and otherwise transferred by such holders, other than broker-dealers and any such holder which is an "affiliate" of our company within the meaning of Rule 405 under the Securities Act, without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that the new notes acquired in the exchange offer are acquired in the ordinary course of such holder's business and such holder has no arrangement or understanding with any person to participate in the distribution of the new notes;

(4)
there is a general suspension of or general limitation on prices for, or trading in, securities on any national exchange or in the over-the-counter market;

(5)
any governmental agency creates limits that adversely affect our ability to complete the exchange offer;

(6)
there is any declaration of war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or the worsening of any such condition that existed at the time that we commence the exchange offer;

(7)
there is a change or a development involving a prospective change in our business, properties, assets, liabilities, financial condition, operations or results of operations taken as a whole, that is or may be adverse to us; or

(8)
we become aware of facts that, in our reasonable judgment, have or may have adverse significance with respect to the value of the outstanding notes or the new notes to be issued in the exchange offer.

The preceding conditions are for our sole benefit and we may assert them regardless of the circumstances giving rise to any such condition. We may waive the preceding conditions in whole or in part at any time and from time to time in our sole discretion. If we do so, the exchange offer will remain open for at least five business days following any waiver of the preceding conditions. Our failure at any time to exercise the foregoing rights will not be deemed a waiver of any such right and each such right will be deemed an ongoing right which we may assert at any time and from time to time.

The Exchange Agent

Fifth Third Bank has been appointed as our exchange agent for the exchange offer. All executed letters of transmittal should be directed to our exchange agent at the address set forth below. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should be directed to the exchange agent addressed as follows:

Main Delivery To:
Fifth Third Bank
By mail, hand delivery or overnight courier:
Attention: Curt Ballast
Corporate Trust Department
(MD ROPS 53)
Fifth Third Bank
1850 E. Paris Avenue, S.E.
Grand Rapids, MI 49546

By facsimile transmission:
(for eligible institutions only)
(616) 653-9004
Confirm by telephone:
(616) 653-8716

Delivery of the letter of transmittal to an address other than as set forth above or transmission of such letter of transmittal via facsimile other than as set forth above does not constitute a valid delivery of such letter of transmittal.

Fees and Expenses

We will not make any payment to brokers, dealers or others soliciting acceptance of the exchange offer except for reimbursement of mailing expenses. We will pay the cash expenses to be incurred in connection with the exchange offer, including:

- SEC registration fees;
- fees and expenses of the exchange agent and trustee;
- accounting and legal fees;
- printing fees; and
- related fees and expenses.

Transfer Taxes

Holders who tender their outstanding notes for exchange will not be obligated to pay any transfer taxes in connection with the exchange. If, however, new notes issued in the exchange offer are to be delivered to, or are to be issued in the name of, any person other than the holder of the outstanding notes tendered, or if a transfer tax is imposed for any reason other than the exchange of outstanding notes in connection with the exchange offer, then the holder must pay any of these transfer taxes, whether imposed on the registered holder or on any other person. If satisfactory evidence of payment

of, or exemption from, these taxes is not submitted with the letter of transmittal, the amount of these transfer taxes will be billed directly to the tendering holder.

Consequences of Failure to Exchange Outstanding Notes

Holders who desire to tender their outstanding notes in exchange for new notes registered under the Securities Act should allow sufficient time to ensure timely delivery. Neither the exchange agent nor we are under any duty to give notification of defects or irregularities with respect to the tenders of outstanding notes for exchange.

Outstanding notes that are not tendered or are tendered but not accepted will, following the consummation of the exchange offer, continue to be subject to the provisions in the indentures, regarding the transfer and exchange of the outstanding notes and the existing restrictions on transfer set forth in the legend on the outstanding notes and in the offering memorandum dated May 14, 2003, relating to the outstanding notes. Except in limited circumstances with respect to specific types of holders of outstanding notes as described in "Description of Notes—Registration Rights; Additional Interest," we will have no further obligation to provide for the registration under the Securities Act of such outstanding notes. In general, outstanding notes, unless registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will take any action to register the outstanding notes under the Securities Act or under any state securities laws.

Upon completion of the exchange offer, holders of the outstanding notes will not be entitled to any further registration rights under the registration rights agreement, except under limited circumstances.

Holders of the new notes and any outstanding notes which remain outstanding after consummation of the exchange offer, for each of the 2008 notes and the 2013 notes, will vote together as a single class, respectively, for purposes of determining whether holders of the requisite percentage of each class have taken certain actions or exercised certain rights under the indentures. See "Description of Notes."

Consequences of Exchanging Outstanding Notes

Based on interpretations of the staff of the SEC, as set forth in no-action letters to third parties, we believe that the new notes may be offered for resale, resold or otherwise transferred by holders of those new notes, other than by any holder which is our "affiliate" within the meaning of Rule 405 under the Securities Act. The new notes may be offered for resale, resold or otherwise transferred without compliance with the registration and prospectus delivery provisions of the Securities Act, if:

(1)
the new notes issued in the exchange offer are acquired in the ordinary course of the holder's business; and

(2)
the holder, other than broker-dealers, has no arrangement or understanding with any person to participate in the distribution of the new notes issued in the exchange offer.

However, the SEC has not considered the exchange offer in the context of a no-action letter and we cannot guarantee that the staff of the SEC would make a similar determination with respect to the exchange offer as in such other circumstances.

Each holder, other than a broker-dealer, must furnish a written representation, at our request, that:

(1)
it is not an affiliate of ours;

(2)
it is not engaged in, and does not intend to engage in, a distribution of the notes issued in the exchange offer and has no arrangement or understanding to participate in a distribution of notes issued in the exchange offer;

(3)
it is acquiring the new notes issued in the exchange offer in the ordinary course of its business; and

(4)
it is not acting on behalf of a person who could not make representations (1)-(3).

Each broker-dealer that receives new notes for its own account in exchange for outstanding notes must acknowledge that:

(1)
such outstanding notes were acquired by such broker-dealer as a result of market-making or other trading activities; and

(2)
it must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction, including the delivery of a prospectus that contains information with respect to any selling holder required by the Securities Act in connection with any resale of new notes issued in the exchange offer.

Furthermore, any broker-dealer that acquired any of its outstanding notes directly from us:

(1)
may not rely on the applicable interpretation of the SEC staff's position contained in Exxon Capital Holdings Corp., SEC No-Action Letter (April 13, 1989), Morgan, Stanley & Co., Inc., SEC No-Action Letter (June 5, 1991) and Shearman & Sterling, SEC No-Action Letter (July 2, 1993); and

(2)
must also be named as a selling holder of the new notes in connection with the registration and prospectus delivery requirements of the Securities Act relating to any resale transaction.

See "Plan of Distribution" for a discussion of the exchange and resale obligations of broker-dealers in connection with the exchange offer.

In addition, to comply with state securities laws of certain jurisdictions, the new notes issued in the exchange offer may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with by the holders selling the new notes. We have agreed in the registration rights agreement that, prior to any public offering of transfer restricted notes, we will register or qualify or cooperate with the holders of the new notes and their respective counsel in connection with the registration or qualification of the notes for offer and sale under the securities laws of those states as any holder of the notes reasonably requests in writing. Unless a holder requests, we currently do not intend to register or qualify the sale of the new notes in any state where an exemption from registration or qualification is required and not available.

USE OF PROCEEDS

We will not receive any proceeds from the exchange offer. In consideration for issuing the new notes as contemplated in this prospectus, we will receive in exchange outstanding notes in like principal amount. We will cancel all outstanding notes exchanged for new notes in the exchange offer.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2003. You should read this table in conjunction with our audited consolidated financial statements and the related notes thereto for and as of the years ended December 31, 2000, 2001 and 2002 and our unaudited consolidated financial statements and the related notes thereto for and as of the six months ended June 30, 2002 and 2003, which are included elsewhere in this prospectus.

	As of June 30, 2003 (in thousands of dollars)
Cash and temporary cash investments, at cost	$ 740
Short-term debt and current maturities of long-term debt	$ 84,732
Capitalization:	
Long-term debt:	
7.125% notes due 2008	150,000
6.49% notes due 2009	30,000
8.00% notes due 2010	30,681
7.75% notes due 2013	134,840
8.00% notes due 2016	59,765
6.50% medium-term notes due 2005	15,000
6.40% medium-term notes due 2008	5,000
7.03% medium-term notes due 2013	10,000
Total long-term debt	$ 435,286
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries:	
10.25% cumulative trust preferred securities—1,600,000 shares issued and outstanding	$ 38,457
FELINE PRIDES—10,100,000 shares issued and outstanding	101,000
Total Company-obligated mandatorily redeemable trust preferred securities of subsidiaries	139,457
Common shareholders' equity	97,296
Total capitalization	$ 672,039

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary of selected consolidated financial information for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and for the six months ended June 30, 2002 and 2003 was derived from, and should be read in conjunction with, our audited financial statements and our unaudited financial statements and their respective related notes thereto included elsewhere in this prospectus. You should read the selected consolidated financial data below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes thereto for and as of the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and our unaudited consolidated financial statements and the related notes thereto for and as of the six months ended June 30, 2002 and 2003, which are included elsewhere in this prospectus.

	Year ended December 31,					Six Months ended June 30,	
	1998	1999	2000	2001	2002	2002	2003
	(in thousands of dollars, except per share amounts)						
Statement of Operations Data:							
Operating revenue	$ 596,548	$ 369,922	$ 410,325	$ 445,823	$ 480,965	$ 262,011	$ 306,629
Operating expenses:							
Cost of gas sold	109,388	117,789	161,945	184,973	220,422	119,292	188,346
Cost of gas marketed	386,691	95,632	—	—	—	—	—
Operations and maintenance	55,064	85,696	140,236	162,289	156,653	79,973	63,204
Depreciation and amortization	15,167	19,742	33,051	36,505	35,337	17,653	17,951
Property and other taxes	8,981	8,660	9,860	11,562	11,844	6,133	5,862
Restructuring and impairment charges	—	—	—	6,103	—	—	—
Total operating expenses	575,291	327,519	345,092	401,432	424,256	223,051	275,363
Operating income	21,257	42,403	65,233	44,391	56,709	38,960	31,266
Other income (deductions)	(8,986)(1)	(16,750)	(32,077)	(29,449)	(29,030)	(14,117)	(39,560)(2)
Income (loss) before income taxes and minority interest	12,271	25,653	33,156	14,942	27,679	24,843	(8,294)
Income taxes	5,188	7,631	11,554	6,578	10,139	9,168	(2,637)
Minority interest—dividends on company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc., net of income taxes	—	—	5,004	8,603	8,601	4,300	4,300
Income (loss) from continuing operations	7,083	18,022	16,598	(239)	8,939	11,375	(9,957)
Income (loss) from discontinued operations	2,957 (3)(4)	(363)	95	(6,122)	10	—	—
Net income (loss) available to common shareholders	10,040 (1)	17,659	16,693	(6,361)	8,949	11,375	(9,957)(2)
Common dividends	11,836	15,272	15,033	15,193	10,776	6,136	4,706
Earnings (deficit) reinvested in the business	$ (1,796)	$ 2,387	$ 1,660	$ (21,554)	$ (1,827)	$ 5,239	$ (14,663)
Other Data:							
Income (loss) from continuing operations per common share	$ 0.45	$ 1.02	$ 0.89	$ (0.01)	$ 0.48	$ 0.62	$ (0.53)
Cash dividends declared per common share	$ 0.80	$ 0.87	$ 0.84	$ 0.84	$ 0.50	$ 0.25	$ 0.20

	As of December 31,				As of June 30,	
	1999	2000	2001	2002	2002	2003
	(in thousands of dollars)					
Balance Sheet Data:						
Total assets	$ 815,183	$ 851,223	$ 863,548	$ 876,514	$ 829,366	$ 878,214
Capitalization:						
Long-term debt(5)	170,000	307,930	368,966	366,026	368,347	463,286
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries	—	139,374	139,394	139,436	139,415	139,457
Common equity	142,340	135,472	113,810	110,022	121,097	97,296
Total capitalization(5)	$ 312,340	$ 582,776	$ 622,170	$ 615,484	$ 628,859	$ 700,039

(1)

Includes a gain of $1,708 (net of tax) or $.11 per share from the sale of the NOARK Investment.

(2)
Includes expense of $15.6 million (net of tax) or $0.83 per share for debt exchange and extinguishment costs.

(3)
Includes $499 (net of tax) or $.03 per share, attributable to extraordinary losses on the early extinguishment of debt.

(4)
Includes income at $1,784 (net of tax) or $.11 per share attributable to a change in accounting method.

(5)
Includes current maturities of long-term debt.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and the related notes for and as of the years ended December 31, 2002, 2001 and 2000 and the unaudited consolidated financial statements and the related notes thereto for and as of the six months ended June 30, 2002 and 2003, which are included elsewhere in this prospectus.

Overview

We are a diversified energy and infrastructure services company, headquartered in southeastern Michigan. Our two primary businesses are: (1) a regulated gas distribution business with operations in Michigan and Alaska; and (2) an unregulated diversified business group with operations in construction services; propane, pipelines and storage; and IT services. Our gas distribution operations in Michigan and Alaska operate as divisions of SEMCO Energy while our diversified business operations are organized as subsidiaries of SEMCO Energy which are listed below.

- Aretech Information Services, Inc., which provides IT services

- Hotflame Gas, Inc., which distributes propane

- EnStructure Corporation (formerly known as Sub-Surface Resources, Inc. and NATCOMM, Inc.) and its wholly-owned subsidiaries, which provide construction services

- SEMCO Energy Ventures, Inc. and its wholly-owned subsidiaries, which provide natural gas storage and pipeline services

We had total consolidated operating revenues, EBITDA (as defined in "Prospectus Summary—Summary Consolidated Financial Data") and operating income for the year ended December 31, 2002 of $481.0 million, $95.8 million and $56.7 million, respectively, and for the six months ended June 30, 2003 of $306.6 million, $26.7 million and $31.3 million, respectively. Operating revenues, EBITDA and operating income, including intercompany transactions, from our gas distribution business for the year ended December 31, 2002 were $364.7 million, $85.0 million and $59.1 million, respectively, and for the six months ended June 30, 2003 were $270.9 million, $49.6 million and $36.6 million, respectively. Operating revenues and operating income (loss), including intercompany transactions, from our diversified business group for the year ended December 31, 2002 were $135.9 million and $0.5 million, respectively, and for the six months ended June 30, 2003 were $43.6 million and $(3.9) million, respectively. For the twelve months ended June 30, 2003, our EBITDA was $64.6 million.

Gas Distribution Business. We purchase, transport and distribute natural gas to approximately 383,000 residential, commercial and industrial customers in Michigan and Alaska.

SEMCO Gas provides natural gas and associated services and products to more than 272,000 combined residential, commercial and industrial customers in Michigan.

ENSTAR is the sole provider of natural gas distribution services to more than 111,000 customers in the Anchorage, Alaska metropolitan and adjoining areas.

Diversified Business Group. Our diversified business group includes: (1) construction services; (2) propane, pipelines and storage; and (3) IT services. All three of our unregulated business segments are complementary to our core gas distribution operations.

Rating. On March 18, 2003, Moody's downgraded our ratings and continued to review us for possible downgrade. Moody's downgraded the rating of our senior unsecured debt from Baa3 to Ba2 and our subordinated debt from Ba1 to Ba3. Moody's cited as reasons for our downgrade the following factors: high leverage, weak capitalization, low profitability and cash flow relative to our debt and

refinancing risk relating to the redemption of the ROARS. Moody's indicated that further rating action would result if we are unsuccessful in refinancing the ROARS, if our construction services business fails to turn around or our credit measures continue to be weak. On May 23, 2003, Moody's confirmed our senior unsecured debt ratings at Ba2 with a stable outlook. On October 2, 2003, Moody's confirmed the credit rating on our senior unsecured debt at Ba2 and changed the outlook to negative. On June 20, 2003, S&P lowered our corporate credit rating from BBB- to BB and senior unsecured debt rating from BBB- to BB, with a negative outlook. S&P cited as reasons for our downgrade the continuance of unseasonably warm weather without weather normalization adjustments, the inability of the gas distribution business to produce sufficient cash flow from continuing operations, higher-risk, nonregulated operations that continue to fail to produce cash flow commensurate with their risk profiles, a highly leveraged balance sheet and limited room for additional reductions in capital expenditures, among others. See "Risk Factors—Our credit rating has been recently lowered and any additional reductions in our credit rating may negatively affect our cost of, and possibly our access to, capital."

The Refinancing. In connection with the Refinancing and the issuance of the notes, we incurred costs of approximately $49.3 million. These costs included fees and other costs associated with the issuance of the new notes and make-whole premiums or similar amounts that were incurred in connection with the debt obligations being retired or repurchased. The make-whole premiums or similar amounts were incurred in order to retire or repurchase these obligations prior to their maturity. We expensed approximately $24.7 million ($16.1 million net of taxes) of these costs at the time of the Refinancing and will amortize the remainder over the life of the notes.

We amended our credit facility to permit the Offering, to increase the facility to $155 million, as well as to provide an extension of the maturity date of the 364-day component of the facility to May 20, 2004. The amended facility:

- increased the maximum debt to total capitalization covenant, as defined in our credit facility, from 65% to 70% through the earlier of (1) March 31, 2004 or (2) the sale of APC and attendant repayment of certain indebtedness;

- temporarily decreased the minimum fixed charge coverage ratio, as defined in our credit facility, from 1.5x to 1.2x for the first two quarters following the date of the Offering and to 1.33x for the successive two quarters; and

- provided other covenant relief to permit the Offering and allow additional financial flexibility.

Consolidated Results of Operations

We had net losses of $20.6 million and $10.0 million for the three and six months ended June 30, 2003, respectively, compared to net income of $45,000 and $11.4 million for the three and six months ended June 30, 2002, respectively.

The results for the three and six months ended June 30, 2003 includes an expense of $24 million (15.6 million net of taxes) incurred in the second quarter of 2003 for debt exchange and extinguishment costs. For further information on debt exchange and extinguishment costs, refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

We had a net loss of $12.4 million for the twelve months ended June 30, 2003 compared to a net loss of $0.7 million for the twelve months ended June 30, 2002. The results for the twelve months ended June 30, 2003 include the impact of the debt exchange and extinguishment costs, as discussed above. The results for the twelve months ended June 30, 2002 include several unusual items, which reduced net income by $10.8 million. The unusual items include losses from discontinued operations, restructuring charges, asset impairments and other unusual items. Refer to Note 14 of the Notes to our Consolidated Financial Statements for further information regarding these unusual items.

Our largest business segment, natural gas distribution, is seasonal in nature and depends on the winter months for the majority of its operating revenue. As a result, a substantial portion of our annual income is earned during the first and fourth quarters of the year. In addition, our construction services business segment is also seasonal in nature and earns most of its income during the summer and fall months and incurs losses during the winter and spring months. Therefore, our results of operations for the three and six months ended June 30, 2003 and 2002 are not necessarily indicative of results for a full year.

We had net income of $8.9 million for 2002, a net loss of $6.4 million for 2001 and net income of $16.7 million for 2000. The results for all three years include amounts associated with discontinued operations, and 2001 includes several other unusual items, such as restructuring charges and asset impairments. Income (loss) from continuing operations was $8.9 million, $(0.2) million and $16.6 million for 2002, 2001 and 2000, respectively. The business segment analyses and other discussions on the next several pages provide further information regarding the differences in operating results when comparing 2001 to 2002 and 2002 to 2003.

As discussed above, our operating results include unusual items, including losses associated with discontinued operations, restructuring charges and asset impairments. Operating results, net of income taxes, from the discontinued operations were $(1.1) million and $0.1 million for 2001 and 2000, respectively. In the fourth quarter of 2001, we also recorded a loss of $5.0 million, net of income taxes, for the estimated loss we expected to incur on the disposal of our engineering business segment, including estimated losses from operations during the phase-out period. In November 2002, we sold our engineering services business. There was a difference of $10,000 between the actual losses and the estimated losses, which is included in discontinued operations for 2002. For more information on the impact of discontinued operations on our results of operations, refer to Note 14 of the Notes to the Consolidated Financial Statements. Unusual charges, excluding amounts relating to discontinued operations, reduced net income by $5.1 million, or $0.28 per share, in 2001. The restructuring charges and asset impairments account for $4.0 million of the charges, net of income taxes, and include severance expense, costs associated with terminating leases, write-downs of certain construction operations and other related expenses associated with the redirection of our business strategy. Other unusual items account for $1.1 million of the charges, net of income taxes, and include the write-off of certain assets and an increase in reserves for certain contingencies.

The Impact of Weather

Our largest business segment is natural gas distribution and, as a result, temperature fluctuations have a significant impact on our operating results. We believe that information about normal temperatures is useful for fully understanding our gas distribution business. Our budgets, forecasts and business plans are prepared by management using expected gas consumption under normal weather conditions as a central assumption. The regulatory bodies which have jurisdiction over the rates charged by our gas distribution business use weather-normalized data to set customer rates and to establish authorized revenue levels.

Temperatures during the three- and six-month periods ended June 30, 2003 were warmer than normal in Alaska and colder than normal in Michigan. We have estimated that the impact of the warmer than normal temperatures in Alaska and the colder than normal temperatures in Michigan offset one another and thus had little impact on net income for the three months ended and six months ended June 30, 2003.

By comparison, during the second quarter of 2002, temperatures were colder than normal in both Alaska and Michigan. During the first six months of 2002, temperatures were slightly colder than normal in Alaska and warmer than normal in Michigan. We have estimated that the variations from normal temperatures in Alaska and Michigan combined, increased net income by approximately

$0.8 million during the second quarter of 2002 and decreased net income approximately $1.5 million during the six months ended June 30, 2002.

Weather was approximately 3%, 9% and 6% warmer than normal during 2002, 2001 and 2000, respectively. We have estimated that warmer than normal weather reduced the gas sales margin of our gas distribution business by approximately $5.9 million, $8.4 million and $6.5 million in 2002, 2001 and 2000, respectively. Adjusted for income taxes, the estimated impact would have been $3.6 million, $5.3 million and $3.9 million, respectively.

Summary of our Business Segments

We operate four reportable business segments:

- gas distribution;
- construction services;
- propane, pipelines and storage; and
- IT services.

Refer to Note 5 of the Condensed Notes to the Unaudited Consolidated Financial Statements and Note 11 of the Notes to the Consolidated Financial Statements for further information regarding each business segment and a summary of financial information by business segment.

Three Months, Six Months and Twelve Months Ended June 30, 2003 Compared to Three Months, Six Months and Twelve Months Ended June 30, 2002

Gas Distribution

The following table shows our results with respect to our gas distribution business and includes intercompany transactions.

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002	2003	2002
	(dollars in thousands)					
Gas sales revenues	$ 73,163	$ 63,869	$ 254,679	$ 186,092	$ 404,242	$ 311,220
Cost of gas sold	51,187	40,509	188,346	119,292	289,476	195,638
Gas sales margin	$ 21,976	$ 23,360	$ 66,333	$ 66,800	$ 114,766	$ 115,582
Gas transportation revenue	5,929	5,646	14,113	13,961	25,859	26,447
Other operating revenue	1,030	840	2,142	1,754	3,737	3,079
Gross margin	$ 28,935	$ 29,846	$ 82,588	$ 82,515	$ 144,362	$ 145,108
Restructuring charges	—	—	—	—	—	1,051
Other operating expenses	22,867	21,311	45,987	43,788	87,412	87,838
Operating income	$ 6,068	$ 8,535	$ 36,601	$ 38,727	$ 56,950	$ 56,219
Volumes of gas sold (MMcf)	10,785	11,645	40,545	38,207	67,395	64,573
Volumes of gas transported (MMcf)	9,682	10,939	22,598	22,990	44,529	44,133
Number of customers at end of period	384,980	377,480	384,980	377,480	384,980	377,480
Degree Days						
Alaska	1,545	1,863	4,976	5,672	8,696	10,650
Michigan	1,041	1,039	4,647	4,043	7,272	6,232
Percent colder (warmer) than normal						
Alaska	(3.5)%	15.1%	(10.9)%	1.0%	(14.3)%	3.8%
Michigan	9.8%	10.6%	10.6%	(3.8)%	8.2%	(8.1)%

Gas Sales Margin

During the three and six months ended June 30, 2003, gas sales margin decreased by approximately $1.4 million and $0.5 million when compared to the same periods in 2002. The decrease during the second quarter of 2003, when compared to the second quarter of 2002 was due primarily to the impact of a reduction in customer rates at ENSTAR effective in September 2002, warmer temperatures and a decrease in gas cost savings realized. The impact of these factors was offset partially by the addition of new customers and the impact of an increase in customer rates, effective in May 2003, for customers located in our service areas regulated by the MPSC.

The items discussed above that contributed to the decrease in quarterly results also contributed to the decrease in six-month results, with the exception of temperatures, which were colder than normal and therefore partially offset the other items that contributed to the decrease in gas sales margin. In addition, these factors were also partially offset by the impact of all remaining customers switching from our aggregated transportation service, or ATS, program back to gas sales service (more fully described below) when the ATS program ended in March 2002.

During the twelve months ended June 30, 2003, gas sales margin decreased by $0.8 million when compared to the same period in 2002. The decrease was due primarily to the same items that contributed to the variances in six-month results, as discussed above.

Under the terms of a third-party natural gas supply and management agreement for our Michigan operations, certain gas cost savings were passed through to us. On March 31, 2002, this agreement expired and a new agreement covering our customers located in jurisdictions regulated by the MPSC was executed. This new agreement does not contain similar provisions for gas cost savings. As a result, 65% of the gas cost savings realized during the first three months of 2002 was non-recurring. A new agreement covering our customers located in the jurisdictions regulated by the CCBC includes similar provisions for gas cost savings and is effective from April 1, 2002 through March 31, 2005.

The reduction in customer rates at ENSTAR was required by an order issued by the RCA. The RCA order was based on an RCA rate review. The rate reduction took effect in September 2002 and generally reduces gas sales margins at ENSTAR by approximately 3.6%.

The ATS program for residential customers was effective from April 1, 1999 through March 31, 2002. A program similar to the ATS program, referred to as the Gas Customer Choice Program, was opened to customers on October 1, 2002. These programs provide Michigan residential customers the opportunity to purchase their gas from a third-party supplier, while allowing our gas distribution business to continue charging the existing distribution fees and customer fees. Distribution and customer fees associated with customers who switched to third-party gas suppliers were recorded in gas transportation revenue rather than gas sales revenue because we acted as a transporter for those customers. During 2001 and 2002, certain ATS customers switched back to our general gas sales service because the third-party suppliers they were utilizing stopped participating in the ATS program primarily due to significant fluctuations in the market price of natural gas. When the ATS program for residential customers ended on March 31, 2002, all remaining ATS customers became gas sales customers because they were turned back to us by their third-party gas suppliers. Currently, there are no third-party gas suppliers providing service under this program in our customer service territories. If any third-party gas supplier in our service territories were to begin participating in the Gas Customer Choice program, we would record the distribution and customer fees associated with such customers as gas transportation revenue rather than gas sales revenue.

Gas Transportation Revenue

For the three and six months ended June 30, 2003, gas transportation revenue increased by $0.3 million and $0.2 million, respectively, when compared to the same periods ended June 30, 2002. The primary reasons for these increases were due to an increase in normal transportation volumes partially offset by the rate reduction at ENSTAR and the impact of ATS customers switching from the ATS program back to gas sales service in Michigan in the first quarter of 2002. As discussed above, under the ATS program, we charged ATS customers the same distribution fees and customer fees that were charged to gas sales service customers. Gas transportation revenue decreased by $0.6 million for the twelve months ended June 30, 2003, when compared to the same period ended June 30, 2002. The primary reasons for the decrease were the rate reduction at ENSTAR and the impact of ATS customers switching from the ATS program back to gas sales service in Michigan during the last half of 2002 and the first quarter of 2003.

Other Operating Revenue

Other operating revenue for the three, six and twelve months ended June 30, 2003, was $1.0 million, $2.1 million and $3.7 million, respectively, compared to $0.8 million, $1.8 million and $3.1 million for the same periods ended June 30, 2002, respectively. The $0.2 million and $0.3 million increases for the three and six months ended June 30, 2003 were due primarily to an increase in

miscellaneous services fees, offset partially by a reduction in ATS balancing fees as a result of remaining ATS customers switching back to gas sales service in the first quarter of 2002. Balancing fees are those fees associated with our cost for maintaining transportation and storage assets used for the daily balancing of supply on our Michigan distribution system. Balancing fees are charged to ATS customers at $0.25 per Mcf. The $0.7 million increase for the twelve months ended June 30, 2003 was due to the same items discussed above plus an increase in fees on new transmission pipelines in service.

Operating Expenses

Operating expenses of the gas distribution business for the three and six months ended June 30, 2003 increased by $1.6 million and $2.2 million, respectively, when compared to the three and six months ended June 30, 2002. These increases are due primarily to higher employee benefit costs, including pension expense, health care costs and retiree medical costs, increased commercial insurance costs and bad debt expense.

Operating expenses for the twelve months ended June 30, 2003 decreased by $1.5 million when compared to the twelve months ended June 30, 2002. Contributing to this decrease is approximately $1.1 million of restructuring charges included in the results for the twelve months ended March 31, 2002. The remainder of the decrease was primarily the result of a decrease in goodwill amortization expense of $1.8 million. These decreases were offset partially by an increase in depreciation expense of $1.1 million and an increase in general business tax expenses of $0.2 million. The decrease in goodwill amortization was due to its elimination effective January 1, 2002 as a result of the adoption of Statement of Financial Accounting Standards, or SFAS, No. 142, "Goodwill and Other Intangible Assets." For further information on SFAS 142 and its impact on goodwill, see Note 1 of the Condensed Notes to the Unaudited Consolidated Financial Statements. General business tax expense increased due primarily to property taxes on additional property, plant and equipment placed in service. The increase in depreciation expense was also due primarily to additional property, plant and equipment placed in service.

Construction Services

The following table shows our results with respect to our construction services business and includes intercompany transactions.

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002	2003	2002
			(in thousands)			
Operating revenues	$ 19,864	$ 36,524	$ 34,976	$ 62,105	$ 92,125	$ 136,313
Restructuring & impairment charges	—	—	—	—	—	3,098
Other operating expenses	21,745	34,585	40,497	61,476	100,274	132,963
Operating income (loss)	$ (1,881)	$ 1,939	$ (5,521)	$ 629	$ (8,149)	$ 252
Feet of pipe installed	976	1,189	1,427	2,244	4,381	6,983

Operating Revenue

The operating revenues of our construction services business for the three and six months ended June 30, 2003 were $19.9 million and $35.0 million, respectively which represent a $16.7 million and $27.1 million decrease in comparison to the same periods ended June 30, 2002. These decreases were due, in part, to a reduction of projects in the southern region of the United States and the cessation of construction operations in certain unprofitable regions of the mid-western region of the United States. During the first and second quarters of last year, the southern region of the United States experienced

an acceleration of work on projects that had been scheduled for the last half of 2002, which caused a significant increase in revenues during the first and second quarters of 2002. Our construction services business also has bid on numerous projects in 2003 but has not experienced the expected level of success in being awarded these projects due to the current level of competition in the industry. In addition, lower work levels in the mid-western region of the United States due to cold weather also contributed to the decrease in six-month revenues. The colder than normal temperatures in the mid-western regions of the United States kept frost levels deep during the entire first quarter of 2003, which inhibited construction activity during that period.

The operating revenues of our construction services business for the twelve-month periods ended June 30, 2003 and 2002 were $92.1 million and $136.3 million, respectively. The decrease of $44.2 million was due in part to customers in the mid-western and southern regions of the country delaying projects in the latter part of 2002 in light of the generally depressed economy and their own financial considerations. Contributing also to the decrease were the reasons previously discussed for the decrease in revenues during the first half of 2003.

Operating Income

Our construction services business had an operating loss of $1.9 million and $5.5 million for the three and six months ended June 30, 2003 compared to operating income of $1.9 million and $0.6 million for the same periods ended June 30, 2002. The decreases of $3.8 million and $6.1 million, respectively, were due primarily to the same items discussed above which caused the decrease in operating revenues during the three and six months ended June 30, 2003.

Our construction services business had an operating loss of $8.1 million for the twelve months ended June 30, 2003, compared to operating income of $0.3 million for the twelve months ended June 30, 2002. The decrease of $8.4 million is due primarily to the same items discussed above which caused the decrease in operating revenues for the twelve months ended June 30, 2003. In addition, we experienced lower than expected margins on some of the work performed and higher than anticipated costs on some projects during the twelve months ended June 30, 2003. We believe that the softening economy caused many customers to delay or cancel certain construction projects during 2002, which changed the mix of work available to our construction services business. The mix of work during the twelve months ended June 30, 2003 included more lower margin work at certain business units because of the competition for the limited supply of available work. The reduced construction activity also eroded margins because of the time lag required to reduce the staffing levels and other fixed costs, which were required for the previously higher level of revenues. In addition, the operating performance in certain regions of our construction services business was below our profitability expectations and, therefore, we terminated operations in several of these under performing regions in late 2002 and early 2003. These factors were partially offset by the non-recurrence during the twelve months ended June 30, 2002 of $3.3 million of restructuring charges, impairments and other unusual charges incurred in the fourth quarter of 2001.

Propane, Pipelines and Storage

The following table sets forth our results from our propane, pipelines and storage operations.

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Operating revenues	$ 1,414	$ 1,416	$ 4,241	$ 3,654	$ 7,645	$ 6,979
Operating expenses	1,091	1,035	3,020	2,664	5,468	5,200
Operating income	$ 323	$ 381	$ 1,221	$ 990	$ 2,177	$ 1,779

Operating Revenue

The operating revenues of our propane, pipelines and storage business for the three, six and twelve-month periods ended June 30, 2003 were $1.4 million, $4.2 million and $7.6 million, respectively, compared to $1.4 million, $3.7 million and $7.0 million, respectively, for the same periods ended June 30, 2002. The increases for the six and twelve-month periods were due primarily to higher propane distribution revenues resulting from colder weather in our propane distribution service area, which increased propane sales, and an increase in the market price for propane.

Operating Income

Operating income from the propane, pipelines and storage business for the second quarter of 2003 decreased by less than $0.1 million when compared to the same period in 2002. Operating income for the six and twelve months ended June 30, 2003, when compared to the same periods in 2002, increased by approximately $0.2 million and $0.4 million, respectively. These increases were due primarily to colder weather during the first quarter of 2003 and the fourth quarter of 2002, which increased propane sales and margins. Also contributing to the increase were lower business taxes in 2003, partially offset by an increase in depreciation expense.

Information Technology Services

The following table shows our results with respect to our IT services business and includes intercompany transactions.

	Three Months ended June 30,		Six Months ended June 30,		Twelve Months ended June 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Operating revenues	$ 2,268	$ 2,317	$ 4,422	$ 4,578	$ 9,462	$ 9,705
Restructuring charges	—	—	—	—	—	20
Other operating expenses	2,111	2,174	4,045	4,259	8,802	9,172
Operating income	$ 157	$ 143	$ 377	$ 319	$ 660	$ 513

Operating Revenue

Operating revenues for our IT services business for the three months ended June 30, 2003 were $2.3 million, which was essentially unchanged from revenues for the three months ended June 30, 2002. Of these amounts, $1.7 million and $1.9 million for these same periods, respectively, represent sales to affiliates. Operating revenues for our IT services business for the six months ended June 30, 2003 were $4.4 million compared to $4.6 million for the six months ended June 30, 2002. Of these amounts, $3.2 million and $3.7 million for these same periods, respectively, represent sales to affiliates. Operating revenues for the twelve months ended June 30, 2003 were $9.5 million, compared to $9.7 million for the twelve months ended June 30, 2002. Of these amounts, $7.1 million and $8.2 million for these same periods, respectively, represent sales to affiliates.

The decreases in operating revenues of $0.2 million for the six and twelve months ended June 30, 2003, when compared to the same periods ended June 30, 2002, were due primarily to fewer special projects, which were with affiliate customers, offset partially by an increase in business with non-affiliate customers. We refer to projects that are in addition to a base service contract between Aretech and SEMCO as special projects.

Operating Income

Operating income for the three months ended June 30, 2003, when compared to the same period ending June 30, 2002, remained largely unchanged. Operating income for the six months ended June 30, 2003, when compared to the same period ending June 30, 2002, increased by less than $0.1 million. Operating income for the twelve months ended June 30, 2003 increased by approximately $0.1 million, compared to the same period ended June 30, 2002. The increases for the six- and twelve-month periods ended June 30, 2003 were due primarily to an increase in business with non-affiliate customers and a decrease in business taxes, offset partially by an increase in depreciation and amortization expense.

Other Income and Deductions

	Three Months ended June 30,		Six Months ended June 30,		Twelve Months ended June 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Interest expense	$ (9,052)	$ (7,477)	$ (17,009)	$ (15,151)	$ (33,126)	$ (31,216)
Debt exchange and extinguishment costs	(24,030)	—	(24,030)	—	(24,030)	—
Other income	781	709	1,479	1,034	2,683	2,003
Total other income (deductions)	$ (32,301)	$ (6,768)	$ (39,560)	$ (14,117)	$ (54,473)	$ (29,213)

Interest Expense

Interest expense for the three, six and twelve months ended June 30, 2003 increased by $1.6 million, $1.9 million and $1.9 million, respectively, when compared to the same periods ended June 30, 2002. These increases in interest expense were due primarily to a) higher long-term debt balances in the second quarter of 2003 as a result of the refinancing of our long-term debt, as discussed below, b) an increase in bank fees relating to our short-term debt facilities and c) an increase in amortization expenses for debt issuance costs.

Debt Exchange and Extinguishment Costs

For the three, six and twelve months ended June 30, 2003, our Consolidated Statements of Operations reflect $24.0 million of debt exchange and extinguishment costs. In the second quarter of 2003, we completed a refinancing of our long-term debt through the issuance of new senior unsecured notes and the exchange and repurchase of existing notes. In connection with the repurchase of existing notes, we paid approximately $24.0 million for make-whole premiums or similar amounts. For further information regarding the refinancing and the debt exchange and extinguishment costs refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

Other Income

Other income for the three, six and twelve months ended June 30, 2003 increased by approximately $0.1 million, $0.4 million and $0.7 million, respectively, when compared to the same periods ended June 30, 2002. The increase for the three and six-month periods ended June 30, 2003, in comparison to the same periods ended June 30, 2002, was due primarily to net gains on the sale of equipment, compared to net losses during the first half of 2002. The increase during the twelve months ended June 30, 2003 when compared to the same period of 2002, was due primarily to an increase in net gains on the sale of equipment and income from an engineering project performed by our gas distribution business for a third party.

Year Ended December 31, 2002 Compared to Years Ended December 31, 2001 and 2000

Gas Distribution

The following table shows our results with respect to our gas distribution business and includes intercompany transactions.

	Year ended December 31,		
	2002	2001	2000
	(dollars in thousands)		
Gas sales revenue	$ 335,655	$ 295,397	$ 273,312
Cost of gas sold	220,422	184,973	161,945
Gas sales margin	115,233	110,424	111,367
Gas transportation revenue	25,707	25,888	30,783
Other operating revenue	3,349	3,080	3,756
Gross margin	144,289	139,392	145,906
Restructuring charges	—	1,051	—
Other operating expenses	85,213	88,004	83,030
Operating income	$ 59,076	$ 50,337	$ 62,876
Volumes of gas sold (MMcf)	65,057	63,127	61,054
Volumes of gas transported (MMcf)	44,921	42,992	48,706
Number of customers at year end	383,298	374,938	367,157
Average number of customers:			
Gas sales customers	375,996	364,442	353,168
Transportation and ATS customers	2,392	5,453	8,253
Total average number of customers	378,388	369,895	361,421
Degree days	7,394	7,038	7,293
Percent colder (warmer) than normal	(3.3)%	(8.6)%	(5.9)%

Gas Sales Margin

During 2002, gas sales margin increased by $4.8 million (or 4%) when compared to 2001. This increase was due primarily to the impact of colder weather in 2002, greater gas cost savings and the addition of new customers and customers switching from our ATS program back to general gas sales service.

During 2001, gas sales margin decreased by $0.9 million (or 1%) when compared to 2000. This decrease was due primarily to the impact of warmer weather in 2001 and a reduction in gas cost savings, offset partially by the addition of new customers and customers switching from our ATS program back to general gas sales service.

The increase in gas cost savings during 2002, the majority of which occurred in the first quarter of 2002, was due in part to the effective management of our gas supply under certain of our third-party supply and management agreements. Partially offsetting this increase in gas costs savings was a decrease in gas cost savings after March 31, 2002 as a result of reinstating the gas cost recovery pricing mechanism, effective April 1, 2002, for customers subject to the jurisdiction of the MPSC. As a result of reinstating the gas cost recovery pricing mechanism, otherwise called the gas cost recovery, or GCR, pricing mechanism, we no longer retain the gas cost savings on sales to customers located in jurisdictions regulated by the MPSC. A significant portion of the gas cost savings realized during the first quarter of 2002 is non-recurring because it relates to MPSC customers.

Gas cost savings were lower in Michigan during 2001, when compared to 2000, primarily as a result of purchasing gas with higher thermal content during the first half of 2001. During the last half of 2001, the thermal content of purchased gas returned to 2000 levels. An increase in thermal content causes a decrease in gas sales because gas with a higher thermal content requires less volume to

produce the same amount of heat. When the thermal content increases, we have to pay more for the gas we purchase but must still sell it based on volume. Other factors contributing to the increase in gas costs in 2001 were the reduction in the release of excess pipeline capacity that had occurred in 2000, which had reduced our 2000 gas costs, and an increase in unaccounted-for gas, which is a commonly used term in the gas distribution industry for gas lost due to leaks, meter problems, the temperature of the gas and a number of other causes.

Gas Transportation Revenue

In 2002, gas transportation revenue decreased by $0.2 million when compared to 2001. The primary factors contributing to this decrease were a decrease in transportation volumes for power companies in Alaska and the impact of ATS customers switching from the ATS program back to gas sales service in Michigan. These items were partially offset by an increase in industrial and commercial transportation volume when compared to 2001.

In 2001, gas transportation revenue decreased by $4.9 million when compared to 2000. This decrease was primarily the result of customers switching from the ATS program back to our general gas sales service and a decrease in standard transportation revenue. The decrease in standard transportation revenue was due to reduced consumption as a result of the softening economy and a few of our industrial and large commercial customers in Michigan switching to alternative fuels earlier in 2001 due to high natural gas prices. Standard transportation revenue is used in this context to distinguish such revenues from those received from customers whose gas is transported under the ATS program. Large volumetric customers are billed using standard transportation tariffs instead of a monthly service charge. Under the ATS program, customers are aggregated to make it advantageous for the supplier to sell gas to smaller volumetric customers when we only provide gas transportation services to such customers. The aggregated group is thus recorded under ATS revenues while stand-alone transportation customers are recorded under standard transportation revenues.

Other Operating Revenue

During 2002, other operating revenue increased by $0.3 million, when compared to 2001. This increase was due primarily to fees on new transmission pipelines in service in Michigan, offset partially by a reduction in ATS balancing fees as a result of ATS customers switching back to general gas sales service. During 2001, other operating revenue decreased by $0.7 million, when compared to 2000. This decrease was due primarily to a reduction in ATS balancing fees as a result of ATS customers switching back to general gas sales service.

Operating Expenses

During 2002, operating expenses of the gas distribution business decreased by $3.8 million (or 4%) when compared to 2001. A restructuring charge recorded in December 2001, most of which was made up of employee severance expense associated with workforce reductions, accounted for $1.1 million of the decrease for 2002. Amortization expense in 2002 decreased by $3.6 million when compared to 2001. This decrease was due to the elimination of goodwill amortization as a result of the adoption of SFAS 142. Operation and maintenance expense decreased by $1.2 million for the same period due primarily to general cost cutting measures, the decreased workforce and other cost reductions related to our redirected business strategy, offset partially by higher employee benefit costs, including pension expense, health care costs and retiree medical costs, and increased maintenance costs. Property and other taxes increased by $0.3 million in 2002 compared to 2001, due primarily to property taxes on additional property, plant and equipment placed in service. Depreciation expense increased by $1.7 million for the same period, also due to additional property, plant and equipment placed in service.

During 2001, operating expenses of the gas distribution business increased by $6.0 million (or 7%) when compared to 2000. The restructuring charge, discussed above, accounted for $1.1 million of the increase. The 2001 increase also included a $0.9 million increase in depreciation and amortization expense due primarily to additional property, plant and equipment placed in service and a $2.8 million increase in operation and maintenance expenses. The increase in operation and maintenance expenses was due primarily to increased employee-related costs such as health care costs, retiree medical costs and pension expense and increased maintenance costs.

In addition, there was a $1.2 million increase in 2001 compared to 2000 in general business tax expense. This increase was due primarily to property tax reductions recorded in 2000 and higher property taxes in 2001 because of additional property in service. The property tax reductions of $2.1 million in 2000 were based on pending appeals for personal property tax assessments for 1997 through 1999 in Michigan and new property valuation tables approved by the State of Michigan in 1999. We filed the appeals over the past several years on the basis that our Michigan utility property was over-assessed. The new property tax tables approved by the State of Michigan are consistent with our claim regarding our utility property assessments and thus significantly increase the likelihood of recovering the overpaid property taxes. See Note 13 of the Notes to the Consolidated Financial Statements for further information regarding the prior year tax appeals and recoverability of overpaid property taxes.

Construction Services

The following table shows our results with respect to our construction services business for 2002, 2001 and 2000, and includes intercompany transactions.

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Operating revenue	$ 119,254	$ 126,205	$ 105,231
Restructuring and impairment charges	—	3,098	—
Other operating expenses	121,253	124,481	101,555
Operating income (loss)	$ (1,999)	$ (1,374)	$ 3,676
Feet of pipe installed	5,198	7,320	7,969

Operating Revenue

During 2002, our construction services business revenue decreased by $7.0 million (or 6%) when compared to 2001. The decrease during 2002 was due in part to customers in the midwestern region of the United States delaying projects in 2002 in light of the generally depressed economy and their own financial considerations. The decrease was offset by the fact that operating revenue in the southern region of the United States was up significantly during the first half of 2002, due to several large projects in that region. However, during the second half of 2002, customers in the southern region also delayed a number of these projects for the same reasons as their midwestern counterparts.

During 2001, our construction services business operating revenue increased by $21.0 million (or 20%) when compared to 2000. The increase during 2001 was due primarily to several large construction projects in the southeastern region of the United States, as well as increased construction services business revenue in other regions of the country.

Operating Income

The 2001 operating loss of $1.4 million includes $3.3 million of restructuring charges, asset impairments and other unusual charges, including the write-down of goodwill and fixed assets of certain construction operations, severance expense and other related charges.

The decrease in 2002 when compared to 2001, is due primarily to reduced construction activity during all of 2002 in the midwestern region of the United States and during the last half of 2002 in the southern region of the United States. In addition, we experienced lower than expected margins on some of the work performed and higher than anticipated costs on some projects. Management believes that the softening economy had caused many customers to delay or cancel certain construction projects, which changed the mix of work available to us to include more lower-margin work due to competition. Reduced construction activity also eroded margins because of the time lag required to reduce staffing levels and other fixed costs. Certain fixed costs were not eliminated for a number of reasons, including our expectation that work would resume on many of the projects. In addition, the operating performance in certain regions of our construction services business area has been below our profitability expectations. These factors were offset partially by operating income generated from the increase in construction projects in the southern and southeastern regions of the United States during the first half of 2002 and the non-recurrence during 2002 of $3.3 million of restructuring charges, impairments and other unusual charges incurred in 2001.

The $5.1 million decrease in 2001 operating income when compared to 2000 operating income was due primarily to the restructuring charges, impairments and other unusual charges, the mix of available work and the softening economy, as discussed above. In addition, the softening economy reduced new housing starts during 2001 in the regions where our construction services business operates, which caused a decrease in the number of new gas service lines available for installation as compared to 2000. The factors causing the decrease in 2001 operating income were offset partially by profits on the large projects in the southeastern region of the United States during the last half of 2001.

Propane, Pipelines and Storage

The following table sets forth our results from our propane, pipelines and storage operations for 2002, 2001 and 2000. Amounts in the table do not include the equity income from a 50% ownership interest in a gas storage partnership which amounted to $1.37 million, $1.19 million and $1.19 million in 2002, 2001 and 2000, respectively. The equity income from the joint venture is reflected in other income and deductions.

	Year ended December 31,		
	2002	2001	2000
		(in thousands)	
Operating revenue	$ 7,058	$ 7,443	$ 6,949
Operating expenses	5,112	5,572	5,419
Operating income	$ 1,946	$ 1,871	$ 1,530

Operating Revenue

The $0.4 million decrease in revenue in 2002 when compared to 2001 was due primarily to lower propane distribution revenue resulting from a reduction in the market price for propane. The $0.5 million increase in revenue in 2001 when compared to 2000 was due primarily to higher propane distribution revenue resulting from an increase in the market price of propane.

Operating Income

The increase in 2001 when compared to 2000 was due primarily to lower operating expenses and higher propane margins. Weather in Hotflame's market area was warmer than normal in 2002, 2001 and 2000. The impact of weather on the operating income of the propane, pipelines and storage segment relates only to the propane business.

Information Technology Services

The following table shows our results with respect to our IT services business for 2002, 2001 and 2000, and includes intercompany transactions.

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Operating revenue	$ 9,618	$ 10,275	$ 5,184
Restructuring charges	—	20	—
Other operating expenses	9,016	9,824	4,703
Operating income	$ 602	$ 431	$ 481

Operating Revenue

Of the operating revenue amounts set forth above, $7.6 million, $9.3 million and $5.0 million for 2002, 2001 and 2000, respectively, represent sales to affiliates. The decrease in revenue in 2002 when compared to 2001 was due primarily to fewer special projects with affiliate customers, offset partially by an increase in business with non-affiliates. The increase in revenue in 2001 when compared to 2000 was due primarily to providing IT services for all of our affiliates and the addition of non-affiliate customers. During the first several months of its operation in 2000, the IT services business was primarily providing services to the Michigan gas distribution business and our corporate office. Non-affiliate operating revenue was $2.0 million, $1.0 million and $0.2 million in 2002, 2001 and 2000, respectively.

Operating Income

The increase in 2002 when compared to 2001 is due primarily to an increase in business with non-affiliate customers and a decrease in indirect operating expenses, particularly advertising costs. The decrease in 2001 when compared to 2000 was due primarily to more special project services performed during 2000 than in 2001, which typically is higher margin work.

Other Income and Deductions

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Interest expense	$ (31,268)	$ (31,784)	$ (34,905)
Other income	2,238	2,335	2,828
Total other income (deductions)	$ (29,030)	$ (29,449)	$ (32,077)

Interest Expense

Our interest expense decreased by $0.5 million (or 2%) in 2002 when compared to 2001. This decrease is due primarily to lower short-term interest rates and a reduction in interest expense as a result of an interest rate swap agreement which we entered into in August 2001 and terminated in August 2002. However, these items contributing to the decrease in interest expense were offset partially by incremental interest on additional debt issued in 2001. We entered into the interest rate swap in order to hedge our $55.0 million of 2004 Senior Notes. During the period prior to terminating the swap, the floating interest rate under the terms of the swap agreement steadily declined, which reduced our interest expense. We received $2.2 million in proceeds when the interest rate swap was terminated in August 2002, which is being recognized pro-rata, as a reduction to interest expense, over the

remaining term of the 2004 Senior Notes. At the time the 2004 Senior Notes are redeemed, the unrecognized or unamortized portion of the swap proceeds will be netted against any loss incurred on the redemption of the 2004 Senior Notes and recognized in our statements of income.

Interest expense decreased by $3.1 million (or 8.9%) in 2001 when compared to 2000. This decrease is due primarily to lower debt levels as a result of refinancing the $290.0 million short-term bridge loan, which was utilized to finance the November 1, 1999 acquisition of ENSTAR, with various securities offerings during the second and third quarters of 2000. The bridge loan was outstanding during the first half of 2000. During the last half of 2000 and all of 2001, we had an equivalent amount of long-term debt and trust preferred securities outstanding. As a result, interest expense was less in 2001 primarily because the dividends on the trust preferred securities are reported separately from interest expense. Lower short-term interest rates during 2001 also contributed to the overall decrease in interest expense. However, these factors were partially offset by $2.1 million of non-recurring income from terminated interest rate swaps, reflected in the 2000 interest expense, and interest on additional debt incurred in 2001 to finance our capital expenditure programs.

Other Income

In 2002 other income decreased by $0.1 million when compared to 2001. A decrease in allowance for funds used during construction and interest income reduced other income during 2002. Partially offsetting these factors was the write-off of certain assets in 2001, which did not recur in 2002, income earned in 2002 on a special engineering project completed by SEMCO Gas for a third party and an increase in equity income from an investment in a gas storage facility.

During 2001, other income decreased by $0.5 million when compared to 2000. This decrease was due primarily to the write-off of certain assets in 2001 and gains on property sales in 2000. These factors were partially offset by an increase in allowance for funds used during construction and an increase in interest income. The increase in interest income was the result of interest received on a supplier refund in 2001.

Income Taxes

Income tax expense for the three, six and twelve-month periods ended June 30, 2003 decreased by $11.4 million, $11.8 million and $11.2 million, respectively, when compared to the same periods ended June 30, 2002. Income taxes for 2002, 2001 and 2000 were $10.1 million, $6.6 million and $11.6 million, respectively. The change in income taxes, when comparing one period to another, was due primarily to changes in income before income taxes and dividends on trust preferred securities and adjustments necessary for compliance with tax laws and regulations. Refer to Note 3 of the Notes to the Consolidated Financial Statements for information on current and deferred income tax expense, deferred tax assets and liabilities and recent net operating losses for tax purposes.

Minority Interest—Dividends on Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiaries Holding Solely Debt Securities of SEMCO Energy, Inc.

We issued trust preferred securities and FELINE PRIDES during the second quarter of 2000. See Note 4 of the Notes to the Consolidated Financial Statements and "Description of Other Indebtedness—Trust Preferred Securities and Related Debt Securities—Trust II Preferred Securities; FELINE PRIDES" for more information on these securities. Dividends on these securities, net of income taxes, for the three, six and twelve-month periods ended June 30, 2003 were essentially unchanged at $2.1 million, $4.3 million and $8.6 million when compared to the same periods ended June 30, 2002. Dividends on these securities, net of income tax, were $8.6 million during each of 2002 and 2001 and $5.0 million in 2000. The $3.6 million increase in dividends in 2001, when compared to

2000, was the result of a full year of dividends during 2001, in comparison to a half-year of dividends during 2000.

Liquidity and Capital Resources

Cash Flows Used for Investing

Our single largest use of cash is capital investments. The following table identifies investments for the six months and twelve months ended June 30, 2003 the past three fiscal years and includes the net amounts paid for business acquisitions, including non-cash amounts such as deferred payments and value, at the time of issuance of our stock issued as part of the acquisitions.

	Year ended December 31,			Six Months ended June 30,		Twelve Months ended June 30,	
	2002	2001	2000	2003	2002	2003	2002
				(in thousands)			
Capital investments:							
Property additions—gas distribution	$ 29,972	$ 34,074	$ 47,466	$ 11,322	$ 13,631	$ 27,663	$ 30,037
Property additions—diversified businesses and other	5,005	21,370	19,170	935	2,686	3,254	13,413
Business acquisitions	—	—	1,784	—	—	—	—
Total capital investments	$ 34,977	$ 55,444	$ 68,420	$ 12,527	$ 16,317	$ 30,917	$ 43,450

Our expenditures for property additions were approximately $12.3 million for the first half of 2003. Expenditures for property additions during the remainder of 2003 are anticipated to be approximately $21.0 million.

Property additions for the gas distribution business represent primarily gas service lines for new customers and, to a lesser extent, gas main and service line replacements. In addition, we invested $0.6 million, $5.9 million and $11.9 million in technology in 2002, 2001 and 2000, respectively. This technology consists of automated meter reading, measurement systems and other computer system and infrastructure improvements that have increased customer service and administrative and operational efficiency. In 2000, we acquired a business for $1.8 million. There were no acquisitions in 2001 and 2002.

During 2002, we received $4.5 million in proceeds from property sales, net of costs. This was a significant increase over prior years. The primary reason for the increase was the sale of two buildings and vacant land. The two buildings housed a large portion of the operations and administrative personnel of SEMCO Gas. We now lease these facilities.

Cash Flows Provided by Operations

Our net cash provided by operating activities for the six and twelve months ended June 30, 2003, when compared to the same periods of the prior year, increased by $3.6 million and decreased by $0.6 million, respectively. Our net cash provided by operating activities totaled $24.9 million in 2002, $36.7 million in 2001 and $49.0 million in 2000. The change in operating cash flows is influenced significantly by changes in the level and cost of gas in underground storage, changes in accounts receivable and accrued revenue and other working capital changes. The changes in accounts receivable, accrued revenue and other working capital are largely the result of how we manage the timing of cash receipts and payments.

The decrease in operating results from our construction services business, which was discussed in previous sections, has reduced cash provided by operating activities. However, we reduced the amount of capital expenditures made for this business segment in 2002 (see table above) and expect to keep

2003 capital expenditures below 2002 levels. As a result, we expect that the construction services business is not likely to increase or decrease our liquidity in any material way during 2003. We believe that over the long term our construction services business is positioned to realize increased profitability as the activity in this sector returns to more normal levels.

We use significant amounts of short-term borrowings to finance natural gas purchases for storage during the non-heating season. We own and lease natural gas storage facilities in Michigan with available capacity approximating 30% to 35% of our average annual Michigan gas sales. Generally, gas is injected into storage during the months of April through October and withdrawn for sale from November through March.

Cash Flows Provided by Financing

	Year ended December 31,			Six Months ended June 30,		Twelve Months ended June 30,	
	2002	2001	2000	2003	2002	2003	2002
				(in thousands)			
Cash provided by (used for) financing activities:							
Issuance of common stock, net of repurchases	$ 3,642	$ 2,436	$ 865	$ 1,902	$ 1,944	$ 3,600	$ 4,236
Issuance of trust preferred securities	—	—	134,885	—	—	—	—
Issuance of long-term debt, net of redemptions	(1,135)	58,286	136,569	197,713	—	226,703	(142)
Net cash change in notes payable	13,878	(26,185)	(243,708)	(65,103)	(21,301)	(29,924)	15,305
Repayment of long-term debt	—	—	—	(110,090)	—	(140,215)	(10)
Debt exchange and extinguishment costs	—	—	—	(24,030)	—	(24,030)	—
Restricted cash for long-term debt retirements	—	—	—	(28,000)	—	(28,000)	—
Payment of dividends	(10,776)	(15,193)	(15,033)	(4,706)	(6,136)	(9,346)	(13,745)
Total cash provided by (used for) financing activities	$ 5,609	$ 19,344	$ 13,578	$ (32,314)	$ (25,493)	$ (1,212)	$ 5,644

In June 2003, our Board of Directors changed the annual dividend rate on our common stock from $0.50 to $0.30 per share and declared a regular quarterly cash dividend of $0.075 per share on our common stock. The dividend is payable on August 15, 2003 to shareholders of record at the close of business on August 1, 2003.

In May 2003, we issued an aggregate of $300 million of senior unsecured notes. We issued approximately $92.3 million of the new notes in an exchange for our other outstanding debt. The debt exchange was a non-cash financing activity and therefore is not reflected in cash flows provided by financing activities. Refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements for further information regarding the debt exchange and the use of the remaining proceeds from the $300 million offering.

During 2002, we issued $30.0 million of long-term debt and used the proceeds to repay $30.0 million of debt which matured in October 2002. During 2001, we issued $60.0 million of long-term debt and used the proceeds to repay a portion of our short-term lines of credit with banks. On November 1, 1999, we financed the acquisition of ENSTAR with a $290.0 million unsecured bridge loan. In 2000, we utilized the proceeds of several securities offerings and our short-term bank lines of credit to repay the bridge loan. The net change in notes payable for 2000 includes the combined cash borrowed or paid on our short-term lines of credit with banks and the ENSTAR bridge loan.

We redeemed certain of our securities and issued various debt and equity securities during the past three years. Refer to Note 4 of the Notes to the Consolidated Financial Statements for information regarding these redemptions and issues.

Non-Cash Financing Activities

We issued 100,000 shares of our common stock to the shareholders of a business acquired during 2000.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Guarantees

We do not have any material guarantees that are required to be disclosed under the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

Contractual Obligations and Commercial Commitments

Summarized below are our contractual obligations and other commercial commitments. Refer to Note 13 of the Notes to the Consolidated Financial Statements for information about other commitments and contingencies. Certain of these obligations are subject to remarketing and could become due or cancelled before their maturity under specific circumstances. The following table does not give effect to the Offering or the Refinancing.

	Payments Due by Year ended December 31,					
	Total	2003	2004	2005	2006	2007 and beyond
	(in millions)					
Contractual obligations:						
Long-term debt	$ 365.0	$ —	$ 55.0	$ 15.0	$ —	$ 295.0
Trust preferred securities of subsidiaries	141.0	—	—	101.0	—	40.0
Unconditional gas purchase and gas transportation obligations	209.8	76.6	42.4	38.2	29.4	23.2
Operating leases	13.1	1.8	1.7	1.3	1.1	7.2
Miscellaneous notes payable	0.6	0.4	0.2	—	—	—
Total contractual cash obligations	$ 729.5	$ 78.8	$ 99.3	$ 155.5	$ 30.5	$ 365.4

	Amount of Commitment Expiration per Year ended December 31,					
	Total	2003	2004	2005	2006	2007 and beyond
	(in millions)					
Commercial commitments:						
Credit facilities	$ 145.0	$ 65.0	$ —	$ 80.0	$ —	$ —

General Financing Matters

In general, we fund our capital expenditure program and dividend payments with operating cash flows and the utilization of short-term credit facilities. When appropriate, we will refinance our short-term debt with long-term debt, common stock or other long-term financing instruments. During the second quarter of 2003, we amended our bank credit facility to permit the issuance of additional debt securities, to increase the facility from $145 million to $155 million and to extend the maturity

date of the 364-day component of the facility to May 20, 2004. The $155 million bank credit facility consists of an $85.5 million multi-year revolver, which expires in June 2005, and a $69.5 million 364 day facility, with a one year term loan option. Refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements and "Description of Other Indebtedness—Credit Agreement" for additional information regarding the bank credit facility. On June 30, 2003, $97.8 million of our bank credit facility was unused.

In March 2000, a registration statement on Form S-3 filed with the SEC by us and SEMCO Capital Trust I, SEMCO Capital Trust II and SEMCO Capital Trust III became effective. On March 31, 2003, there was $134 million available under our registration statement for any future issuances of common stock, preferred stock, trust preferred securities and/or long-term debt.

Our 10.1 million FELINE PRIDES securities are subject to remarketing and rate resets in 2003. For a description of our securities and other information, including the terms related to remarketing, rate resets or possible redemption of the securities, refer to Note 4 of the Notes to the Consolidated Financial Statements and "Description of Other Indebtedness."

Covenants contained in our amended bank credit facility require maintenance of a minimum net worth of $215.0 million, a fixed-charge coverage ratio of at least 1.2 until September 30, 2003, at least 1.33 until March 31, 2004 and 1.5 thereafter, and a debt-to-capitalization ratio of less than 0.70 until the earlier of March 31, 2004 or the sale of Alaska Pipeline Company, at which time the debt-to-capitalization ratio must be less than 0.65. As of June 30, 2003, we were in compliance with all debt covenants. Failure to comply with such covenants may result in a default with respect to the related debt and could lead to the acceleration of such debt or any instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness.

Our ratio of earnings to fixed charges, as defined under Item 503 of SEC Regulation S-K, was 0.6 for the twelve months ended June 30, 2003 and 1.32, 1.04 and 1.60 for the years ended December 31, 2002, 2001 and 2000, respectively. This ratio is more strictly defined than the fixed charges coverage ratio used to determine compliance with our previously discussed debt covenants.

The fixed charge coverage ratio, as defined by our short-term debt agreements, represents a ratio of earnings to fixed charges. "Earnings" represents income (loss) before income taxes, interest charges, dividends on trust preferred securities, discontinued operations & extraordinary items. "Fixed charges" represents interest expense and the amortization of debt expense (included as part of the interest expense line item in the Statement of Operations).

The ratio of earnings to fixed charges ratio as required by Item 503 of SEC Regulation S-K is more strictly defined in that "fixed charges" must include preferred securities dividend requirements of consolidated subsidiaries as well as interest expense and debt amortization expense. We have such dividend requirements under our Trust Preferred Securities and include them in the calculation of fixed charges for purposes of calculating the ratio required under Regulation S-K.

Market Risk Information

Our primary market risk arises from fluctuations in commodity prices and interest rates. Our exposure to commodity price risk arises from changes in natural gas and propane prices throughout the United States and in eastern Canada, where we conduct sales and purchase transactions. We do not currently use financial derivative instruments (such as swaps, collars or futures) to manage our exposure to commodity price risk.

A significant portion of the natural gas requirements of our Michigan gas distribution business are covered under third-party supply arrangements and an MPSC-approved mechanism that passes commodity costs through to our customers. ENSTAR's natural gas requirements are primarily covered

by a number of long-term supply arrangements and an RCA-approved mechanism that passes commodity costs through to our customers. At December 31, 2002, the exposure to commodity price risk for our gas distribution business was not material as a result of the long-term gas supply contracts and the regulator-approved mechanisms to pass commodity costs through to our customers. For further information on how these agreements reduce our exposure to commodity price risk, see the Cost of Gas section in Note 1 of the Notes to the Consolidated Financial Statements.

We are also subject to interest rate risk in connection with the issuance of variable and fixed-rate debt. In order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed and variable-rate interest payment obligations over the life of the agreements, without exchange of the underlying principal amounts. See Note 7 of the Notes to the Consolidated Financial Statements for additional information on the fair value of interest rate swap agreements at December 31, 2002, and how we account for our risk management activities.

The following table, which does not give effect to the Offering or the Refinancing, provides information about our debt obligations that are sensitive to interest rate changes:

	Principal payments and Interest Rate Detail by Expected maturity Date							
As of December 31, 2002	**2003(a)**	**2004**	**2005**	**2006**	**2007**	**2008 and beyond**	**Total**	**Fair Value**
				(in thousands)				
Long-term debt								
Fixed rate	$ 105,000	$ 55,000	$ 15,000	$ —	$ 30,000	$ 159,815	$ 364,815	$ 376,915
Average interest rate	8.95%	8.00%	6.50%		7.20%	7.66%	8.00%	
Bank credit facility								
Variable rate(b)	$ 65,000	$ —	$ 80,000	$ —	$ —	$ —	$ 145,000	$ 145,000
Average interest rate(c)	2.80%		2.80%				2.80%	

(a)
The $105 million of fixed rate debt reflected in the 2003 column has a contractual maturity date of 2008, but is reflected in 2003 because it is subject to remarketing and rate reset in 2003. See Note 4 of the Notes to the Consolidated Financial Statements for further information.

(b)
Amounts represent total credit available to us at December 31, 2002 rather than the actual amount outstanding at December 31, 2002.

(c)
The average interest rate reported for the variable rate bank credit facility is the average rate during the year ended December 31, 2002.

Impact of Inflation

Inflation is not, and has not been in the past three years, a material factor for our gas distribution business because our gas costs are generally recovered in our rates through the pricing mechanisms. The cost of gas sold in Alaska is recovered from our gas distribution business customers on a current basis through its gas cost adjustment, or GCA, clause. The cost of gas sold in the geographic regions of Michigan subject to the jurisdiction of the MPSC is recovered from gas distribution business customers on a current basis through its GCR clause. The GCA and GCR mechanisms allow for the adjustment of rates charged to customers in response to increases and decreases in the cost of gas purchased. We applied for and received approval from the CCBC to extend the fixed gas charge program until March 31, 2005 for customers located in the City of Battle Creek, Michigan and surrounding communities. See the Cost of Gas section in Note 1 of the Notes to the Consolidated Financial Statements for more information.

Increases in other utility operating costs are recovered through the regulatory process of a rate case and, therefore, may adversely affect the results of operations in inflationary periods due to the time lag involved in this process. We attempt to minimize the impact of inflation by controlling costs,

increasing productivity and filing rate cases on a timely basis. See "Business—Regulatory Matters" for a general discussion of rate determinations.

In our construction services business, we have customer contracts that extend over multiple years. These contracts often contain annual increases in rates charged for services in order to minimize the impact of inflation. If cost were to increase significantly, we would attempt to renegotiate our contracts and ask customers for increased rates to mitigate the increases. Inflation has not been a material factor for our diversified business group in the last three years.

Critical Accounting Policies

We have prepared our consolidated financial statements in conformity with generally accepted accounting principles in the United States. The preparation of these financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The following is a summary of our most critical accounting policies, which are defined as those policies whereby judgments or uncertainties could affect the application of those policies and materially different amounts could be reported under different conditions or using different assumptions. For a complete discussion of our significant accounting policies, refer to Note 1 of the Notes to the Consolidated Financial Statements.

Rate Regulation

The gas distribution business is subject to regulation. The regulatory matters associated with gas distribution business customers located in the City of Battle Creek, Michigan and surrounding communities are subject to the jurisdiction of the CCBC. The MPSC has jurisdiction over the regulatory matters related to our remaining Michigan customers. Regulatory matters for gas distribution business customers in Alaska are subject to the jurisdiction of the RCA. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. See "Business—Regulatory Matters" for more information.

Our gas distribution business has accounting policies which conform to SFAS No. 71, "Accounting for the Effect of Certain Types of Regulation" and which are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities to which it is subject. The application of these accounting policies allows us to defer expenses and income as regulatory assets and liabilities in the consolidated statements of financial position when it is probable that those expenses and income will be allowed in the rate-setting process in a period different from the period in which they would have been reflected in the consolidated statements of operations by an unregulated company. These deferred regulatory assets and liabilities are then included in the consolidated statements of operations in the periods in which the same amounts are reflected in rates. Management's assessment of the probability of recovery or pass through of regulatory assets and liabilities requires judgment and interpretation of laws and regulatory commission orders. If, for any reason, we cease to meet the criteria for application of regulatory accounting treatment for all or part of our operations, the regulatory assets and liabilities related to those portions ceasing to meet such criteria would be eliminated from the consolidated statements of financial position and included in the consolidated statements of operations for the period in which the discontinuance of regulatory accounting treatment occurs. Such amounts would be classified as an extraordinary item.

Goodwill

We evaluate our goodwill for impairment in accordance with SFAS 142 which requires that we perform impairment tests on our goodwill balance annually or at any time when events occur which could impact the value of our business segments. Our determination of whether an impairment has occurred is based on an estimate of discounted cash flows attributable to our reporting units that have goodwill, as compared to the carrying value of those reporting units' net assets. We must make long-term forecasts of future revenue, expenses and capital expenditures related to the relevant reporting unit in order to make the estimate of discounted cash flows. These forecasts require assumptions about future demand, future market conditions, regulatory developments and other factors. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period. If an impairment test of goodwill shows that the carrying amount of the goodwill is in excess of the fair value, a corresponding impairment loss would be recorded in the consolidated statements of operations. We performed the 2002 annual impairment tests for our business segments which indicated that there was no impairment of goodwill.

Pensions and Other Postretirement Benefits

We account for pension costs and other postretirement benefit costs in accordance with the SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These statements require liabilities to be recorded in the consolidated statements of financial position at the present value of these future obligations to employees net of any plan assets. The calculation of these liabilities and associated expenses require the expertise of actuaries and are subject to many assumptions including life expectancies, present value discount rates, expected long-term rate of return on plan assets, rate of compensation increases and anticipated health care costs. Any change in these assumptions can significantly change the liability and associated expenses recognized in any given year. For example, a one percentage point increase in anticipated health care costs each year would increase the accumulated retiree medical obligation as of December 31, 2002 by $4.4 million and the aggregate of the service and interest cost components of net periodic retiree medical costs for 2002 by $0.4 million.

New Accounting Standards

On January 1, 2003, we adopted FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 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.

We adopted SFAS 143 on January 1, 2003 and determined that we do not have any asset retirement obligations (ARO) that are to be recorded in accordance with SFAS 143. However, we do have non-ARO negative salvage value that is recorded in the accumulated depreciation of our gas distribution business. The non-ARO negative salvage value is recognized as a component of depreciation expense when we receive amounts in our gas distribution customer rates for estimated future removal costs related to our regulated gas distribution infrastructure. We reflect these amounts in our accumulated depreciation accounts in accordance with industry practice. As of June 30, 2003, the non-ARO negative salvage included in accumulated depreciation was approximately $50.3 million.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 eliminates SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and thus allows for only those gains or

losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS 145 also amends SFAS No. 13, "Accounting for Leases" to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The provisions of this statement relating to the rescission of SFAS 4 are effective for fiscal years beginning after May 15, 2002. The provisions of this statement relating to the amendment of SFAS 13 are effective for transactions occurring after May 15, 2002. All other provisions of this statement are effective for financial statements issued on or after May 15, 2002. In accordance with the provisions of SFAS 145, we reported debt extinguishment costs incurred during the second quarter of 2003 as a separate line item within the continuing operations section of the Consolidated Statements of Operations. Under previous FASB guidance these costs would have been reported as an extraordinary charge. For further information on the debt extinguishments costs see Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements. The remaining provisions of SFAS 145 have not had a material impact on our consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

The adoption of SFAS 145 and SFAS 146 did not have a material impact on our financial statements. However, the provisions of SFAS 145 discussed above will impact any debt extinguishments we may have after December 31, 2002.

In November 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123." SFAS 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We continue to account for all stock options under the provisions and related interpretations of Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" and report the disclosure of stock options in accordance with the provisions of SFAS 148. The adoption of the disclosure provisions of SFAS 148 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," or FIN 45. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees and standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions of FIN 45 related to recognizing a liability at inception of the guarantee do not apply to product warranties or guarantees accounted for as derivatives. The initial recognition and initial measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions were effective for financial statements for periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of FIN 45 did not have a material impact on our financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 addresses conditions for consolidating an entity based on variable interests (as defined in the standard) rather than voting interests. FIN 46 clarifies that variable interest entities that do not disperse risks among the parties involved should be consolidated by the entity that is determined to be the primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003. For variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003, FIN 46 must be adopted no later than the first fiscal year or interim period beginning after June 15, 2003. FIN 46 did not have an impact on us during the three or six months ended June 30, 2003. We are evaluating our consolidated capital trusts to determine whether they are variable interest entities under FIN 46. The trusts, "SEMCO Capital Trust I" and "SEMCO Capital Trust II," have issued $40 million and $101 million, respectively, of mandatorily redeemable preferred securities and are consolidated as of June 30, 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component. SFAS 149 also amends the definition of an underlying to conform it to language used in FIN 45 and certain other existing pronouncements. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. In addition, all provisions of SFAS 149 will be applied prospectively except that: a) the provisions of SFAS 149 that relate to SFAS 133 implementation issues that have been effective for fiscal quarters that began prior to June 30, 2003, will continue to be applied in accordance with their respective effective dates and b) provisions related to forward purchases or sales of when-issued securities or securities that do not yet exist, will be applied to both existing contracts and new contracts entered into after June 30, 2003. We do not believe that the adoption of SFAS 149 will have a material impact on our financial condition and results of operation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. For financial instruments created before the issuance date of SFAS 150, SFAS 150 is effective at the interim period beginning July 1, 2003. Transition shall be achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instrument at fair value or other measurement attribute required by SFAS 150.

We have Trust Preferred Securities and FELINE PRIDES securities that were in existence prior to the issuance of SFAS 150. Each FELINE PRIDES security includes a Trust Preferred Security. These securities have characteristics of both liabilities and equities and have been reported in the Consolidated Statements of Financial Position as a separate line item between Long-term Debt and Common Shareholders Equity. The Trust Preferred Securities will be reclassified to long-term debt in compliance with the provisions of SFAS 150. We do not expect the adoption of SFAS 150 to have a material impact on our net income (loss) available to common shareholders.

Overview

We are a diversified energy and infrastructure services company, headquartered in southeastern Michigan. We were founded in 1950 as Southeastern Michigan Gas Company. In 1977, Southeastern Michigan Gas Enterprises, Inc. was formed as a holding company, into which Southeastern Michigan Gas Company was transferred. On April 24, 1997, Southeastern Michigan Gas Enterprise's name was changed to SEMCO Energy, Inc. Our two primary businesses are: (1) a regulated gas distribution business with operations in Michigan and Alaska; and (2) an unregulated diversified business group with operations in construction services; propane, pipelines and storage; and IT services. Our gas distribution operations in Michigan and Alaska operate as divisions of SEMCO Energy while our diversified business operations are organized as subsidiaries of SEMCO Energy.

Business Strategy

Our business strategy has two key elements: (1) a continued strong focus on our core competencies in our gas distribution business and (2) opportunistic and prudent growth of our diversified business group. In our gas distribution business, we seek opportunities to expand our distribution system in an economical manner through the attachment of potential customers located on or near our existing distribution system. In our diversified business group, we intend to continue to exercise financial discipline in evaluating any new business opportunities with a principal focus on expanding our business primarily through internal growth rather than through acquisitions. The principal elements of our business strategy are described below.

Focus on our Core Competence. Growth of our customer base in our gas distribution business and attention to improving the operational efficiencies in our businesses are the key focal points of our business strategy. In addition to seeking growth within our existing service territories for our gas distribution business, we will selectively analyze acquisitions that provide attractive, complementary service territories and additional economies of scale. Over the past several years, a large number of diversified energy companies have elected to aggressively pursue unregulated business opportunities in the merchant power, telephony and internet infrastructure, and commodity trading businesses. As a result of these expansions, the lack of financial discipline and an unforeseen decline in the general economic environment, many of these companies that expanded aggressively in the recent past now find themselves in difficult financial positions with high levels of debt and unsustainable business models. In contrast, we continue to remain focused on our core business of gas distribution.

Maintain Regulatory Relationships. In our regulated gas distribution business, it is important that we maintain positive relationships with the regulatory bodies under whom we have the authority to provide gas distribution. Because our focus is and has been on our core gas distribution business, we have not been distracted from our efforts to maintain good relationships with the regulatory authorities that regulate our gas distribution business.

Focus on Continued Business Optimization. We intend to continue to operate and only enter new diversified businesses that are complementary to our core gas distribution business. The diversified businesses in which we currently operate benefit from the managerial expertise we have gained from the operation of our gas distribution business. We plan to grow these diversified businesses only where we can do so profitably and within our capital expenditure budgets. As part of our strategy, we have eliminated unprofitable or marginal performers within our diversified business group in the recent past including the discontinuance of our engineering business. To maintain our objective of prudent and opportunistic growth in our diversified business group, we will continue to focus on expanding our business primarily through internal growth rather than through acquisitions. Although our focus is not on expansion through acquisition, we may consider opportunistic acquisition proposals in our propane, pipelines and storage business.

Competitive Strengths

Barriers to Entry. Our gas distribution business is regulated by state and local governmental authorities, and we are required to obtain franchise and certificate authority to engage in the delivery of gas. We believe that the capital necessary to build, maintain and expand a gas distribution system discourages new competitors from entering into our service territories. We currently have 160 miles and 396 miles of gas transmission pipeline and 5,423 miles and 2,421 miles of gas distribution pipelines in SEMCO Gas and ENSTAR, respectively. Given our expertise in each of our service territories and our success in providing good service at a price that the regulatory bodies deem appropriate, we do not believe it is likely that the regulatory bodies would grant another natural gas distribution franchise in our service territories.

Attractive Service Territories. In Anchorage, Alaska, we are the only natural gas distribution company in a service territory that has one of the highest gas consumption rates per residential customer in the United States. Our gas distribution business in our service territories in Alaska and Michigan has grown well above the national average for customer growth rates in the United States gas distribution industry over the recent past. Our service territories provide ready access to natural gas supplies due to their proximity to supply sources and through our supply contracts. We also benefit from our positive relationships with the regulatory authorities in each service territory.

Strong Supply and Storage Networks with Long-term Fuel Supply. We have sufficient long-term gas supply contracts, storage and pipeline access for our gas distribution business. In Michigan at SEMCO Gas, there are two years remaining on our contracts with BP Canada to provide gas and transportation and storage asset management services to all of the customers in our service territory. In addition to our agreements with BP Canada, SEMCO Gas has access to natural gas supplies throughout the United States and Canada via major interstate pipelines that run through Michigan. SEMCO Gas has pipeline capacity contracts with ANR Pipeline Company, Great Lakes Gas Transmission Limited Partnership, Northern Natural Gas Company and Panhandle Eastern Pipe Line Company. SEMCO Gas also owns or leases underground storage facilities in Michigan with a working capacity of approximately 15.3 billion cubic feet, or Bcf. Our owned and leased storage capacity equals approximately 36% of our 2002 annual gas sales volumes in Michigan. In Alaska at ENSTAR, we have gas supply contracts of varying terms with Marathon Oil Company, Chevron U.S.A. Inc., ConocoPhillips Alaska, Inc., Anchorage Municipal Light and Power, Aurora Gas Company and Unocal. Collectively, the gas suppliers are obligated to supply all of ENSTAR's gas requirements through 2005. There are no minimum purchase requirements under our gas purchase contracts which are material in relation to the total requirements of either SEMCO Gas or ENSTAR.

Highly Experienced Management Team. Our senior management team is comprised of an experienced group of industry veterans with an average tenure in the utility business of more than 20 years with experience in a wide variety of management functions.

Infrastructure Investments and Limited Costs. Over the last few years, we have made material investments in our infrastructure. We have improved technology in our gas distribution business and upgraded equipment used in our construction services business. These investments have resulted in increased customer service and administrative and operational efficiencies in our businesses. Due to these recent investments, we expect to reduce our capital expenditures in 2003 to approximately $33 million.

Gas Distribution Business

Our gas distribution business segment consists of operations in Michigan and Alaska. We refer to our Michigan operations as SEMCO Gas and our Alaskan operations as ENSTAR. Additionally, APC operates as a subsidiary of SEMCO Energy and as part of the ENSTAR operations. Our gas

distribution business distributes and transports natural gas to residential, commercial and industrial customers and is our largest business segment.

Set forth in the table below is gas sales and transportation information for the six months ended June 30, 2003 and 2002 and the past three fiscal years:

	Year ended December 31,			Six Months ended June 30,	
	2002	2001	2000	2003	2002
Gas sales revenue (in thousands):					
Residential	$ 227,086	$ 201,754	$ 190,221	$ 172,675	$ 126,801
Commercial	84,480	73,831	62,354	73,201	46,662
Industrial/Other	24,089	19,812	18,412	8,803	12,629
Total gas sales revenue(1)	$ 335,655	$ 295,397	$ 270,987	$ 254,679	$ 186,092
Gas transportation revenue (in thousands)	$ 25,707	$ 25,888	$ 30,783	$ 14,113	$ 13,961
Volumes of gas sold (MMcf):					
Residential	42,671	41,529	41,397	27,173	25,201
Commercial	16,970	16,032	14,591	12,114	10,019
Industrial	5,416	5,556	5,066	1,258	2,987
Total volumes of gas sold(1)	65,057	63,127	61,054	40,545	38,207
Volumes of gas transported (MMcf)	44,921	42,992	48,706	22,598	22,990
Total volumes delivered(1)	109,978	106,119	109,760	63,143	61,197

(1)
Does not include the sale of excess inventory gas to a third party in 2000.

All revenue generated by the gas distribution business for the years ended December 31, 2002, 2001 and 2000 is from non-affiliate customers. For information on operating income and total assets of the gas distribution segment for the years ended December 31, 2002, 2001 and 2000, refer to Note 11 of the Notes to the Consolidated Financial Statements. For information on intercompany operating revenues and total operating income for the six months ended June 30, 2003 and 2002, refer to Note 5 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

Gas Sales

Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. These customers use natural gas mainly for space heating purposes. Consequently, weather has a significant impact on sales. Given the impact of weather on this business segment, most of our gas sales revenue is earned in the first and fourth quarters of the calendar year. Revenue from gas sales accounted for 70%, 66% and 67% of our consolidated operating revenue in 2002, 2001 and 2000, respectively, and 83% and 71% of our consolidated operating revenue in the six months ended June 30, 2003 and 2002, respectively.

Our ATS program, which was effective April 1, 1998 through March 31, 2002, provided all Michigan customers the opportunity to purchase their gas from a third-party supplier, while allowing our gas distribution business to continue charging the existing distribution fees and customer fees plus a gas load balancing fee. The ATS program was further expanded and opened to additional customers on October 1, 2002, as the Gas Customer Choice Program. These programs provide all Michigan residential customers the opportunity to purchase their gas from a third-party supplier, while allowing us to continue charging the existing distribution fees and customer fees with respect to such customers. Distribution and customer fees associated with customers who switched to third-party gas suppliers were recorded in gas transportation revenue rather than gas sales revenue because we acted as a

transporter for those customers. During 2001 and 2002, certain ATS customers switched back to our general gas sales service because the third-party suppliers they were utilizing stopped participating in the ATS program, primarily due to significant fluctuations in the market price of natural gas. In addition, when the ATS program for residential customers ended on March 31, 2002, all remaining ATS customers became our general gas sales customers because they were turned back to us by their third-party gas suppliers. As customers switch back to general gas sales service, gas sales revenue and gas sales margin increase, but there is a corresponding decrease in gas transportation revenue. Currently, there are no third-party gas suppliers providing service under this program in our customer service territories.

Transportation

Our gas distribution business provides intrastate transportation services to our large-volume commercial and industrial customers. This service offers those customers the option of purchasing natural gas directly from producers or marketing companies and utilizing our gas distribution business' distribution network to transport the gas to their facilities.

APC owns and operates the only natural gas transmission lines serving the Anchorage, Alaska metropolitan area. APC's transmission system delivers natural gas from fields in southcentral Alaska to ENSTAR's Anchorage-based gas distribution system. APC's only customer is ENSTAR Natural Gas Company. See "Prospectus Summary—Recent Events and Other Matters." Customers in ENSTAR's service territory are currently precluded from bypassing ENSTAR's transportation and distribution system due to the limited availability of gas transmission systems and the large distances between producing fields and the locations of current customers.

Customer Base

At June 30, 2003, SEMCO Gas had approximately 272,000 customers. The largest concentration of customers, approximately 113,000, is located in southeastern Michigan. The Michigan customer base is diverse and includes residential, commercial and industrial customers. The largest customers include power plants, food production companies, paper processing plants, furniture manufacturers and others in a variety of other industries.

At June 30, 2003, ENSTAR had approximately 113,000 customers. ENSTAR is the sole distributor of natural gas to the Anchorage metropolitan and adjoining areas, and its service area encompasses approximately 50% of the population of Alaska. ENSTAR has two types of customers: gas sales and transportation. Gas sales customers are primarily residential and commercial. ENSTAR provides transportation service on behalf of gas producers and gas marketers to power plant sites, an ammonia plant and hundreds of commercial locations. The average number of customers at ENSTAR has increased by an average of approximately 2.8% annually during 1999 through 2001.

During 2002, the average number of gas sales customers for our gas distribution business, as a whole, increased by 11,554. Approximately 3,200 of this increase was caused by customers switching from the ATS program in Michigan back to general gas sales service. The remaining increase of approximately 8,400 represents the average number of new gas sales customers added to our distribution system in 2002. During 2001, our average number of gas sales customers increased by 11,274. Approximately 2,800 of the increase was caused by customers switching from the ATS program in Michigan back to general gas sales service. The remaining increase of approximately 8,500 represents the average number of new gas sales customers added to our distribution system in 2001.

Gas Supply Agreements

Michigan

SEMCO Gas entered into new gas supply agreements with BP Canada effective April 1, 2002. We have separate agreements with BP Canada relating to customers in our service area regulated by the

MPSC and customers in our service area regulated by the CCBC. Under the agreements related to our CCBC customers, BP Canada provides all of the natural gas supply requirements for our CCBC customers as well as transportation and storage asset management services. Under the terms of these agreements, the price we pay to purchase natural gas for our CCBC customers is fixed for the three-year period covered by the agreements, which is from April 1, 2002 through March 31, 2005.

Under the BP Canada agreements covering our MPSC customers, BP Canada provides gas supply portfolio management services as well as transportation and storage asset management services. We no longer purchase gas for our MPSC customers at a fixed cost over a number of years. In keeping with our switch back to the GCR pricing mechanism for our MPSC customers, we are required to solicit bids for all supplies with term lengths longer than three days, which constitutes more than 99% of our sales. Supplies with term lengths of three days or less are purchased from BP Canada.

In addition to its agreements with BP Canada, SEMCO Gas has access to natural gas supplies throughout the United States and Canada via major interstate pipelines that run through Michigan. SEMCO Gas has pipeline capacity contracts with ANR Pipeline Company, Great Lakes Gas Transmission Limited Partnership, Northern Natural Gas Company and Panhandle Eastern Pipe Line Company. SEMCO Gas also owns underground storage facilities in Michigan with a working capacity of 5 billion cubic feet, or Bcf. In addition, SEMCO Gas leases 6.5 Bcf of storage from Eaton Rapids Gas Storage System and 3.8 Bcf from non-affiliates in Michigan. SEMCO Gas Storage Company, our subsidiary, is a 50% owner of Eaton Rapids Gas Storage System. Our owned and leased storage capacity equals approximately 36% of our 2002 annual gas sales volumes in Michigan.

Alaska

ENSTAR receives all of its natural gas from the Cook Inlet Basin through the APC system, the sole source of natural gas for home and business heating throughout south central Alaska. Annual gas production in the Cook Inlet has historically been between 200 and 225 Bcf.

APC transported and ENSTAR delivered approximately 22 Bcf to its residential and commercial customers in 2002. Additionally, APC transported 25 Bcf in 2002 for ENSTAR's power plant, military and industrial customers.

Natural gas is supplied to ENSTAR through the APC system from two major contracts. One is with Marathon Oil Company and the other is the "Beluga" contract, which sources gas from ConocoPhillips, Chevron and Anchorage Municipal Light and Power. In addition, ENSTAR has contracts with Unocal and Aurora Gas Company and has various other contracts that provide back-up supply by re-routing gas from other Cook Inlet users to ENSTAR on peak days. There are no minimum purchase requirements under our gas purchase contracts which are material in relation to the total requirements of ENSTAR.

As of January 1, 2002, the Cook Inlet had approximately 2.2 trillion cubic feet, or Tcf, of total proved gas reserves according to the Alaska Department of Natural Resources Division of Oil and Gas 2002 Annual Report. Based on the Department's estimated 2002 net production of 221 Bcf, this implies a reserve life of approximately ten years. There is ongoing exploration for gas in Cook Inlet.

According to*A Review of Cook Inlet Natural Gas Supply and Demand Prepared for the Anchorage Economic Development Corporation*, Northern Economics Inc., March 2001, the Cook Inlet gas producers may encounter difficulty meeting peak demand for a few days each winter in the middle of this decade unless additional gas reserves are found or other measures such as gas storage reservoirs to meet peak demand requirements are developed. With the exception of a small Unocal project recently authorized by the Alaska Oil and Gas Conservation Commission, conventional gas storage facilities that provide gas for peak times do not exist in the Cook Inlet, although some of the infrastructure for storage does exist. Depleted reservoirs, pipelines and the ConocoPhillips LNG plant could be

developed or modified to provide storage. The market for storage service could include the power plant customers, and retail gas marketers, in addition to ENSTAR.

Outlook for Gas Distribution

Our strategy for the gas distribution business is to expand our distribution system in an economical manner through attachment of on-main and near-main potential customers. We will also seek ways to capitalize on other market opportunities, including new power generation projects that may become available. The average number of customers served by SEMCO Gas and ENSTAR, combined, increased by approximately 2.3% during both 2002 and 2001. By comparison, recent surveys by the American Gas Association indicate that the customer growth rate for the U.S. gas distribution industry has averaged approximately 1.3% annually during 1999 through 2001. However, average annual gas consumption per customer has been decreasing slightly because new homes and appliances are more energy efficient.

We have offered early retirement programs to our employees during the past few years to help reduce costs. The increased use of technology has also created operating efficiencies. In addition, during 2001, we eliminated our unprofitable heating, ventilation and air conditioning department, which was part of our Michigan gas distribution business, and also eliminated other employee positions as part of our restructuring plan. We will continue our efforts to control operating expenses relating to our gas distribution business.

SEMCO Gas competes with suppliers of alternative energy sources such as coal and #6 and #2 fuel oil to meet the energy requirements of our industrial customers. Natural gas has typically been less expensive than these alternative energy sources. However, during a short period of time in late 2000 and early 2001, natural gas prices increased significantly, making some of these alternative energy sources more economical than natural gas. During this period, a few of our large Michigan industrial customers switched to alternative energy sources. This competition did not have a material impact on our financial results in 2001. Prior to 2000, the market price of natural gas had been fairly stable. However, we cannot predict the future stability of natural gas prices. To lessen the possibility of fuel switching by industrial customers, we offer flexible contract terms and additional services, such as gas storage and balancing, in addition to a more environmentally friendly fuel. ENSTAR supplies natural gas in our service territory at prices that currently preclude substitution of alternative energy sources. At present, the residential energy cost of natural gas in Alaska is less than half the cost of fuel oil, the next most economical energy choice.

General economic conditions also have an impact on the volume of gas sold or transported to our commercial and industrial customers. During economic downturns, these customers may see a decrease in demand for their product, which in turn may lead to a decrease in the amount of natural gas they require for production. However, under normal weather conditions, we generate approximately 68% of our gas sales revenue from residential customers, which is generally not impacted materially by downturns in the economy. Temperatures, however, do have a material impact on the amount of gas sold for heating purposes.

Consistent with other gas distribution utilities, there is a potential risk that industrial and electric generating plants on our gas distribution system, and also located in close proximity to interstate natural gas pipelines, will bypass our system and connect directly to such pipelines. However, management is currently unaware of any significant bypass efforts by our customers. We have addressed, and will continue to address, any such efforts by offering special services and rate arrangements designed to retain these customers on our system.

Diversified Businesses

The following table shows operating revenue for each of the diversified businesses, including intercompany revenue, for the six months ended June 30, 2003 and 2002 and for 2000 through 2002:

	Year ended December 31,			Six Months ended June 30,	
	2002	2001	2000	2003	2002
			(in thousands)		
Operating revenue:					
Construction services	$ 119,254	$ 126,205	$ 105,231	$ 34,976	$ 62,105
Information technology services	9,618	10,275	5,184	4,422	4,578
Propane, pipelines and storage	7,058	7,443	6,949	4,241	3,654

For information on intercompany operating revenues, total operating income and total assets of the above diversified segments for the years ended December 31, 2002, 2001 and 2000, refer to Note 11 of the Notes to the Consolidated Financial Statements. For information on intercompany operating revenues and total operating income for the six months ended June 30, 2003 and 2002, refer to Note 5 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

As previously discussed, we have accounted for our engineering services segment as a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in our consolidated statements of operations.

Construction Services

Our construction services business operates in the midwestern, southern and southeastern regions of the United States and has offices in Georgia, Illinois, Iowa, Michigan and Texas. Its primary service is the installation and upgrade of compressor stations and underground natural gas mains and service lines.

Most of the profits from this segment are made during the summer and fall months. Our construction services business generally incurs losses during the winter months when underground construction is inhibited by weather.

Operating revenue from construction services accounted for 22%, 26% and 23% of consolidated operating revenue in 2002, 2001 and 2000, respectively, and 11% and 24% of consolidated operating revenue in the six months ended June 30, 2003 and 2002, respectively.

Outlook for Construction Services

Despite the decline in operating results during the past two years, management believes there are opportunities for growth in our segment of the pipeline and gas distribution construction industry. Management believes that the current business downturn is short-term, driven, in part, by the state of the U.S. economy, financial issues faced by our construction services business customers and poor productivity in certain units of the construction services business. In late 2002, we ceased operations in a number of under-performing units, which will eliminate from future results the operating losses we incurred in these units during 2002. In addition, plans are underway which we believe will improve construction work crew productivity in 2003.

Management believes that the increasing demand for natural gas will sustain a continued, long-term increase in the need for natural gas infrastructure expansion. Management believes that customer preference is shifting from smaller construction companies to larger contractors. Management also believes there is a trend in the utility industry towards outsourcing services such as those provided by our construction services business. Our goal is to position our construction services business to take advantage of these trends.

Our construction services business competes with small and medium size regional underground facilities contractors who provide similar services and utilize comparable equipment and installation techniques. There is also competition from in-house construction operations of existing or prospective customers. New federal regulations in the United States require a minimum level of operator qualifications for individuals performing certain tasks on pipelines. Management believes that the costs and training required for compliance with these new regulations may force some of our construction services business' smaller competitors to abandon certain pipeline work.

We have redirected our business strategy to focus on expanding our market share in the construction services industry by focusing on profitable growth of our existing construction services businesses, with less emphasis on acquisitions. This change in focus is intended to redirect resources to help maximize the profitability of existing businesses. As part of our strategic redirection, we have consolidated certain units and continue to look for opportunities to become a more integrated business.

Propane, Pipelines and Storage

Our natural gas pipelines and storage operations consist of several gas transmission pipelines and an ownership interest in a gas storage facility, all of which are located in Michigan. We also own a propane distribution business known as Hotflame that supplies more than four million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin. Because propane is used principally for heating, most of the operating income for the propane business is generated in the first and fourth quarters of the calendar year.

Propane is transported easily in pressurized containers and is generally the fuel used in rural areas where natural gas pipelines and distribution systems do not exist or are not economical to build. We purchase the majority of our propane from BP Canada. The propane operation competes with other energy sources such as natural gas, fuel oil, electricity and other regional and national propane providers. The basis of the competition is generally price and service.

Outlook for Propane, Pipelines and Storage

Management believes that the natural gas pipelines and storage operations could experience opportunities for growth with the increasing demand for natural gas. As gas markets expand, management believes that the quantity of gas moving through the Great Lakes region will increase, which could create additional pipeline and storage opportunities.

Information Technology Services

Our IT services business, under the name Aretech, began operations in April 2000 and provides IT infrastructure outsourcing services and other IT services with a focus on mid-range computers. Our other business segments accounted for approximately 79% of Aretech's revenue during 2002. Aretech competes with businesses that range from small to mid-sized companies, as well as the in-house IT departments of potential customers.

Outlook for IT Services

Aretech's business strategy is focused on IT infrastructure outsourcing services. Our goal is to capitalize on our internal expertise in this area and position us to take advantage of these trends. Management believes there is a growing trend by small to mid-sized companies to outsource certain IT functions. We believe the trend towards outsourcing large mainframe-computing services is now moving to include mid-range computers.

Regulatory Matters

Rates and Regulation Relating to Gas Distribution Business

The gas distribution business is subject to government regulation on various levels. The regulatory matters associated with gas distribution business customers located in the City of Battle Creek, Michigan and surrounding communities are subject to the jurisdiction of the CCBC. The MPSC has jurisdiction over the regulatory matters related to our remaining Michigan customers. Regulatory matters for gas distribution business customers in Alaska are subject to the jurisdiction of the RCA. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. Since our gas distribution business operations are wholly intrastate, they are not subject to regulation by the Federal Energy Regulatory Commission.

Alaska

The RCA consists of five members who serve staggered six year terms. They are appointed by the governor of the State of Alaska and confirmed by the Alaska state legislature. The RCA has jurisdiction as to rates and charges for gas sales, construction of new facilities, extensions and abandonments of service and certain other matters. Rates generally permit the recovery of the cost of providing service, including purchased gas costs, and a return on investment. APC and ENSTAR are regulated by the RCA as a single entity. No consent, approval or withholding of objection by the RCA is required for the issuance or sale of long-term debt by a public utility under its jurisdiction.

ENSTAR may apply to the RCA for rate increases if higher costs or other factors warrant. Revised rates typically go into effect, subject to refund and pending final RCA determination, 45 days after they are filed unless suspended for further investigation by the RCA. The RCA normally suspends general rate increases filed to recover costs, other than purchased gas costs, for at least a six-month period. ENSTAR recovers its gas purchase costs through a separate rate element, on a direct pass-through basis.

ENSTAR has an RCA-approved GCA pricing mechanism which allows for the adjustment of rates charged to customers in Alaska for increases and decreases in the cost of gas purchased. Under the GCA pricing mechanism, the gas charge portion of customers' gas rates is adjusted annually to reflect the estimated cost of gas purchased for the upcoming 12-month period. Any difference between the actual cost of gas purchased and the estimate is deferred as a current asset or current liability and included in the next annual adjustment to the gas charge portion of rates. The GCA may be adjusted quarterly if there are significant variances from the estimates.

ENSTAR has RCA approved gas purchase contracts with several entities. The base price of gas purchased under these contracts can be adjusted annually based on factors such as the price of certain traded oil futures, certain natural gas futures and other inflationary measures. Gas costs from new gas supply contracts may be recovered only upon approval of the RCA.

Since 2000, ENSTAR has been undergoing a rate review at the RCA. It received an RCA order, dated August 8, 2002, establishing a revenue requirement of $107.6 million and a return on equity of 12.55% based on normalized data for the year 2000. The RCA order reduced the revenue requirement by approximately $2 million, which represented approximately 1.84% of ENSTAR's revenue in the normalized 2000 test year. ENSTAR has implemented the rate reduction and filed a cost-of-service study and rate design as required by the RCA order. ENSTAR has reached an agreement with all parties to settle all contested issues on the cost-of-service study and the rate design. A written stipulation has been submitted to the RCA for approval. If accepted, the stipulation will approve ENSTAR's cost-of-service study as filed and adopt increased monthly customer charges and flat volumetric rates for retail gas customers. Power plant and most industrial rates would be adopted as originally filed by ENSTAR, which are of similar design to currently effective rates. The RCA held a hearing on May 15, 2002 with respect to the rate design settlement. An order was issued dated May 21,

2003 accepting the settlement in its entirety, and making the new rates effective for billings issued on or after May 31, 2003. The stipulation accepted ENSTAR's cost-of-service study which provided for decreases to the residential, power plant and industrial customers, and increases to commercial customers. In addition, the adopted rate design recovers more of the revenue through increased monthly customer charges.

Since the inception of service in 1961, ENSTAR has had only four formal rate proceedings, including the one currently in process (1975, 1981 and 1984).

Michigan

The MPSC regulates retail gas sales and distribution and intrastate transportation of natural gas. Specifically, the MPSC establishes our base rates for the sale, distribution and transportation of natural gas which are designed to allow for the opportunity to recover reasonably and prudently incurred costs and earn a regulated equity return. Pursuant to its ratemaking authority, the MPSC has access to our books and records and the books and records of each of our subsidiaries, affiliates and our joint ventures. The MPSC also establishes accounting methodologies, record-keeping procedures and report filings requirements. Additionally, our billing, metering and extension practices and consumer shut-off procedures are defined by the MPSC. Further, the MPSC has established our transportation standards of conduct and has approved our customer choice program which allows residential, industrial and commercial customers to select an alternative gas supplier. Under the terms of this program, we are the supplier of last resort. As the supplier of last resort we are required to hold contracts for adequate quantities of underground storage and pipeline transportation for the delivery of supply to all of our residential and commercial customers as protection against the failure of a third party marketer to deliver supply to our Michigan distribution system. The MPSC establishes and enforces gas safety standards and regulates the construction and operation of intrastate transmission pipelines and lines. The MPSC is required to investigate any written complaint alleging that our rates, classifications, regulations or practices are unjust, inaccurate or improper. The MPSC also establishes separate charges for the recovery of reasonably and prudently incurred booked costs of gas sold by us and fixes our depreciation rates. Special contracts for the sale and/or transportation of natural gas at non-tariff rates and/or services must be approved by the MPSC. No consent, approval or withholding of objection by the MPSC is required for the issuance or sale of long-term debt by a public utility under its jurisdiction.

Our rates, practices and services for the sale, distribution and transportation of natural gas within the City of Battle Creek and its immediate vicinity are regulated by the City pursuant to the terms of a franchise. Within the jurisdiction of the CCBC, all non-gas rate changes and revisions in the conditions of service may be implemented by us after written notification to the City's manager. However, all gas rate changes must be put on the meeting agenda of the City Commission. If no request for hearing is made by the CCBC, the rate change will automatically go into effect without further action on our part. If the CCBC requests a hearing, a public hearing must be concluded within 90 days of such request. The final decision of the CCBC is determined on the basis of a majority vote of the CCBC members. There are nine publicly elected City Commissioners who serve 2 year terms.

Finally, in our various service territories, we operate subject to the terms and conditions of applicable franchise agreements with municipalities. These franchise agreements authorize us to use the public rights-of-way for the construction of our facilities and to transact a local business. Construction is usually subject to restoration conditions such as vegetation and road surface restoration and indemnity provisions such as indemnification of the municipality for any property damage caused by our facilities.

Prior to April 1, 1999, our Michigan-based gas distribution business had a regulator-approved GCR pricing mechanism for the geographic regions subject to the regulatory jurisdiction of the MPSC and CCBC. The GCR pricing mechanism works similarly to the GCA pricing mechanism. During the

three-year period from April 1, 1999 to March 31, 2002, the MPSC and CCBC authorized us to suspend our GCR clause and freeze in our customer base rate at a fixed gas charge of $3.24 per thousand cubic feet, or Mcf. The MPSC order was applicable only in the geographic regions subject to the regulatory jurisdiction of the MPSC, and, therefore, did not govern rates regulated by the CCBC. However, we voluntarily requested, and the CCBC approved, a similar freeze in the gas charge at $3.24 for customers subject to the jurisdiction of the CCBC. The CCBC also approved a suspension of the GCR clause. We were able to offer this Michigan GCR suspension and rate freeze mainly as a result of agreements reached with TransCanada Gas Services, Inc. During 2001, TransCanada sold its gas marketing business and assigned the agreements to BP Canada. Under the agreements, TransCanada or BP Canada provided a significant portion of our natural gas requirements and managed our natural gas supply and the supply aspects of transportation and storage operations in Michigan for the three-year period, at a cost that was, in most instances, below the $3.24 price charged to customers. As a result, during the three-year period from April 1, 1999 through March 31, 2002, the Michigan gas distribution business retained any gas costs savings that resulted when the cost of purchased natural gas was below the $3.24 fixed price charged to customers, subject to a customer profit sharing mechanism.

When the GCR suspension period and rate freeze expired on March 31, 2002, we reinstated our GCR pricing mechanism for customers subject to the jurisdiction of the MPSC. Consequently, effective April 1, 2002, we could no longer earn any income on the gas charge portion of the MPSC customers' rates. We received approval from the CCBC to extend the GCR suspension period and the fixed gas charge program with a new fixed gas charge until March 31, 2005 for CCBC customers. We also received approval during 2001 from the CCBC to start charging CCBC customers on a thermal basis rather than a volumetric basis. We buy all of our natural gas by the dekatherm and now also sell it to our CCBC customers by the dekatherm.

Beginning in 2002, the profit incentive and sharing mechanism discussed previously is no longer in effect for MPSC customers. Instead, the profit incentive and sharing mechanism in effect for the calendar year 1998 was reinstated for 2002. Under this mechanism, referred to as a "reverse taper incentive," if the return on equity for the division of our Michigan-based natural gas distribution business that serves our MPSC customers exceeds 10.75%, certain portions of the excess return between 10.75% and 16.0% would be credited to customers. For purposes of this mechanism, if the return on equity exceeds 16.0%, we are required to file a general rate case with the MPSC. The return on equity did not exceed 10.75% for 2002.

On November 21, 2002, our division regulated by the MPSC filed an application for a general rate increase. On May 2, 2003, the MPSC approved a settlement agreement, effective May 3, 2003, which provides for:

- a revenue requirement of $71.9 million based on a 2003 projected test year;

- an increase of return on common equity from 10.75% to 11.40%;

- the elimination of the reverse taper incentive mechanism so that we are no longer required to refund revenues to customers above the return on common equity;

- no potential refund to customers for property tax expense based on the lower state property tax tables; and

- an increase in the monthly service charge (from $7.00 to $9.50 per month for residential customers).

As a result of this settlement agreement, we expect a general rate increase of $3.4 million annually and a reduction of depreciation expense of $1.4 million annually.

Safety Regulations

Our operations are subject to regulation by the United States Department of Transportation under Chapter 601 of Title 49 of the United States Code, as amended, and its implementing regulations, relating to minimum safety standards that may apply to the design, installation, inspection, emergency plans and procedures, testing, construction, extension, operation, replacement and maintenance of our pipeline facilities. Chapter 601 requires any entity that owns or operates certain pipeline facilities to comply with applicable safety standards, to establish and maintain inspection and maintenance plans and to comply with such plans. The Pipeline Safety Improvement Act of 2002 makes numerous changes to Chapter 601, including the requirement that operators of pipeline facilities adopt and implement written integrity management programs, which must include a baseline integrity assessment of each of an operator's transmission facilities that must be completed within 10 years of the enactment of the Pipeline Safety Improvement Act. We anticipate that compliance with the Pipeline Safety Improvement Act and emerging regulations will impose increased costs associated with pipeline inspection and pipeline integrity program requirements, but based on current information we do not expect these costs to have a material adverse effect upon our earnings.

Environmental Matters

Our operations, like those of other companies in similar industries, are subject to federal, state and local environmental and health and safety laws and regulations including those that impose workplace standards and regulate the discharge of pollutants into the environment and establish standards for the handling, generation, emission, release, discharge, treatment, storage and disposal of materials and substances including solid and hazardous wastes. The failure to comply with these regulations can lead, among other things, to civil and criminal penalties and, in some circumstances, the temporary or permanent curtailment of operations. We believe that we are in material compliance with such laws and regulations. We do not anticipate having to make, and historically have not made, material capital expenditures in order to comply with applicable environmental laws and regulations. However, due to the nature of our operations and the frequently changing nature of environmental compliance standards and technology, we cannot predict with any certainty what capital expenditures or operating costs will be required in the future. Depending upon the nature of such future requirements, the cost of maintaining compliance may have a material adverse effect on our business, financial condition and results of operations.

In addition to operational standards, environmental laws also impose obligations to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property or related to other property to which we have sent waste. Given the nature of the past operations conducted by us and others at these properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where an environmental site assessment has been conducted.

While we are not aware of significant contamination-related liabilities associated with our present operations, our gas distribution business currently owns seven Michigan sites which formerly housed manufactured gas plants, or MGPs, and related facilities. In the early part of the 20th century, gas was manufactured from processes using coal, coke or oil. By-products of these processes have left some contamination at these sites. We expect that we will ultimately incur investigation and remedial action costs at some of these sites. Future accidental spills or discharges may also occur and lead to additional remediation liability. For the sites that we own, our gas distribution business is in material compliance with State of Michigan rules which require companies to take "due care" steps to insure that the sites are safe and, on some of these sites, to diligently pursue investigation and cleanup. The State has allowed utility companies to prioritize their sites and address the most serious sites first. We have

completed preliminary evaluations at each of our sites and identified the sites that should be addressed first. Because we have determined that four of the MGP sites ceased operations prior to our acquisition of the properties, we have taken the position that the prior owner is solely responsible for their remediation under State law and have not included them in our priority site list. Consistent with our approved priority list, our gas distribution business has closed a site related to the disposal of waste from a manufactured gas plant in Battle Creek with the approval of the Michigan Department of Environmental Quality, or MDEQ, and has developed plans and conducted preliminary field investigations at two other sites. Because the extent of the contamination at these sites has not been fully delineated, we cannot reasonably estimate the potential costs and liabilities associated with the remediation of these sites and have not established financial reserves to account for such potential expenses. Although our total remediation costs may ultimately be material, we note that, absent a change in regulatory policy by MDEQ, any remediation costs will be incurred over time as the individual sites are reviewed in accordance with MDEQ's site remediation policies. In addition, where possible, the company is seeking to ensure that the costs of remediation are paid by or shared with other responsible parties or insurance carriers. In accordance with an MPSC accounting order, any environmental investigation and remedial action costs will be deferred and amortized over ten years (although rate recognition of the related amortization expense will not begin until after a prudence review in a general rate case).

Properties

Gas Distribution

The gas delivery system of SEMCO Gas included approximately 160 miles of gas transmission pipelines and 5,423 miles of gas distribution pipelines at December 31, 2002. The pipelines are located throughout the southern half of Michigan's lower peninsula (centered in and around the cities of Port Huron, Albion, Battle Creek, Three Rivers, Niles and Holland) and also in the central and western regions of Michigan's upper peninsula. At December 31, 2002, ENSTAR's gas delivery system included approximately 396 miles of gas transmission pipelines and 2,421 miles of gas distribution pipelines. ENSTAR's pipelines are located in Anchorage and other communities around the Cook Inlet region of Alaska.

Our gas distribution business owns underground gas storage facilities in eight depleted salt caverns and three depleted gas fields, together with measuring, compressor and transmission facilities. The storage facilities are all located in Michigan. The aggregate working capacity of the storage system is approximately 5 Bcf.

Construction Services

The tangible properties of our construction services business include equipment required for the installation, repair or replacement of compressor stations and underground natural gas mains and service lines. This includes primarily equipment necessary for excavation such as backhoes, trenchers, directional drills and dump trucks. This equipment can be driven or carried on trailers from one worksite to another. The largest concentrations of our construction services business' equipment at June 30, 2003 was located in Georgia, Illinois, Iowa, Michigan and Texas.

Propane, Pipelines and Storage

The principal properties of this business segment include interests and operations in propane distribution, natural gas transmission and an underground gas storage system.

We own a 50% equity interest in the Eaton Rapids Gas Storage System. Our equity investment in the Eaton Rapids Gas Storage System totaled $5.3 million at June 30, 2003. This system, located near Eaton Rapids, Michigan, became operational in March 1990 and consists of approximately 12.8 Bcf of underground storage capacity. Our gas distribution business leases 6.5 Bcf of the capacity.

The property of the propane distribution operation consists primarily of pressurized propane storage tanks used by customers to store propane purchased from us and trucks for transporting propane. We also own large propane storage tanks that allow us to store up to 258,000 gallons of propane inventory. The propane distribution property is all located in Michigan's upper peninsula and northeast Wisconsin.

The Litchfield lateral is a 31-mile pipeline located in southwest Michigan. The line, which is leased entirely to ANR Pipeline Company, links the Eaton Rapids Gas Storage System with interstate pipeline supplies.

The Greenwood pipeline, an 18.5-mile pipeline constructed in 1991, connects an interstate pipeline with the Detroit Edison Greenwood power plant located near Port Huron, Michigan. The pipeline provides transportation services to the Greenwood power plant and to our gas distribution business' service area north of Port Huron.

The Eaton Rapids pipeline is a 37-mile pipeline that provides direct delivery of gas from the Eaton Rapids Gas Storage System to our gas distribution business' systems in Battle Creek and Albion, Michigan.

Information Technology Services

The properties of this business segment consist of leasehold improvements, office equipment, telecommunications equipment and computer equipment. These properties are located in a building located in Marysville, Michigan and an office building leased in St. Clair, Michigan.

Employees

At October 16, 2003, we had approximately 1,617 full-time employees. Within SEMCO Gas, ENSTAR and Hotflame, 303 employees are represented by unions as follows:

	No. of Employees	Exp. Date
Steelworkers, Local #3135	17	6/24/04
Steelworkers, Local #16201	43	6/30/04
Utility Workers, Local #445	33	9/09/05
Utility Workers, Local #473	41	12/05/03
Teamsters (Hotflame)	13	1/31/04
Pipefitters, Local #367	156	4/01/04

The majority of EnStructure Corporation employees are seasonal, a portion of whom are represented by unions through a multi-employer association format. We believe that our employee relations are good.

Legal Proceedings

In the normal course of business, we may be a party to lawsuits and administrative proceedings before various courts and government agencies. These lawsuits and proceedings may involve personal injury, property damage, contractual issues and other matters. Management cannot predict the ultimate outcome of any pending or threatened litigation or of actual or possible claims. However, management believes resulting liabilities, if any, will not have a material adverse impact upon our financial position or results of operations. Notwithstanding the above statement, in late March 2003 we were served a complaint in a putative class-action lawsuit alleging that the approximately 30 defendants, including SEMCO Energy and SEMCO Energy Ventures, Inc., engaged in practices that violated the Sherman Anti-Trust Act and tortuously interfered with the business of the plaintiffs. In October 2003, the plaintiff voluntarily dismissed this action in the jurisdiction in which the action was originally filed and gave us notice that it would refile the complaint in a different jurisdiction. We are considering potential legal and factual defenses to these claims and intend to vigorously defend ourself in this action. Although we cannot make any assurances, management currently believes that this suit will not have a material adverse effect on our business or results of operations.

MANAGEMENT

The following table sets forth information about our directors and executive officers as of the date of this prospectus.

Name	Age	Title
Marcus Jackson	52	Chairman of the Board of Directors, President and Chief Executive Officer
John E. Schneider	55	Senior Vice President, Treasurer and Chief Financial Officer
Lila R. Bradley	58	Vice President of Human Resources and Public Affairs
Eugene N. Dubay	54	Vice President and SEMCO Gas Division Senior Vice President and Chief Operating Officer
Gary J. Valentz	47	Vice President and Chief Information Officer
Mark T. Prendeville	53	Vice President and General Counsel
Steven W. Warsinske	48	Vice President and Controller
John M. Albertine	59	Director
Edward J. Curtis	61	Director
John T. Ferris	53	Director
Michael O. Frazer	64	Director
John R. Hinton	58	Director
Harvey I. Klein	64	Director
Frederick S. Moore	65	Director
Thomas W. Sherman	63	Director
Edith A. Stotler	57	Director
Donald W. Thomason	59	Director

With the exception of Mr. Jackson, each director's principal employment is and has been with a company not affiliated with SEMCO Energy.

Marcus Jackson has served as our Chairman since March 1, 2002 and as our President and Chief Executive Officer since June 2001. Mr. Jackson formerly served as Executive Vice President of Kansas City Power & Light Company from November 1996 to June 2001, and as President of KCPL Power, a wholly-owned subsidiary of Kansas City Power & Light between November 1996 to June 2001. From October 1995 to June 2001, he was Chairman of the Board of KLT Power, Inc., a second-tier subsidiary of Kansas City Power & Light. Mr. Jackson also held the following positions at Kansas City Power & Light during the past five years: Chief Financial Officer from January 1999 to December 2000 and Chief Operating Officer from November 1996 to January 1999. Mr. Jackson has been a director of SEMCO Energy since 1999.

John E. Schneider has been our Senior Vice President, Treasurer and Chief Financial Officer since January 2002. Mr. Schneider also served as our Vice President from April 2001 to January 2002; SEMCO Gas Division Executive Vice President and Chief Operating Officer from March 2001 to January 2002; Senior Vice President of Corporate Development from September 1999 to March 2001; and Senior Vice President and Chief Operating Officer of SEMCO Energy Ventures, Inc., our subsidiary, from May 1998 to September 1999. Prior to joining us, he was self-employed as a management and business consultant from 1994 to May 1998.

Lila R. Bradley has been our Vice President of Human Resources and Public Affairs since January 2000 and our Director of Human Resources from March 1998 to January 2000. She also served as Manager of Rules and Procedures for Burlington Northern Santa Fe Railway from 1988 to 1998.

Eugene N. Dubay has served as Vice President and Senior Vice President and Chief Operating Officer of SEMCO Gas since October 2002. Prior to his position at SEMCO Energy, Mr. Dubay served as President of Kansas Gas Service Division of ONEOK, Inc. from 1997 to October 2002.

Gary J. Valentz has been our Vice President and Chief Information Officer since April 28, 2003. Prior to joining SEMCO Energy, Mr. Valentz was Chief Information Officer/Director Business Services for MSX International since January 2001. Previously he was Chief Information Officer Coastal Natural Gas Group—ANR Pipeline and Vice President Information Technology—Coastal Corporation from January, 1999 to January, 2001. He was director of Business Information Systems—Great Lakes Chemical Corporation from 1997 through 1998.

Mark T. Prendeville has been appointed our Vice President and General Counsel, effective May 1, 2003. Mr. Prendeville joined SEMCO Energy in February 2000 as Manager of Labor and Employee Relations for SEMCO Gas and became our Labor and Employment Counsel in March of 2001. Prior to joining SEMCO Energy, he was General Counsel for a privately held automotive supplier from 1990 to 2000.

Steven W. Warsinske has been our Vice President and Controller since April 2000. He served as SEMCO Gas Division Vice President and Chief Accounting Officer from February 1998 to April 2000. He was the SEMCO Gas Division Vice President of Accounting and Controller from 1996 to February 1998.

John M. Albertine has been Chairman and Chief Executive Officer of Albertine Enterprises, Inc., an economic forecasting, public policy and full-service mergers and acquisitions firm based in Washington, D.C. since 1990. He also serves as Chief Executive Officer of Jam Shoe Concepts, Inc. which owns 100% of the assets of a retail family shoe chain with 46 stores in the Midwest. Mr. Albertine holds a Ph.D. in economics from the University of Virginia. Mr. Albertine is also a Director of Intermagnetics General Corporation and Kadant Inc. He has been a director of SEMCO Energy since 2000.

Edward J. Curtis is President of E.J. Curtis Associates, Inc., a professional management consulting firm founded in 1972 with concentration in the natural gas and electric utility industries. Mr. Curtis is a member of the Society of Gas Lighting, the Guild of Gas Managers, the American Gas Association, the American Institute of Chemical Engineers, the Association of Energy Engineers and the International Association for Energy Economics. He has been a director of SEMCO Energy since 1995.

John T. Ferris has been the Senior Partner in the law firm of Ferris & Schwedler, P.C. in Bad Axe, Michigan since 1990. Mr. Ferris has been a director of SEMCO Energy since 1994.

Michael O. Frazer has been in private practice as an attorney since 1966. Mr. Frazer has been a director of SEMCO Energy since 1986.

John R. Hinton was the Executive Vice President Administration—Chief Financial Officer of the Kellogg Company from 1996 until his retirement in 1999. Mr. Hinton has been a director of SEMCO Energy since 2002 and has served as lead director of SEMCO Energy since April 2003.

Harvey I. Klein has been President of Global Strategies Group L.C., a private consulting firm, since 1995. Mr. Klein has been a director of SEMCO Energy since 1993.

Frederick S. Moore is Chairman and President of DSLT Inc., a company engaging in the real estate development business. Since 1999, he has been Chairman of Mardale Specialty Foods, LLC., a producer of individual portion control jams, jellies, condiments and salt and pepper packets. Mr. Moore

also served as Chairman of Diamond Crystal Specialty Foods, Inc. (Diamond Crystal), which was a subsidiary of DSLT Inc. until Diamond Crystal's sale in November 1998. He has been a director of SEMCO Energy since 1995.

Thomas W. Sherman served as a director of Bay State Gas Company, a wholly-owned subsidiary of NiSource, Inc., from 1975 through 2002. NiSource, Inc., an Indiana corporation providing gas distribution services in nine states, acquired Bay State Gas Company in 1999. Mr. Sherman also acted as a consultant to NiSource, Inc., from June 2000 to June 2001 and served as an Executive Vice President and Chief Financial Officer of Bay State Gas Company from 1975 to June 2000. He has been a director of SEMCO Energy since 2002.

Edith A. Stotler is a personal family financial manager. Ms. Stotler was a Partner of Stotler Grain Company from 1990 until the partnership was dissolved in December 2001 and President of S&I Grain Company (formerly Homer Grain Company) from 1990 until the assets of S&I Grain Company were sold in July 2000. She has been a director of SEMCO Energy since 1987.

Donald W. Thomason was an Executive Vice President of Corporate Services/Technology for the Kellogg Company from 1978 until his retirement in 1999. Mr. Thomason served as lead director of SEMCO Energy from November 1998 to April 2003 and has been a director since 1995.

DESCRIPTION OF OTHER INDEBTEDNESS

The following is a summary of our material indebtedness in addition to the notes. We urge you to read the documents summarized below because they, and not these descriptions, define the rights of the holders of such indebtedness. We will make copies of any such documents available to you upon request.

Debt Securities

8.00% Senior Notes Due 2010, 8% Senior Notes Due 2016 and 6.49% Senior Notes Due 2009

We have issued a series of debt securities under an indenture dated as of October 23, 1998, as supplemented from time-to-time, between us and Bank One Trust Company, National Association, successor to NBD Bank, as trustee, referred to as the 1998 Indenture.

We issued $30.0 million of 8% Senior Notes due 2010 pursuant to the 1998 Indenture, of which $29.9 million was outstanding as of June 30, 2003. Interest on the 2010 Senior Notes is payable semi-annually. The 2010 Senior Notes will mature on April 30, 2010. We have the right to redeem the 2010 Senior Notes, in whole or in part, at our option at any time on or after April 30, 2003 at a redemption price equal to (1) 101% of the principal amount redeemed for redemptions occurring during the 12-month period ending on April 29, 2004 and (2) 100% of the principal amount redeemed for redemptions occurring on or after April 30, 2004, plus, in each case, any accrued and unpaid interest to the date of redemption. The 2010 Senior Notes also contain provisions that give the estates or heirs of deceased 2010 Senior Note holders the right to request that we redeem their 2010 Senior Notes. During 2002, 2001 and 2000, we redeemed $15,000, $10,000 and $50,000, respectively, of the 2010 Senior Notes in accordance with these provisions.

We issued $60.0 million of 8% Senior Notes due 2016 pursuant to a third supplemental indenture dated as of June 15, 2001, of which $59.8 million was outstanding as of June 30, 2003. Interest on the 2016 Senior Notes is payable quarterly. The 2016 Senior Notes will mature on June 30, 2016. We can redeem all or a part of the 2016 Senior Notes on or after June 30, 2006 at 100% of the principal amount, plus any accrued and unpaid interest to the date of redemption. The 2016 Senior Notes also contain provisions that give the estates or heirs of deceased 2016 Senior Note holders the right to request that we redeem their 2016 Senior Notes. During 2002, we redeemed $110,000 of 2016 Senior Notes in accordance with these provisions.

We issued $30.0 million of 6.49% Senior Notes due 2009 pursuant to a fourth supplemental indenture dated as of September 19, 2002, of which $30.0 million was outstanding as of June 30, 2003. Interest on the 2009 Senior Notes is payable semi-annually. The 2009 Senior Notes will mature and become due and payable on October 1, 2009, together with any accrued and unpaid interest. The 2009 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

The 2010 Senior Notes, 2016 Senior Notes and 2009 Senior Notes are unsecured debt securities that rank equally with all of our other unsecured and unsubordinated obligations. None of these notes are subject to any sinking fund. The 1998 Indenture under which the 2010 Senior Notes, 2016 Senior Notes and the 2009 Senior Notes have been issued contains no limit on the amount of additional debt that may be issued by us, but the indenture contains restrictions that may limit our ability to provide security for such additional debt and to enter into sale and lease-back transactions. The 1998 Indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Medium Term Notes

6.50% Medium Term Notes Due 2005, 6.40% Medium Term Notes Due 2008 and 7.03% Medium Term Notes Due 2013

In November 1998, we issued 6.50% Senior Notes due 2005 pursuant to the 1998 Indenture for an aggregate principal amount of $15.0 million, of which $15.0 million was outstanding as of June 30,

2003. Interest on the 2005 Senior Notes is payable semi-annually. The 2005 Senior Notes will mature on November 25, 2005, together with any accrued and unpaid interest. The 2005 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

We issued 6.40% Senior Notes due 2008 in November 1998 pursuant to the 1998 Indenture for an aggregate principal amount of $5.0 million, of which $5.0 million was outstanding as of June 30, 2003. Interest on the 2008 Senior Notes is payable semi-annually. The 2008 Senior Notes will mature on November 25, 2008, together with any accrued and unpaid interest. The 2008 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

We also issued 7.03% Senior Notes due 2013 in November 1998 pursuant to the 1998 Indenture for an aggregate principal amount of $10.0 million, of which $10.0 million was outstanding as of June 30, 2003. Interest on the 2013 Senior Notes is payable semi-annually. The 2013 Senior Notes will mature on November 25, 2013, together with any accrued and unpaid interest. The 2013 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

The 2005 Senior Notes, 2008 Senior Notes and 2013 Senior Notes are unsecured debt securities that rank equally with all of our other unsecured and unsubordinated obligations. None of these notes are subject to any sinking fund. The 1998 Indenture, under which these securities have been issued, contains no limit on the amount of additional debt that may be issued by us, but the 1998 Indenture contains restrictions that may limit our ability to provide security for such additional debt and to enter into sale and lease-back transactions. The 1998 Indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Trust Preferred Securities and Related Debt Securities

We established two new wholly-owned subsidiaries as capital trusts for the sole purpose of issuing trust preferred securities and lending the gross proceeds back to us. The sole assets of the capital trusts are our debt securities with terms similar to the terms of the related trust preferred securities.

Trust I Preferred Securities

In April 2000, SEMCO Capital Trust I issued 1.6 million shares of 10.25% cumulative trust preferred securities at a price of $25 per security. SEMCO Capital Trust I used the $40.0 million in proceeds from the issuance of the 10.25% trust preferred securities to invest in our Series A 10.25% Subordinated Debentures due June 30, 2040. The 10.25% trust preferred securities are subject to mandatory redemption upon repayment of the Series A Debentures at maturity or their earlier redemption. We used the net proceeds from the sale of the Series A Debentures to repay a portion of the bridge loan we utilized in our 1999 acquisition of ENSTAR.

Related Series A 10.25% Subordinated Debentures Due 2040

In connection with the 10.25% trust preferred securities, we issued Series A 10.25% Subordinated Debentures due June 30, 2040 under an indenture, as supplemented by the first supplemental indenture, each dated as of April 19, 2000, for an aggregate principal amount of $41.2 million, of which $41.2 million was outstanding as of June 30, 2003. Interest is payable quarterly. The Series A Debentures mature on June 30, 2040, but may be redeemed by us at any time after April 19, 2005, or at any time within 90 days following the occurrence of certain specified events at a redemption price equal to 100% of the principal amount, plus any accrued and unpaid interest to the date of redemption. The Series A Debentures represent intercompany debt and therefore are not reflected in our consolidated financial statements.

The Series A Debentures are subordinate and junior in right of payment to the prior payment in full of all of our senior indebtedness and rank*pari passu* in right of payment with each other series of securities issued under the indenture. The Series A Debentures do not have a sinking fund. The indenture under which the Series A Debentures have been issued contains no limit on the amount of

additional debt that may be issued by us, but the indenture contains restrictions that may limit our ability to provide security for such additional debt; enter into sale and lease-back transactions; pay dividends or make distributions on account of our equity interests, repurchase equity and make certain other restricted payments; and make payments of interest, principal or premium or redeem any debt securities issued by us which rank *pari passu* with or junior to the Series A Debentures. The indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Trust II Preferred Securities; FELINE PRIDES

Also during 2000, we issued 10.1 million FELINE PRIDES at a price of $10 per security. Each FELINE PRIDES consists of a stock purchase contract and a 9% trust preferred security of SEMCO Capital Trust II due 2005 with a stated face value per security of $10. SEMCO Capital Trust II used the $101.0 million in proceeds to invest in our 9% Senior Deferrable Notes due 2005.

Under the terms of each stock purchase contract (which is a component of a FELINE PRIDES unit), the FELINE PRIDES holder is obligated to purchase, and we are obligated to sell, between 0.7794 and 0.8651 shares of our common stock to the FELINE PRIDES holder in August 2003. The actual number of shares of common stock to be sold will depend on the average market value of a share of common stock in August 2003. In addition to payments on the 9% trust preferred securities, we are also obligated to pay the FELINE PRIDES holders a quarterly contract adjustment payment on each stock purchase contract at an annual rate of 2% of $10.

The FELINE PRIDES holders can settle their obligation to purchase our common stock by paying cash or by having their 9% trust preferred securities remarketed in August 2003. The distribution rate on the 9% trust preferred securities will also be reset in August 2003. The reset rate will be equal to the sum of the reset spread and the rate on the two-year benchmark treasury and will be determined by the reset agent as the rate the trust preferred securities should bear in order to have an approximate market value of 100.5% of $10. However, we may limit the reset rate to be no higher than the rate on the two-year benchmark treasury plus 200 basis points (or 2%).

In the case of FELINE PRIDES, holders who decide to have their 9% trust preferred securities remarketed, $10 of the proceeds from remarketing each 9% trust preferred security will automatically be applied to satisfy in full the obligation to purchase our common stock under the related stock purchase contract. If the remarketing agent is unable to remarket the 9% trust preferred securities at the reset rate, as described above, we may exercise our right as a secured party to dispose of the 9% trust preferred securities in accordance with the provisions of the FELINE PRIDES, in order to satisfy any unfulfilled obligation to purchase common stock under the related stock purchase contract.

Related 9% Senior Deferrable Notes Due 2005

In connection with the FELINE PRIDES, we issued our 9% Senior Deferrable Notes due 2005 pursuant to the 1998 Indenture, as supplemented by a first supplemental indenture dated as of June 16, 2000, for an aggregate principal amount of $104.1 million, of which $104.1 million was outstanding as of June 30, 2003. Each Senior Deferrable Note bears interest at the rate of 9% per year until August 16, 2003, and thereafter at the rate determined by the reset agent as described above with respect to the related trust preferred securities until the principal becomes due and payable. We have the right to defer interest payments on the Senior Deferrable Notes by extending the interest payment period. The Senior Deferrable Notes will mature on August 16, 2005, but we may redeem the Senior Deferrable Notes upon the occurrence of certain specified events. Additionally, should a remarketing fail to occur, each holder of Senior Deferrable Notes may require us to repurchase such notes on September 1, 2003 at a repayment price per Senior Deferrable Note equal to $10, plus any accrued and unpaid interest to the date of redemption. The Senior Deferrable Notes represent intercompany debt and therefore are not reflected in our consolidated financial statements.

The Senior Deferrable Notes are unsecured debt securities that rank equally with all of our other unsecured and unsubordinated obligations. These notes are not subject to any sinking fund. The indenture under which the Senior Deferrable Notes have been issued contains no limit on the amount of additional debt that may be issued by us, but the indenture contains restrictions that may limit our ability to provide security for such additional debt and to enter into sale and lease-back transactions. The indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Credit Agreement

In June 2002, we entered into a $145.0 million credit agreement with a syndicate of financial institutions. This facility includes $80.0 million in lending commitments for the issuance of revolving loans until the facility matures on June 25, 2005. Borrowings bear interest at variable rates, which do not exceed the banks' prime lending rates. The facility is unsecured. The credit agreement contains financial maintenance covenants requiring us to maintain a specified ratio of consolidated debt to consolidated total capitalization, a specified fixed charge coverage ratio and a specified consolidated total capital. The credit agreement also contains other restrictive covenants, that, among other things, impose limitations on our ability to create liens on our assets, merge, or consolidate with, or transfer (or permit any of our subsidiaries to transfer) assets, enter into transactions with affiliates, pay cash dividends or make distributions on account of our equity interests, repurchase equity and make certain other restricted payments. The credit agreement contains events of default that are customary for a transaction of this type, including a failure to pay, or acceleration of, other debt in an aggregate outstanding amount in excess of $10.0 million.

We amended our credit facility to permit the Offering, to increase the facility to $155 million, as well as to provide an extension of the maturity date of the 364-day component of the facility to May 20, 2004. As of June 30, 2003, we had $56.4 million of borrowings outstanding under our $155.0 million credit facility and $825,000 of outstanding letters of credit. The amended facility:

- increased the maximum debt to total capitalization covenant, which requires us to maintain on the last day of each fiscal quarter a ratio of funded debt, defined as all debt having a final maturity of more than one year from the date of origin of such debt, all rentals due under all capitalized leases under which we are the lessee and off-balance sheet liabilities as defined in the credit agreement, plus an amount equal to the lowest 30-day average of short-term debt less $10 million, to a measure of total capitalization that is the sum of the aggregate principal amount of such debt then outstanding and consolidated net worth, from 65% to 70% through the earlier of (1) March 31, 2004 or (2) the sale of APC and the application of 50% of the portion of the proceeds of such sale that exceed $30,000,000 to indebtedness outstanding under the credit facility;

- temporarily decreased the minimum fixed charge coverage ratio, as defined in our credit facility, from 1.5x to 1.2x for the first two quarters following the date of the Offering and to 1.33x for the successive two quarters following the Offering; and

- provided other covenant relief, such as allowing us to incur additional debt in the form of the notes and to make payments with respect to financing costs and other premiums in connection with the Refinancing, to permit the Offering and allow additional financial flexibility.

In September 2003, we amended the credit facility to adjust a component used to calculate the minimum fixed charge coverage ratio under the facility. In October 2003, we amended the facility to exclude all non-cash goodwill and asset impairment charges that may be taken by our construction services business in accordance with GAAP from the definitions of consolidated net income and consolidated net worth under the facility.

DESCRIPTION OF NOTES

The terms of the new notes and the outstanding notes are identical in all material respects, except the new notes:

- will have been registered under the Securities Act;

- will not bear the restrictive legends restricting their transfer under the Securities Act; and

- will not contain the registration rights and additional interest provisions contained in the outstanding notes.

You can find the definitions of certain terms used in this description under the subheading "Certain Definitions." In this description, the word "SEMCO Energy" refers only to SEMCO Energy, Inc. and not to any of its subsidiaries. References to the "notes" refer to the 2008 notes and the 2013 notes collectively.

SEMCO Energy issued the 2008 notes under an indenture among itself and Fifth Third Bank, a Michigan banking corporation, as trustee. SEMCO Energy issued the 2013 notes under an indenture among itself and Fifth Third Bank, as trustee. The terms of the notes include those stated in the indentures and those made part of the indentures by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of each of the indentures (unless otherwise noted) and the registration rights agreement. We urge you to read the indentures and the registration rights agreement because they, and not this description, define your rights as holders of the notes. Copies of the indentures and the registration rights agreement are available as set forth below under "—Additional Information." Certain defined terms used in this description but not defined below under "—Certain Definitions" have the meanings assigned to them in the indentures.

The registered Holder of a note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the indentures.

Brief Description of the Notes

The notes:

- are general unsecured obligations of SEMCO Energy;

- are*pari passu* in right of payment with all existing and future unsecured senior indebtedness of SEMCO Energy, including indebtedness under our credit facility; and

- are senior in right of payment to all existing and future subordinated indebtedness of SEMCO Energy.

Initially, none of our subsidiaries will guarantee the notes. Under the terms of the indentures, none of our subsidiaries will be required to guarantee the notes in the future unless they guarantee certain other debt of SEMCO Energy or incur certain debt of their own, as described under "—Certain Covenants—Future Subsidiary Guarantees." In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, our subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us. Our subsidiaries generated 13.8% of our consolidated revenues for the six months ended June 30, 2003 and held 22.4% of our consolidated total assets as of June 30, 2003. As of June 30, 2003, there was no debt other than trade payables at our subsidiaries. Total trade payables as of June 30, 2003 were $3.6 million. In addition, our ability to access the cash flow of our subsidiaries is subject to certain restrictions, as described under "—Certain Covenants—Restricted Payment."

As of the date of the indentures, all of our subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the subheading "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries," we will be permitted to designate certain of our subsidiaries as "Unrestricted Subsidiaries." Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indentures.

Principal, Maturity and Interest

SEMCO Energy originally issued the outstanding notes and will issue the new notes in an aggregate principal amount of $150.0 million of 2008 notes and $150.0 million of 2013 notes. SEMCO Energy may issue additional notes, not limited in aggregate principal amount, from time to time after this exchange offer. Any offering of additional notes is subject to the covenant described below under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock." In the case of each series, the notes and any additional notes subsequently issued under that indenture will be treated as a single class for all purposes under that indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. SEMCO Energy will issue notes in denominations of $1,000 and integral multiples of $1,000. The 2008 notes will mature on May 15, 2008, and the 2013 notes will mature on May 15, 2013.

Interest on the 2008 notes will accrue at the rate of 7 1/8% per annum and will be payable semi-annually in arrears on May 15 and November 15, commencing on November 15, 2003. SEMCO Energy will make each interest payment to the Holders of record on the immediately preceding May 1 and November 1.

Interest on the 2013 notes will accrue at the rate of 7 3/4% per annum and will be payable semi-annually in arrears on May 15 and November 15, commencing on November 15, 2003. SEMCO Energy will make each interest payment to the Holders of record on the immediately preceding May 1 and November 1.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of Receiving Payments on the Notes

If a Holder has given wire transfer instructions to SEMCO Energy, SEMCO Energy will pay all principal, interest and premium and Additional Interest, if any, on that Holder's notes in accordance with those instructions. All other payments on notes will be made at the office or agency of the paying agents and registrars within the City and State of New York unless SEMCO Energy elects to make interest payments by check mailed to the Holders at their address set forth in the register of Holders.

Paying Agents and Registrars for the Notes

The trustees will initially act as paying agents and registrars. SEMCO Energy may change the paying agents or registrars without prior notice to the Holders of the notes, and SEMCO Energy or any of its Subsidiaries may act as paying agent or registrar.

Transfer and Exchange

A Holder may transfer or exchange notes in accordance with the provisions of the applicable indenture. The applicable registrar and the applicable trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. SEMCO Energy is not required to

transfer or exchange any note selected for redemption. Also, SEMCO Energy is not required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Optional Redemption

2008 Notes

The 2008 notes will not be redeemable at the option of SEMCO Energy except as set forth in the following paragraphs.

At any time prior to May 15, 2006, SEMCO Energy may on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2008 notes issued under the related indenture at a redemption price of 107.125% of the principal amount, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date, with the net cash proceeds of one or more public or private offerings of its Equity Interests (other than Disqualified Stock); *provided* that:

(1) at least 65% of the aggregate principal amount of the 2008 notes issued under the related indenture remains outstanding immediately after the occurrence of such redemption (excluding the 2008 notes held by SEMCO Energy and its Subsidiaries); and

(2) the redemption occurs within 60 days of the date of the closing of such offering.

At any time, SEMCO Energy may redeem all or a part of the 2008 notes, upon not less than 30 nor more than 60 days prior notice mailed by first-class mail to each Holder's registered address, at a redemption price equal to 100% of the principal amount of 2008 notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest and Additional Interest, if any, to the date of redemption (the " *Redemption Date* ").

If less than all of the outstanding 2008 notes are to be redeemed, the trustee shall select the notes for redemption (i) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed or (ii) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate.

2013 Notes

At any time prior to May 15, 2006, SEMCO Energy may on any one or more occasions redeem up to 35% of the aggregate principal amount of the 2013 notes issued under the related indenture at a redemption price of 107.750% of the principal amount, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date, with the net cash proceeds of one or more public or private offerings of its Equity Interests (other than Disqualified Stock); *provided* that:*(1)* at least 65% of the aggregate principal amount of the 2013 notes issued under the related indenture remains outstanding immediately after the occurrence of such redemption (excluding the 2013 notes held by SEMCO Energy and its Subsidiaries); and

(2) the redemption occurs within 60 days of the date of the closing of such offering.

Except pursuant to the preceding paragraph, the 2013 notes will not be redeemable at SEMCO Energy's option prior to May 15, 2008.

On or after May 15, 2008, SEMCO Energy may redeem all or a part of the 2013 notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Interest, if any, on

the 2013 notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on May 15 of the years indicated below:

Year	Percentage
2008	103.875%
2009	102.583%
2010	101.292%
2011 and thereafter	100.000%

If less than all of the outstanding 2013 notes are to be redeemed, the trustee shall select the notes for redemption (i) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed or (ii) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate.

Mandatory Redemption

SEMCO Energy is not required to make mandatory redemption or sinking fund payments with respect to the notes.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each Holder of notes will have the right to require SEMCO Energy to repurchase all or any part (equal to $1,000 or an integral multiple of $1,000) of that Holder's notes pursuant to a Change of Control Offer on the terms set forth in the indentures. In the Change of Control Offer, SEMCO Energy will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest and Additional Interest, if any, on the notes repurchased, to the date of purchase. Within ten business days following any Change of Control, SEMCO Energy will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. SEMCO Energy will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indentures, SEMCO Energy will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indentures by virtue of such conflict.

On the Change of Control Payment Date, SEMCO Energy will, to the extent lawful:*(1)*
accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2)
deposit with the paying agents an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3)
deliver or cause to be delivered to the trustees the notes properly accepted together with an officers' certificate stating the aggregate principal amount of notes or portions of notes being purchased by SEMCO Energy.

Each paying agent will promptly mail to each Holder of applicable notes properly tendered the Change of Control Payment for such notes, and the applicable trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that each new note will be in a principal amount of $1,000 or an integral multiple of $1,000.

SEMCO Energy will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require SEMCO Energy to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indentures are applicable to the transaction giving rise to such requirement. Except as described above with respect to a Change of Control, the indentures do not contain provisions that permit the Holders of the notes to require that SEMCO Energy repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

SEMCO Energy will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture, as described above, applicable to a Change of Control Offer made by SEMCO Energy and purchases all notes properly tendered and not withdrawn under the Change of Control Offer. There are no other or differing requirements applicable to a third party.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of SEMCO Energy and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of notes to require SEMCO Energy to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of SEMCO Energy and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Asset Sales

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:*(1)*
SEMCO Energy (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of;

(2)
the fair market value is determined by SEMCO Energy's Board of Directors and evidenced by a resolution of the Board of Directors set forth in an officers' certificate delivered to the applicable trustee; and

(3)
except in the case of a Construction Business Disposition, at least 75% of the consideration received in the Asset Sale by SEMCO Energy or such Restricted Subsidiary is in the form of cash. For purposes of this provision, each of the following will be deemed to be cash:

(a)
any liabilities, as shown on SEMCO Energy's most recent consolidated balance sheet, of SEMCO Energy or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Guarantees of the notes) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases SEMCO Energy or such Restricted Subsidiary from further liability;

(b)
any securities, notes or other obligations received by SEMCO Energy or any such Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by SEMCO Energy or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion; and

(c)
property or assets received as consideration for such Asset Sale that would otherwise constitute a permitted application of Net Proceeds under clauses (2), (3) or (4) under the next succeeding paragraph below.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale, SEMCO Energy or any such Restricted Subsidiary may apply (or enter into a definitive agreement for such application within such 360-day period; *provided* that such capital expenditure or acquisition is closed within 90 days after the end of such 360-day period) those Net Proceeds as follows:*(1)*
in the case of APCO Sale Proceeds only, to repay Indebtedness of SEMCO Energy that is*pari passu* with the notes;

(2)
in the case of Net Proceeds from the sale of assets financed with Permitted Debt of the kind permitted by clause (4) of the definition of Permitted Debt, to repay such Permitted Debt;

(3)
in the case of all Net Proceeds, to repay Indebtedness and other Obligations under a Credit Facility and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

(4)
in the case of all Net Proceeds, to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Permitted Business;

(5)
in the case of all Net Proceeds, to make a capital expenditure; or

(6)
in the case of all Net Proceeds, to acquire other long-term assets that are used or useful in a Permitted Business.

Pending the final application of any Net Proceeds, SEMCO Energy may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indentures.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph, including, without limitation, any Net Proceeds from a Construction Business Disposition, will constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds $15.0 million, SEMCO Energy will make an Asset Sale Offer to all Holders of notes and all holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the indentures with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and unpaid interest and Additional Interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, SEMCO Energy may use those Excess Proceeds for any purpose not otherwise prohibited by the indentures. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustees will select the notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

SEMCO Energy will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indentures, SEMCO Energy will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indentures by virtue of such conflict.

The agreements governing SEMCO Energy's other Indebtedness contain prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale. In addition, the exercise by the Holders of notes of their right to require SEMCO Energy to repurchase the notes upon a Change of Control or an Asset Sale could cause a default under these other agreements, even if the Change of Control or Asset Sale itself does not, due to the financial effect of such repurchases on SEMCO Energy. Finally, SEMCO Energy's ability to pay cash to the Holders of notes upon a repurchase may be limited by SEMCO Energy's then existing financial resources. See "Risk Factors—We may not have the ability to raise the funds necessary to finance the change of control offer required by the indentures governing the notes."

Selection and Notice

If less than all of the 2008 or the 2013 notes are to be redeemed at any time, the applicable trustee will select notes for redemption as follows:*(1)*
if the applicable notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or

(2)
if the applicable notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as that trustee deems fair and appropriate.

No notes of $1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of either of the indentures. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the Holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption.

Certain Covenants

Changes in Covenants when Notes Rated Investment Grade

If on any date following the date of the indentures:*(1)*
the applicable notes are rated Baa3 or better by Moody's and BBB- or better by S&P (or, if either such entity ceases to rate such notes for reasons outside of the control of SEMCO Energy, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by SEMCO Energy as a replacement agency); and

(2)
no Default or Event of Default shall have occurred and be continuing under the applicable indenture,

then, beginning on that day and continuing at all times thereafter regardless of any subsequent changes in the ratings of those notes, the covenants specifically listed under the following captions in this prospectus will no longer be applicable to that series of notes:*(1)*
"—Repurchase at the Option of Holders—Asset Sales;"

(2)
"—Restricted Payments;"

(3)
"—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(4)
"—Dividend and Other Payment Restrictions Affecting Subsidiaries;"

(5)
"—Future Subsidiary Guarantees;"

(6)
"—Designation of Restricted and Unrestricted Subsidiaries;"

(7)
"—Transactions with Affiliates;"

(8)
"—Business Activities;"

(9)
clause (4) of the covenant listed under "—Merger, Consolidation or Sale of Assets;" and

(10)
clauses (1)(a) and (3) of the covenant listed under "—Sale and Leaseback Transactions."

There can be no assurance that either series of notes will ever achieve an investment grade rating or that any such rating will be maintained.

Restricted Payments

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:*(1)*
declare or pay any dividend or make any other payment or distribution on account of SEMCO Energy's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving SEMCO Energy or any of its Restricted Subsidiaries) or to the direct or indirect holders of SEMCO Energy's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of SEMCO Energy or to SEMCO Energy or a Restricted Subsidiary of SEMCO Energy);

(2)
purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving SEMCO Energy) any Equity Interests of SEMCO Energy or any direct or indirect parent of SEMCO Energy;

(3)
make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries that is by its terms subordinated to the notes or any Guarantees of the notes, except a payment of interest or principal at the Stated Maturity thereof; or

(4)
make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as " *Restricted Payments* "),

unless, at the time of and after giving effect to such Restricted Payment:*(1)*
no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2)
SEMCO Energy would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness (other than Permitted Debt) pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock;" and

(3)
such Restricted Payment, together with the aggregate amount of all other Restricted Payments declared or made after the date of the 2013 indenture shall not exceed, at the date of determination, the sum, without duplication, of:

(a)
an amount equal to SEMCO Energy's Consolidated Cash Flow from the beginning of the first fiscal quarter commencing after the date of the indentures to the end of SEMCO Energy's most recently ended full fiscal quarter for which internal financial statements are available, taken as a single accounting period, less the product of 1.75 times SEMCO Energy's Consolidated Interest Expense from the beginning of the first fiscal quarter commencing after the date of the indentures to the end of SEMCO Energy's most recently ended full fiscal quarter for which internal financial statements are available, taken as a single accounting period, *plus*

(b)
an amount equal to the net cash proceeds received by SEMCO Energy from the sale of Equity Interests since the date of the 2013 indenture (other than (i) sales of Disqualified Stock, and (ii) Equity Interests sold to any of SEMCO Energy's Subsidiaries) or from the sale since the date of the 2013 indenture of convertible or exchangeable Disqualified Stock of SEMCO Energy or debt securities of SEMCO Energy, in either case, that have been converted into or exchanged for such Equity Interests, *plus*

(c)
to the extent that any Restricted Investment that was made after the date of the 2013 indenture is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (ii) the initial amount of such Restricted Investment, *plus*

(d)
to the extent that any Unrestricted Subsidiary of SEMCO Energy is redesignated as a Restricted Subsidiary after the date of the 2013 indenture, the lesser of (i) the fair market value of SEMCO Energy's Investment in such Subsidiary as of the date of such redesignation or (ii) such fair market value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary, *plus*

(e)
an amount equal to any dividends received by SEMCO Energy or any of its Restricted Subsidiaries since the date of the 2013 indenture from an Unrestricted Subsidiary to the extent that such dividends were not otherwise included in SEMCO Energy's Consolidated Net Income.

The preceding provisions will not prohibit:*(1)*
the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the applicable indenture;

(2)
so long as no Default has occurred and is continuing or would be caused thereby, the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries or of any Equity Interests of SEMCO Energy in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of SEMCO Energy) of, Equity Interests of SEMCO Energy (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (3) (b) of the preceding paragraph;

(3)
so long as no Default has occurred and is continuing or would be caused thereby, the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4)
the payment of any dividend or distribution by a Restricted Subsidiary of SEMCO Energy to the holders of its Equity Interests on a pro rata basis;

(5)
so long as no Default has occurred and is continuing or would be caused thereby, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of SEMCO Energy or any Restricted Subsidiary of SEMCO Energy held by any member of SEMCO Energy's (or any of its Restricted Subsidiaries') management pursuant to any management equity subscription agreement, stock option agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed $1.0 million in any twelve-month period;

(6)
so long as no Default has occurred and is continuing or would be caused thereby, the payment of regular quarterly dividends on Capital Stock of SEMCO Energy in an aggregate amount not to exceed $13.5 million in any twelve-month period; and

(7)
so long as no Default has occurred and is continuing or would be caused thereby, the payment of other Restricted Payments in an aggregate amount since the date of the 2013 indenture not to exceed $15.0 million.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by SEMCO Energy or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined, in the case of amounts under $5.0 million, by an officer of SEMCO Energy and, in the case of amounts $5.0 million or more, by the Board of Directors whose resolution with respect thereto will be delivered to the applicable trustee.

Incurrence of Indebtedness and Issuance of Preferred Stock

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, " *incur* ") any Indebtedness (including Acquired Debt), and SEMCO Energy will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however,* that SEMCO Energy may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and any Guarantor may incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for SEMCO Energy's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such Indebtedness is incurred or such Disqualified Stock is issued would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "*Permitted Debt*"):*(1)*
the incurrence by SEMCO Energy or any Guarantor of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1)(with letters of credit being deemed to have a principal amount equal to the maximum potential liability of SEMCO Energy and its Restricted Subsidiaries thereunder) not to exceed $155.0 million *less* the aggregate amount of all Net Proceeds of Asset Sales applied by SEMCO Energy or any of its Restricted Subsidiaries since the date of the 2013 indenture to repay any term Indebtedness under a Credit Facility or to repay any revolving credit Indebtedness under a Credit Facility and effect a corresponding commitment reduction thereunder pursuant to the

covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales" (except that APCO Sale Proceeds may be applied to repay Indebtedness under a Credit Facility without reducing the amount available under this clause (1) for borrowing thereafter);*(2)*
the incurrence by SEMCO Energy or any of its Restricted Subsidiaries of the Existing Indebtedness;

(3)
the incurrence by SEMCO Energy of Indebtedness represented by the notes issued on the date of the indentures and the exchange notes to be issued pursuant to this exchange offer and the incurrence by any Guarantor of the Guarantee of any such notes;

(4)
the incurrence by SEMCO Energy or any Guarantor of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations and/or Attributable Debt, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the business of SEMCO Energy or any Guarantor, in an aggregate principal amount (or notional principal amount, in the case of Attributable Debt), including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (4), not to exceed $10.0 million at any time outstanding;

(5)
the incurrence by SEMCO Energy or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) that was permitted by the indentures to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5), or (9) of this paragraph;

(6)
the incurrence by SEMCO Energy or any Restricted Subsidiary of intercompany Indebtedness between or among SEMCO Energy and any of its Restricted Subsidiaries; *provided, however* , that:

(a)
if SEMCO Energy is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the notes; and

(b)
(i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than SEMCO Energy or a Restricted Subsidiary of SEMCO Energy and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either SEMCO Energy or a Restricted Subsidiary of SEMCO Energy; will be deemed, in each case, to constitute an incurrence of such Indebtedness by SEMCO Energy or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7)
the incurrence by SEMCO Energy or any Guarantor of Hedging Obligations that are incurred in the ordinary course of business and not for speculative purposes;

(8)
the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; *provided* , in each such case, that the amount thereof is included in Consolidated Interest Expense of SEMCO Energy as accrued;

(9)
the incurrence by SEMCO Energy or any of its Restricted Subsidiaries of Indebtedness in respect of bankers acceptances and bid, performance or surety bonds issued for the account of SEMCO Energy in the ordinary course of business (in each case other than for an obligation for money borrowed); and

(10)
the incurrence by SEMCO Energy or any Guarantor of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (10), not to exceed $15.0 million.

Neither SEMCO Energy nor any Guarantor will incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of SEMCO Energy or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the notes and any Guarantee of the notes on substantially identical terms; *provided, however ,* that no Indebtedness of SEMCO Energy or any Guarantor will be deemed to be contractually subordinated in right of payment to any other Indebtedness of SEMCO Energy or such Guarantor solely by virtue of being unsecured.

For purposes of determining compliance with this "Incurrence of Indebtedness and Issuance of Preferred Stock" covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (10) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, SEMCO Energy will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under Credit Facilities outstanding on the date on which notes are first issued and authenticated under the indentures will be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt.

Liens

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) on any of their property or assets, now owned or hereafter acquired, unless all payments due under the applicable indenture and the applicable notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

Sale and Leaseback Transaction

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction;*provided* that SEMCO Energy may enter into a sale and leaseback transaction if:*(1)*
SEMCO Energy could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Fixed Charge Coverage Ratio test in the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock" or pursuant to clause (4) of the definition of Permitted Debt and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption "—Liens;"

(2)
the gross cash proceeds of that sale and leaseback transaction are at least equal to the fair market value, as determined in good faith by the Board of Directors and set forth in an officers' certificate delivered to the trustees, of the property that is the subject of that sale and leaseback transaction; and

(3)
the transfer of assets in that sale and leaseback transaction is permitted by, and SEMCO Energy applies the proceeds of such transaction in compliance with, the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales."

Dividend and Other Payment Restrictions Affecting Subsidiaries

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:*(1)*
pay dividends or make any other distributions on its Capital Stock to SEMCO Energy or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to SEMCO Energy or any of its Restricted Subsidiaries;

(2)
make loans or advances to SEMCO Energy or any of its Restricted Subsidiaries; or

(3)
transfer any of its properties or assets to SEMCO Energy or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:*(1)*
the indentures, the notes and any Guarantees of the notes and other agreements existing on the date of the 2013 indenture;

(2)
applicable law;

(3)
customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices;

(4)
any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(5)
Liens securing Indebtedness otherwise permitted to be incurred under the provisions of the covenant described above under the caption "—Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

(6)
provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business;

(7)
restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(8)
any restriction applicable to a Restricted Subsidiary of SEMCO Energy created to issue trust preferred securities;*provided* that such Restricted Subsidiary does not own or operate all or any portion of SEMCO Energy's businesses; and

(9)
Permitted Refinancing Indebtedness;*provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive in any material respect, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced.

Merger, Consolidation or Sale of Assets

SEMCO Energy may not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not SEMCO Energy is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of SEMCO Energy and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person; unless:*(1)*
either: (a) SEMCO Energy is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than SEMCO Energy) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or

existing under the laws of the United States, any state of the United States or the District of Columbia;*(2)*
the Person formed by or surviving any such consolidation or merger (if other than SEMCO Energy) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of SEMCO Energy under the notes, the indentures and the registration rights agreement pursuant to agreements reasonably satisfactory to the trustees;

(3)
immediately after such transaction, no Default or Event of Default exists; and

(4)
SEMCO Energy or the Person formed by or surviving any such consolidation or merger (if other than SEMCO Energy), or to which such sale, assignment, transfer, conveyance or other disposition has been made will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock."

In addition, SEMCO Energy may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person. This "Merger, Consolidation or Sale of Assets" covenant will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among SEMCO Energy and any of its Restricted Subsidiaries.

Future Subsidiary Guarantees

If any Restricted Subsidiary of SEMCO Energy incurs any Indebtedness (other than intercompany Indebtedness), guarantees any Indebtedness of SEMCO Energy, pledges any of its assets to secure any Indebtedness of SEMCO Energy or otherwise provides direct credit support for any Indebtedness of SEMCO Energy, then, in each case, such Restricted Subsidiary will become a Guarantor of the notes and execute supplemental indentures and deliver an opinion of counsel satisfactory to the trustees within 10 Business Days of the date on which such Restricted Subsidiary so incurs Indebtedness, guarantees, pledges its assets or otherwise provides direct credit support; *provided, however,* a Restricted Subsidiary of SEMCO Energy will not be required to become a Guarantor of the notes solely by reason of incurring Indebtedness under clauses (2) or (9) of the definition of Permitted Debt or by incurring Liens under clauses (2), (4), (5), (6), (7), (8), (9), (11) or (13) of the definition of Permitted Liens. In addition, SEMCO Energy may elect that any Subsidiary of SEMCO Energy become a Guarantor.

The Guarantee of the notes of a Guarantor will be released:*(1)*
in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of SEMCO Energy, if the sale or other disposition complies with the "Asset Sale" provisions of the indentures;

(2)
in connection with any sale of all of the Capital Stock of a Guarantor to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of SEMCO Energy; *provided* that such sale shall be subject to the "Asset Sale" provisions of the indentures; or

(3)
if SEMCO Energy properly designates any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary of SEMCO Energy in accordance with the provisions of the indentures.

See "—Repurchase at the Option of Holders—Asset Sales."

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default; *provided* that in no event may any of SEMCO Energy's regulated utility businesses, now or hereafter operating, be transferred to or held by an Unrestricted Subsidiary. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by SEMCO Energy and its Restricted Subsidiaries in the Subsidiary properly designated will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the first paragraph of the covenant described above under the caption "—Restricted Payments" or Permitted Investments, as determined by SEMCO Energy. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default. Upon any such redesignation or other designation as a Restricted Subsidiary, such Subsidiary will become a Guarantor and execute supplemental indentures if so required under the covenant described above under the caption "—Future Subsidiary Guarantees."

Transactions with Affiliates

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an " *Affiliate Transaction* "), unless:*(1)*
the Affiliate Transaction is on terms that are no less favorable to SEMCO Energy or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by SEMCO Energy or such Restricted Subsidiary with an unrelated Person; and

(2)
SEMCO Energy delivers to the trustees:

(a)
with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $2.5 million, a resolution of the Board of Directors set forth in an officers' certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b)
with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $7.5 million, an opinion as to the fairness to SEMCO Energy of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:*(1)*
any employment agreement entered into by SEMCO Energy or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of SEMCO Energy or such Restricted Subsidiary;

(2)
transactions between or among SEMCO Energy and/or its Restricted Subsidiaries;

(3)
transactions with a Person that is an Affiliate of SEMCO Energy solely because SEMCO Energy owns an Equity Interest in, or controls, such Person;

(4)
payment of reasonable directors fees and provision to directors, officers and employees of customary indemnities and customary benefits pursuant to employee benefits plans and similar arrangements;

(5)
sales of Equity Interests (other than Disqualified Stock) to Affiliates of SEMCO Energy; and

(6)
Restricted Payments that are permitted by the provisions of the indentures described above under the caption "—Restricted Payments."

Business Activities

SEMCO Energy will not, and will not permit any Subsidiary to, engage in any business other than Permitted Businesses, except to such extent as would not be material to SEMCO Energy and its Subsidiaries taken as a whole.

Payments for Consent

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of any series of notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the applicable indenture or such notes unless such consideration is offered to be paid and is paid to all Holders of such notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Reports

Whether or not required by the SEC's rules and regulations, so long as any notes are outstanding, SEMCO Energy will furnish to the Holders of such notes, within the time periods specified in the SEC's rules and regulations:*(1)*
all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K if SEMCO Energy were required to file such reports; and

(2)
all current reports that would be required to be filed with the SEC on Form 8-K if SEMCO Energy were required to file such reports.

All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports. Each annual report on Form 10-K will include a report on SEMCO Energy's consolidated financial statements by SEMCO Energy's certified independent accountants. In addition, SEMCO Energy will file a copy of each of the reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the rules and regulations applicable to such reports (unless the SEC will not accept such a filing) and make such information available to securities analysts and prospective investors upon request.

If, at any time, SEMCO Energy is no longer subject to the periodic reporting requirements of the Exchange Act for any reason, SEMCO Energy will nevertheless continue filing the reports specified in the preceding paragraph with the SEC within the time periods specified above unless the SEC will not accept such a filing. SEMCO Energy agrees that it will not take any action for the purpose of causing the SEC not to accept any such filings. If, notwithstanding the foregoing, the SEC will not accept SEMCO Energy's filings for any reason, SEMCO Energy will post the reports referred to in the preceding paragraph on its website within the time periods that would apply if SEMCO Energy were required to file those reports with the SEC.

In addition, SEMCO Energy agrees that, for so long as any notes remain outstanding, at any time it is not required to file the reports required by the preceding paragraphs with the SEC, it will furnish

to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Events of Default and Remedies

With respect to each series of notes, each of the following is an Event of Default:*(1)*
default for 30 days in the payment when due of interest on, or Additional Interest with respect to, such notes;

(2)
default in payment when due of the principal of, or premium, if any, on such notes,

(3)
failure by SEMCO Energy or any of its Subsidiaries for 30 days after notice to SEMCO Energy from the applicable trustee or the holders of at least 25% of the outstanding principal amount of such notes to comply with the provisions described under the captions "—Repurchase at the Option of Holders—Change of Control," "—Repurchase at the Option of Holders—Asset Sales," "—Certain Covenants—Merger, Consolidation or Sale of Assets," "—Certain Covenants—Restricted Payments" or "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(4)
failure by SEMCO Energy or any of its Subsidiaries for 60 days after notice to SEMCO Energy from the applicable trustee or the holders of at least 25% of the outstanding principal amount of either series of notes to comply with any of the other agreements in the applicable indenture;

(5)
default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by SEMCO Energy or any of its Restricted Subsidiaries (or the payment of which is guaranteed by SEMCO Energy or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of the indentures, if that default:

(a)
is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a " *Payment Default* "); or

(b)
results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $10.0 million or more;*(6)*
failure by SEMCO Energy or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of $10.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;

(7)
except as permitted by the applicable indenture, any Guarantee relating to such notes shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor, or any Person acting on behalf of any Guarantor, shall deny or disaffirm its obligations under its Guarantee; and

(8)
certain events of bankruptcy or insolvency described in the indentures with respect to SEMCO Energy or any of its Restricted Subsidiaries.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to SEMCO Energy, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the applicable trustee or the Holders of at least 25% in principal

amount of the then outstanding notes of the applicable series may declare all of that series of notes to be due and payable immediately.

Holders of a series of notes may not enforce the applicable indenture or such notes except as provided in such indenture. Subject to certain limitations, with respect to either series of notes, Holders of a majority in principal amount of the then outstanding notes of that series may direct the applicable trustee in its exercise of any trust or power. The applicable trustee may withhold from Holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notes is in their interest, except a Default or Event of Default relating to the payment of principal or interest or Additional Interest.

With respect to either series of notes, the Holders of a majority in aggregate principal amount of the notes of that series then outstanding by notice to the applicable trustee may on behalf of the Holders of all of that series of notes waive any existing Default or Event of Default and its consequences under the applicable indenture except a continuing Default or Event of Default in the payment of interest or Additional Interest on, or the principal of, the notes.

In the case of any Event of Default occurring by reason of any willful action or inaction taken or not taken by or on behalf of SEMCO Energy with the intention of avoiding payment of the premium that SEMCO Energy would have had to pay if SEMCO Energy then had elected to redeem the 2013 notes pursuant to the optional redemption provisions of the 2013 notes indenture, an equivalent premium will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the 2013 notes. If an Event of Default occurs prior to May 15, 2008, by reason of any willful action (or inaction) taken (or not taken) by or on behalf of SEMCO Energy with the intention of avoiding the prohibition on redemption of the 2013 notes prior to May 15, 2008, then the premium specified in the 2013 notes indenture will also become immediately due and payable to the extent permitted by law upon the acceleration of the 2013 notes.

SEMCO Energy is required to deliver to the trustees annually a statement regarding compliance with the indentures. Upon becoming aware of any Default or Event of Default, SEMCO Energy is required to deliver to the trustees a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of SEMCO Energy or any Guarantor, as such, will have any liability for any obligations of SEMCO Energy or any Guarantors under the notes, the indentures, any Guarantees of the notes or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

SEMCO Energy may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding notes of either or both series and all obligations of any Guarantors discharged with respect to their respective Guarantees of such notes (" *Legal Defeasance* ") except for:*(1)*
the rights of Holders of outstanding notes to receive payments in respect of the principal of, or interest or premium and Additional Interest, if any, on such notes when such payments are due from the trust referred to below;

(2)
SEMCO Energy's obligations with respect to such notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3)
the rights, powers, trusts, duties and immunities of the trustees, and SEMCO Energy's and any Guarantor's obligations in connection therewith; and

(4)
the Legal Defeasance provisions of the indentures.

In addition, SEMCO Energy may, at its option and at any time, elect to have the obligations of SEMCO Energy and any Guarantor released with respect to certain covenants that are described in either or both indentures (" *Covenant Defeasance* ") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the applicable notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "—Events of Default and Remedies" will no longer constitute an Event of Default with respect to the applicable notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:*(1)*
SEMCO Energy must irrevocably deposit with the applicable trustee, in trust, for the benefit of the Holders of the applicable notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium and Additional Interest, if any, on the outstanding notes of the applicable series on the Stated Maturity or on the applicable redemption date, as the case may be, and SEMCO Energy must specify whether such notes are being defeased to maturity or to a particular redemption date;

(2)
in the case of Legal Defeasance, SEMCO Energy has delivered to the applicable trustee an opinion of counsel reasonably acceptable to such trustee confirming that (a) SEMCO Energy has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the indentures, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the Holders of the applicable outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3)
in the case of Covenant Defeasance, SEMCO Energy has delivered to the applicable trustee an opinion of counsel reasonably acceptable to such trustee confirming that the Holders of the applicable outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4)
no Default or Event of Default has occurred and is continuing on the date of such deposit under the applicable indenture (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(5)
such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the indentures) to which SEMCO Energy or any of its Subsidiaries is a party or by which SEMCO Energy or any of its Subsidiaries is bound;

(6)
SEMCO Energy must deliver to the applicable trustee an officers' certificate stating that the deposit was not made by SEMCO Energy with the intent of preferring the Holders of the applicable notes over the other creditors of SEMCO Energy with the intent of defeating, hindering, delaying or defrauding creditors of SEMCO Energy or others; and

(7)
SEMCO Energy must deliver to the applicable trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the 2008 notes, any Guarantee of the 2008 notes and the 2008 notes indenture or the 2013 notes, any Guarantee of the 2013 notes and the 2013 notes indenture may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the 2008 notes or the 2013 notes, as the case may be, then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes), and any existing default or compliance with any provision of the 2008 notes, any Guarantee of the 2008 notes and the 2008 notes indenture or the 2013 notes, any Guarantee of the 2013 notes and the 2013 notes indenture may be waived with the consent of the Holders of a majority in principal amount of the then outstanding 2008 notes or the then outstanding 2013 notes, as the case may be (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

With respect to each series of notes, without the consent of each Holder affected, an amendment or waiver may not (with respect to any such notes held by a non-consenting Holder):*(1)*
reduce the principal amount of such notes whose Holders must consent to an amendment, supplement or waiver;

(2)
reduce the principal of or change the fixed maturity of any such note or alter the provisions with respect to the redemption of such notes (other than provisions relating to the covenants described above under the caption "—Repurchase at the Option of Holders");

(3)
reduce the rate of or change the time for payment of interest on any such note;

(4)
waive a Default or Event of Default in the payment of principal of, or interest or premium, or Additional Interest, if any, on such notes (except a rescission of acceleration of such notes by the Holders of at least a majority in aggregate principal amount of such notes and a waiver of the payment default that resulted from such acceleration);

(5)
make any note payable in money other than that stated in such notes;

(6)
make any change in the provisions of the applicable indenture relating to waivers of past Defaults or the rights of Holders of such notes to receive payments of principal of, or interest or premium or Additional Interest, if any, on such notes;

(7)
waive a redemption payment with respect to any such note (other than a payment required by one of the covenants described above under the caption "—Repurchase at the Option of Holders");

(8)
release any Guarantor from any of its obligations under its Guarantee of such notes or the applicable indenture, except in accordance with the terms of such indenture;

(9)
make any change in the preceding amendment and waiver provisions.

With respect to either series of notes, notwithstanding the preceding, without the consent of any Holder of notes, SEMCO Energy, the Guarantors and the applicable trustee may amend or supplement the applicable indenture, such applicable notes or such related Guarantees of the applicable notes:*(1)*
to cure any ambiguity, defect or inconsistency;

(2)
to provide for uncertificated notes in addition to or in place of certificated such notes;

(3)
to provide for the assumption of SEMCO Energy's obligations to Holders of such notes in the case of a merger or consolidation or sale of all or substantially all of SEMCO Energy's assets;

(4)
to make any change that would provide any additional rights or benefits to the Holders of such notes or that does not adversely affect the legal rights under the applicable indenture of any such Holder;

(5)
to comply with requirements of the SEC under the Securities Act or the Exchange Act or in order to effect or maintain the qualification of the applicable indenture under the Trust Indenture Act;

(6)
to provide for the issuance of additional notes in accordance with the limitations set forth in the applicable indenture;

(7)
to allow any Guarantor to execute a supplemental indenture and/or a Guarantee with respect to such notes; or

(8)
to conform the text of the indentures, the notes or the Guarantees with respect to such notes to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the indentures, the notes or the Guarantees with respect to such notes.

Satisfaction and Discharge

Each indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:*(1)*
either:

(a)
all applicable notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and applicable notes for whose payment money has been deposited in trust and thereafter repaid to SEMCO Energy, have been delivered to the applicable trustee for cancellation; or

(b)
all applicable notes that have not been delivered to the applicable trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and SEMCO Energy or any Guarantor has irrevocably deposited or caused to be deposited with the applicable trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the applicable notes not delivered to the applicable trustee for cancellation for principal, premium and Additional Interest, if any, and accrued interest to the date of maturity or redemption;

(2)
no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other material instrument to which SEMCO Energy or any Guarantor is a party or by which SEMCO Energy or any Guarantor is bound;

(3)
SEMCO Energy or any Guarantor has paid or caused to be paid all sums payable by it under the applicable indenture; and

(4)
SEMCO Energy has delivered irrevocable instructions to the applicable trustee under the applicable indenture to apply the deposited money toward the payment of the applicable notes at maturity or the redemption date, as the case may be.

In addition, SEMCO Energy must deliver an officers' certificate and an opinion of counsel to the applicable trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the Trustees

If a trustee becomes a creditor of SEMCO Energy or any Guarantor, the applicable indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. Such trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The Holders of a majority in principal amount of the then outstanding 2008 notes or 2013 notes, as the case may be, will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the applicable trustee, subject to certain exceptions. The applicable indenture provides that in case an Event of Default occurs and is continuing, the applicable trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the applicable trustee will be under no obligation to exercise any of its rights or powers under the applicable indenture at the request of any Holder of 2008 notes or 2013 notes, as the case may be, unless such Holder has offered to the applicable trustee security and indemnity satisfactory to it against any loss, liability or expense.

Additional Information

Anyone who receives this prospectus may obtain a copy of the indentures and registration rights agreement without charge by writing to SEMCO Energy, Inc., 28470 13 Mile Road, Suite 300, Farmington Hills, Michigan 48334, Attention: Corporate Secretary.

Book-Entry, Delivery and Form

Except as set forth below, the notes will initially be issued in the form of one more Global Notes (the "Global Notes") in minimum denominations of $1,000 and integral multiples of $1,000 in excess of $1,000.

The Global Notes will be deposited upon issuance with the applicable trustee as custodian for DTC in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC, such indirect participants being Euroclear System (" *Euroclear* ") and Clearstream Banking, S.A. (" *Clearstream* ").

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See "—Exchange of Global Notes for Certificated Notes." Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of the notes in certificated form.

Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. SEMCO Energy takes

no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised SEMCO Energy that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the " *Participants* ") and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the " *Indirect Participants* "). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised SEMCO Energy that, pursuant to procedures established by it:*(1)*
upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the trustees with portions of the principal amount of the Global Notes; and

(2)
ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interest in the Global Notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or "Holders" thereof under the indentures for any purpose.

Payments in respect of the principal of, and interest and premium, if any, and Additional Interest, if any, on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered Holder under the indentures. Under the terms of the indentures, SEMCO Energy and the trustees will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, neither SEMCO Energy, the trustees nor any of SEMCO Energy's or the trustees' agents has or will have any responsibility or liability for:*(1)*
any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or

(2)
any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised SEMCO Energy that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustees or SEMCO Energy. Neither SEMCO Energy nor the trustees will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and SEMCO Energy and the trustees may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Transfers between the Participants will be effected in accordance with DTC's procedures and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

DTC has advised SEMCO Energy that it will take any action permitted to be taken by a Holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to the Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither SEMCO Energy nor the trustees nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for definitive notes in registered certificated form ("*Certificated Notes*") if:*(1)*
DTC (a) notifies SEMCO Energy that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, SEMCO Energy fails to appoint a successor depositary;

(2)
SEMCO Energy, at its option, notifies the applicable trustee in writing that it elects to cause the issuance of the Certificated Notes; or

(3)
there has occurred and is continuing a Default or Event of Default with respect to the notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the applicable trustee by or on behalf of DTC in accordance with the applicable indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures).

Same Day Settlement and Payment

SEMCO Energy will make payments in respect of the notes represented by the Global Notes (including principal, premium, if any, interest and Additional Interest, if any) by wire transfer of immediately available funds to the accounts specified by the Holders of the Global Note. SEMCO Energy will make all payments of principal, interest and premium, if any, and Additional Interest, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the Holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such Holder's registered address. The notes represented by the Global Notes are expected to be eligible to trade in the PORTAL market and to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. SEMCO Energy expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised SEMCO Energy that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Registration Rights; Additional Interest

The following description is a summary of the material provisions of the registration rights agreement. We urge you to read the registration rights agreement in its entirety because it, and not this description, defines your registration rights as Holders of these notes. See "—Additional Information."

SEMCO Energy, the Guarantors, if any, and the Initial Purchasers entered into the registration rights agreement on May 15, 2003. Pursuant to the registration rights agreement, SEMCO Energy and the Guarantors, if any, agreed to file with the SEC the Exchange Offer Registration Statement (as defined in the registration rights agreement) on the appropriate form under the Securities Act with respect to the exchange notes. Upon the effectiveness of the Exchange Offer Registration Statement, SEMCO Energy and the Guarantors, if any, will offer to the Holders of Transfer Restricted Securities pursuant to the Exchange Offer (as defined in the registration rights agreement) who are able to make certain representations the opportunity to exchange their Transfer Restricted Securities for exchange notes.

Under existing interpretations of the Securities Act by the staff of the SEC contained in several no-action letters to third parties, and subject to the immediately following sentence, we believe that the exchange notes would generally be freely tradeable by Holders after the Exchange Offer without further registration under the Securities Act, if the Holder of the exchange notes represents, among other things, that at the time of the consummation of the Exchange Offer: it is not an affiliate of ours, it is not engaged in, and does not intend to engage in, and has no arrangements or understanding with any Person to participate in, a distribution of the exchange notes that are issued in the Exchange Offer, and it is acquiring the exchange notes in the Exchange Offer in its ordinary course of business.

If:*(1)*
SEMCO Energy and the Guarantors, if any, are not

(a)
required to file the Exchange Offer Registration Statement; or

(b)
permitted to consummate the Exchange Offer because the Exchange Offer is not permitted by applicable law or SEC policy; or

(2)
any Holder of Transfer Restricted Securities notifies SEMCO Energy prior to the 20th day following consummation of the Exchange Offer that:

(a)
it is prohibited by law or SEC policy from participating in the Exchange Offer; or

(b)
it may not resell the exchange notes acquired by it in the Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales by it; or

(c)
it is a broker-dealer and owns notes acquired directly from SEMCO Energy or an affiliate of SEMCO Energy,

SEMCO Energy and the Guarantors, if any, will file with the SEC a Shelf Registration Statement (as defined in the registration rights agreement) to cover resales of the Transfer Restricted Securities by the Holders of the Transfer Restricted Securities who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement.

For purposes of the preceding, "*Transfer Restricted Securities*" means each note until the earliest of:*(1)*
the date on which such note has been exchanged by a Person other than a broker-dealer for an exchange note in the Exchange Offer;

(2)
following the exchange by a broker-dealer in the Exchange Offer of a note for an exchange note, the date on which such exchange note is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the Exchange Offer Registration Statement;

(3)
the date on which such note has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement; or

(4)
the date on which such note is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

The registration rights agreement provides that:*(1)*
SEMCO Energy and the Guarantors, if any, will file an Exchange Offer Registration Statement with the SEC on or prior to 90 days after the closing of this offering;

(2)
SEMCO Energy and the Guarantors, if any, will use their respective reasonable best efforts to have the Exchange Offer Registration Statement declared effective by the SEC on or prior to 180 days after the closing of this offering;

(3)
unless the Exchange Offer would not be permitted by applicable law or SEC policy, SEMCO Energy and the Guarantors, if any, will

(a)
commence the Exchange Offer; and

(b)
use their respective reasonable best efforts to issue on or prior to 30 business days, or longer, if required by the federal securities laws, after the date on which the Exchange Offer Registration Statement was declared effective by the SEC, exchange notes in exchange for all notes tendered prior thereto in the Exchange Offer; and

(4)
if obligated to file the Shelf Registration Statement, SEMCO Energy and the Guarantors, if any, will use their respective reasonable best efforts to file the Shelf Registration Statement with the SEC on or prior to 45 days after such filing obligation arises and to cause the Shelf Registration to be declared effective by the SEC on or prior to 105 days after such obligation arises.

If:*(1)*
SEMCO Energy and the Guarantors, if any, fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; or

(2)
any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness (the " *Effectiveness Target Date* "); or

(3)
SEMCO Energy and the Guarantors, if any, fail to consummate the Exchange Offer within 30 business days of the Effectiveness Target Date with respect to the Exchange Offer Registration Statement; or

(4)
the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable in connection with resales of Transfer Restricted Securities during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (4) above, a " *Registration Default* "),

then SEMCO Energy and the Guarantors, if any, will pay Additional Interest to each Holder of notes, with respect to the first 90-day period immediately following the occurrence of the first Registration Default in an amount equal to $.05 per week per $1,000 principal amount of notes held by such Holder.

The amount of the Additional Interest will increase by an additional $.05 per week per $1,000 principal amount of notes with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of Additional Interest for all Registration Defaults of $.50 per week per $1,000 principal amount of notes.

All accrued Additional Interest will be paid by SEMCO Energy and the Guarantors, if any, on the next scheduled interest payment date to the Global Note Holder by wire transfer of immediately available funds or by federal funds check and to Holders of Certificated Notes by wire transfer to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified.

SEMCO Energy will not be required to pay Additional Interest for more than one Registration Default at any given time. Following the cure of all Registration Defaults, the accrual of Additional Interest will cease.

Holders of notes will be required to make certain representations to SEMCO Energy (as described in the registration rights agreement) in order to participate in the Exchange Offer and will be required to deliver certain information to be used in connection with the Shelf Registration Statement and to provide comments on the Shelf Registration Statement within the time periods set forth in the registration rights agreement in order to have their notes included in the Shelf Registration Statement and benefit from the provisions regarding Additional Interest set forth above. By acquiring Transfer Restricted Securities, a Holder will be deemed to have agreed to indemnify SEMCO Energy and the Guarantors, if any, against certain losses arising out of information furnished by such Holder in writing for inclusion in any Shelf Registration Statement. Holders of notes will also be required to suspend their use of the prospectus included in the Shelf Registration Statement under certain circumstances upon receipt of written notice to that effect from SEMCO Energy.

Certain Definitions

Set forth below are certain defined terms used in the indentures. Reference is made to the indentures for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Debt*" means, with respect to any specified Person:*(1)*
Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and

(2)
Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Additional Interest*" means all Additional Interest then owing pursuant to the registration rights agreement.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*APCO Sale Proceeds*" means any Net Proceeds received in connection with a sale or other disposition of the business or assets owned by Alaska Pipeline Company on the date of the 2013 indenture.

"*Applicable Premium*" means, with respect to any such note on any Redemption Date, the greater of:*(1)*
1.0% of the principal amount of such note; or

(2)
the excess of:

(a)
the present value at such Redemption Date of all required interest payments due on such note through maturity (excluding accrued but unpaid interest), computed using a discount rate equal to the Treasury Rate as of such Redemption Date plus 50 basis points; over

(b)
the principal amount of such note, if greater.

"*Asset Sale*" means:*(1)*
the sale, lease, conveyance or other disposition of any assets or rights;*provided* that the sale, conveyance or other disposition of all or substantially all of the assets of SEMCO Energy and its Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption "—Repurchase at the Option of Holders—Change of Control" and/or the provisions described above under the caption "—Certain Covenants—Merger, Consolidation or Sale of Assets" and not by the provisions of the Asset Sale covenant; and

(2)
the issuance of Equity Interests by any of SEMCO Energy's Restricted Subsidiaries or the sale of Equity Interests in any of its Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:*(1)*
any single transaction or series of related transactions that involves assets having a fair market value of less than $2.0 million;

(2)
a transfer of assets between or among SEMCO Energy and its Subsidiaries,

(3)
an issuance of Equity Interests by a Subsidiary to SEMCO Energy or to another Subsidiary;

(4)
the sale or lease of equipment, inventory or accounts receivable in the ordinary course of business;

(5)
the sale or other disposition of cash or Cash Equivalents; and

(6)
a Restricted Payment or Permitted Investment that is permitted by the covenant described above under the caption "—Certain Covenants—Restricted Payments."

"Asset Sale Offer" has the meaning assigned to such term in the indentures governing the notes.

"*Attributable Debt*" in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"*Board of Directors*" means:*(1)*
with respect to a corporation, the board of directors of the corporation;

(2)
with respect to a partnership, the Board of Directors of the general partner of the partnership; and

(3)
with respect to any other Person, the board or committee of such Person serving a similar function.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

"*Capital Stock*" means:*(1)*
in the case of a corporation, corporate stock;

(2)
in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3)
in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(4)
any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Equivalents*" means:*(1)*
United States dollars;

(2)
securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (*provided* that the full faith and credit of the United States is pledged in support of those securities) having maturities of not more than six months from the date of acquisition;

(3)
certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of $500.0 million and a Thomson Bank Watch Rating of "B" or better;

(4)
repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5)
commercial paper having the highest rating obtainable from Moody's Investors Service, Inc. or Standard & Poor's Rating Services and in each case maturing within six months after the date of acquisition; and

(6)
money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

"*Change of Control*" means the occurrence of any of the following:*(1)*
the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of SEMCO Energy and its Restricted Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d)(3) of the Exchange Act);

(2)
the adoption of a plan relating to the liquidation or dissolution of SEMCO Energy;

(3)
the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of SEMCO Energy, measured by voting power rather than number of shares; or

(4)
the first day on which a majority of the members of the Board of Directors of SEMCO Energy are not Continuing Directors.

"*Consolidated Cash Flow*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus :(1)*
an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*

(2)
provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(3)
Consolidated Interest Expense of such Person and its Restricted Subsidiaries for such period to the extent that any such Consolidated Interest Expense was deducted in computing such Consolidated Net Income; *plus*

(4)
depreciation, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *plus*

(5)
any unusual or non-recurring items of loss or expense incurred in connection with the initial offering of notes under the indentures and the use of proceeds therefrom; *minus*

(6)
non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with GAAP.

"*Consolidated Interest Expense*" means, with respect to any Person for any period, the sum of:*(1)*
the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization or original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments (if any) made or received pursuant to Hedging Obligations); *plus*

(2)
the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period;*plus*

(3)
any interest expense on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (whether or not such Guarantee or Lien is called upon); *plus*

(4)
the product of (a) all dividend payments on any series of preferred stock of such Person or any of its Restricted Subsidiaries, times (b) (i) in the case of trust preferred dividend payments, one and (ii) in the case of other dividend payments, a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided* that:*(1)*
the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(2)
the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders; and

(3)
the cumulative effect of a change in accounting principles will be excluded.

"*Construction Business Disposition*" means the sale or other disposition of all or a portion of the assets of SEMCO Energy's construction services business segment; *provided* that:*(1)*
SEMCO Energy would, at the time of such disposition and after giving pro forma effect thereto as if such disposition had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness (other than Permitted Debt) pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(2)
the consideration received by SEMCO Energy or a Restricted Subsidiary in connection with such disposition is at least equal to the fair market value, as determined in good faith by the Board of Directors and set forth in an officers' certificate delivered to the trustees, of the assets that are the subject of that disposition;

(3)
such disposition is not to a Person that would be an Affiliate of SEMCO Energy (otherwise as a result of SEMCO Energy's ownership interests in such Person); and

(4)
the fair market value of the assets disposed of does not exceed 10% of the total fair market value of SEMCO Energy on a consolidated basis, as determined in good faith by the Board of Directors and set forth in an officers' certificate delivered to the trustees.

"*Continuing Directors*" means, as of any date of determination, any member of the Board of Directors of SEMCO Energy who:*(1)*
was a member of such Board of Directors on the date of the 2013 indenture; or

(2)
was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"*Credit Agreement*" means that certain Credit Agreement, dated as of June 25, 2002, by and among SEMCO Energy, Standard Federal Bank N.A., as administrative agent, and the several banks and other financial institutions party thereto, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, modified, renewed, refunded, replaced or refinanced from time to time.

"*Credit Facilities*" means, one or more debt facilities (including, without limitation, the Credit Agreement) or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require SEMCO Energy to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that SEMCO Energy may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "—Certain Covenants—Restricted Payments."

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Existing Indebtedness*" means Indebtedness of SEMCO Energy and its Subsidiaries (other than Indebtedness under the Credit Agreement), including intercompany Indebtedness underlying the trust preferred securities of SEMCO Energy's Subsidiaries, in existence on the date of the 2013 indenture, until such amounts are repaid.

"*Fixed Charge Coverage Ratio*" means with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Consolidated Interest Expense of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the " *Calculation Date* "), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:*(1)*
acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period will be calculated on a pro forma basis in accordance with Regulation S-X under the Securities Act;

(2)
the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and

(3)
the Consolidated Interest Expense attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Consolidated Interest Expense will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.

"*GAAP*" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the date of the indentures.

"*Guarantee*" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

"*Guarantors*" means each Restricted Subsidiary of SEMCO Energy that executes a Guarantee of the notes in accordance with the provisions of the indentures, and its successors and assigns.

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under:*(1)*
interest rate, currency or commodity swap agreements, interest rate cap agreements and interest rate collar agreements;

(2)
other agreements or arrangements designed to protect such Person against fluctuations in interest rates, currency exchange rates or commodity prices; and

(3)
commodity futures contracts, commodity options or other similar agreements or arrangements designed to protect against fluctuations in the price of commodities used by such Person at the time, including fixed price gas supply purchase contracts.

"*Indebtedness*" means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:*(1)*
in respect of borrowed money;

(2)
evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3)
in respect of banker's acceptances;

(4)
representing Capital Lease Obligations;

(5)
representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or

(6)
representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date will be:*(1)*
the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2)
the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(3)
in the case of any Hedging Obligation, the net amount payable if such Hedging Obligation is terminated at that time due to default by such Person (after giving effect to any contractually permitted set-off).

"*Investments*" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business and excluding trade payables of SEMCO Energy and its Subsidiaries arising in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If SEMCO Energy or any Subsidiary of SEMCO Energy sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of SEMCO Energy such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of SEMCO Energy, SEMCO Energy will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of SEMCO Energy's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "—Certain Covenants—Restricted Payments." The acquisition by SEMCO Energy or any Subsidiary of SEMCO Energy of a Person that holds an Investment in a third Person will be deemed to be an Investment by SEMCO Energy or such Subsidiary in such third Person in an amount equal to the fair market value of the Investments held by the acquired Person in such third Person in an amount

determined as provided in the final paragraph of the covenant described above under the caption "—Certain Covenants—Restricted Payments."

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"*Moody's*" means Moody's Investors Service, Inc.

"*Net Income*" means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however:*(1)*
any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with: (a) any Asset Sale; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and

(2)
any extraordinary gain (but not loss), together with any related provision for taxes on such extraordinary gain (but not loss).

"*Net Proceeds*" means the aggregate cash proceeds received by SEMCO Energy or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"*Non-Recourse Debt*" means Indebtedness:*(1)*
as to which neither SEMCO Energy nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;

(2)
no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the notes) of SEMCO Energy or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its Stated Maturity; and

(3)
as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of SEMCO Energy or any of its Restricted Subsidiaries.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Permitted Business*" means the business of operating one or more regulated utilities and other businesses that are ancillary, reasonably related thereto, or which are a reasonable extension thereof as determined in good faith by the Board of Directors of SEMCO Energy, including, without limitation, the businesses conducted by SEMCO Energy and its Subsidiaries on the date of the 2013 indenture.

"*Permitted Investments*" means:*(1)*
any Investment in SEMCO Energy or in a Restricted Subsidiary of SEMCO Energy;

(2)
any Investment in Cash Equivalents;

(3)
any Investment by SEMCO Energy or any Restricted Subsidiary of SEMCO Energy in a Person, if as a result of such Investment:

(a)
such Person becomes a Restricted Subsidiary of SEMCO Energy and, if required under the covenant described above under the caption "—Certain Covenants—Future Subsidiary Guarantees," a Guarantor; or

(b)
such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, SEMCO Energy or a Restricted Subsidiary of SEMCO Energy that, if required under the covenant described above under the caption "—Certain Covenants—Future Subsidiary Guarantees," is a Guarantor;

(4)
any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales;"

(5)
any Investment in any Person solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of SEMCO Energy;

(6)
any Investments received in compromise of obligations of such persons incurred in the ordinary course of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; and

(7)
Hedging Obligations.

"*Permitted Liens*" means:*(1)*
Liens in favor of SEMCO Energy or any Guarantor;

(2)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;

(3)
Liens on assets of SEMCO Energy or any Guarantor to secure Indebtedness (including Capital Lease Obligations) or Attributable Debt permitted by clause (4) of the second paragraph of the covenant entitled "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock" covering only the assets acquired with such Indebtedness;

(4)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries existing on the date of the 2013 indenture;

(5)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;

(6)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries incurred or deposits made in the ordinary course of business, including but not limited to, (i) any mechanics,' materialmens,' carriers,' workmens,' vendors' or other like Liens and (ii) Liens securing amounts in connection with workers' compensation, unemployment insurance and other types of social security;

(7)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries incurred or deposits made securing the performance of tenders, bids, leases, trade contracts (other than for borrowed money), government contracts, return-of-money bonds and other obligations of like nature incurred in the ordinary course of business;

(8)
rights of financial institutions to offset credit balances in connection with the operation of cash management programs established for the benefit of SEMCO Energy or a Restricted Subsidiary of SEMCO Energy or in connection with the issuance of letter of credit for the benefit of SEMCO Energy or a Restricted Subsidiary of SEMCO Energy;

(9)
Liens that arise pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings and Liens that secure the reimbursement obligations for any bonds obtained in connection with an appeal taken in any court proceeding, so long as the execution or other enforcement of any such Lien arising pursuant to such legal process is effectively stayed and the claims secured thereby are being contested in good faith and, if appropriate, by appropriate legal proceedings, or Liens in favor of a plaintiff or a defendant in any action before a court or tribunal as security for costs and/or other expenses;

(10)
any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Liens referred to above, for amounts not exceeding the principal amount of the Indebtedness secured by the Lien so extended, renewed or replaced; *provided* that such extension, renewal or replacement Lien is limited to all or a part of the same assets that were covered by the Lien extended, renewed or replaced (plus improvements on such assets);

(11)
minor survey exceptions or minor encumbrances, easements or reservations, or rights of others for rights-of-way, utilities and other similar purposes, or zoning or other restrictions as to the use of real properties, which are necessary for the conduct of the activities of SEMCO Energy and its Restricted Subsidiaries of which customarily exist on properties of corporations engaged in similar activities and similarly situated and which do not in any event materially impair the operation of the business of SEMCO Energy and its Restricted Subsidiaries;

(12)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries securing trade payables for natural gas purchases but only to the extent such Liens are required from suppliers generally in accordance with the then-customary market practice;

(13)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries incurred in the ordinary course of business of SEMCO Energy with respect to obligations that do not exceed $5.0 million at any one time outstanding.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:*(1)*
the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(2)
such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

(3)
if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the notes, such Permitted Refinancing Indebtedness has a final

maturity date later than the final maturity date of, and is subordinated in right of payment to, the notes on terms at least as favorable to the Holders of notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and*(4)*
such Indebtedness is incurred either by SEMCO Energy or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

"*S&P*" means Standard & Poor's Ratings Group.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date hereof.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subsidiary*" means, with respect to any specified Person:*(1)*
any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2)
any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

"*Treasury Rate*" means, as of any Redemption Date, the yield to maturity as of such Redemption Date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the Redemption Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the Redemption Date to maturity; *provided, however,* that if the period from the Redemption Date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"*Unrestricted Subsidiary*" means any Subsidiary of SEMCO Energy that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution, but only to the extent that such Subsidiary:*(1)*
has no Indebtedness other than Non-Recourse Debt;

(2)
is not party to any agreement, contract, arrangement or understanding with SEMCO Energy or any Restricted Subsidiary of SEMCO Energy unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to SEMCO Energy or such Restricted

Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of SEMCO Energy;*(3)*
is a Person with respect to which neither SEMCO Energy nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4)
has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries.

Any designation of a Subsidiary of SEMCO Energy as an Unrestricted Subsidiary will be evidenced to the trustees by filing with the trustees a certified copy of the Board Resolution giving effect to such designation and an officers' certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Certain Covenants—Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indentures and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of SEMCO Energy as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock," SEMCO Energy will be in default of such covenant. The Board of Directors of SEMCO Energy may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of SEMCO Energy of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock," calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation. Upon any such designation as a Restricted Subsidiary, such Subsidiary will become a Guarantor and execute supplemental indentures if so required under the covenant described above under the caption "—Certain Covenants—Future Subsidiary Guarantees."

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:*(1)*
the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2)
the then outstanding principal amount of such Indebtedness.

MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS

The following discussion summarizes the material U.S. federal tax consequences of the exchange of outstanding notes for new notes and of the beneficial ownership and disposition of new notes.

This summary is based on the Internal Revenue Code of 1986, referred to herein as the "Code," regulations issued under the Code, judicial authority and administrative rulings and practice, all as of the date of this prospectus, all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal tax consequences described in this prospectus. This summary addresses only the tax consequences to investors that own the outstanding notes and will own the new notes as capital assets and not as part of a hedge, straddle, conversion, constructive sale or other risk reduction transaction for federal income tax purposes. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as insurance companies, partnerships or other entities treated as partnerships for federal income tax purposes, financial institutions, tax-exempt organizations, retirement plans, regulated investment companies, securities dealers, expatriates or persons whose functional currency for tax purposes is not the U.S. dollar). We will not seek a ruling from the Internal Revenue Service, referred to herein as the "IRS," with respect to any matters discussed in this section, and we cannot assure you that the IRS will not challenge one or more of the tax consequences described below. When we use the term "holder" in this section, we are referring to a beneficial owner of the notes and not the record holder. **Persons considering the purchase of the notes should consult their own tax advisors concerning the application of U.S. federal tax laws to their particular situations as well as any consequences of the purchase, beneficial ownership and disposition of the notes arising under the laws of any other taxing jurisdiction.**

Federal Income Tax Consequences to U.S. Holders

The following is a general discussion of the material U.S. federal income tax consequences of the exchange of outstanding notes for new notes and of the beneficial ownership and disposition of the notes by a holder that is a United States person, referred to herein as a "U.S. Holder." For purposes of this discussion, a United States person means:

- a citizen or resident of the United States (as defined for federal income tax purposes);
- a corporation or other business entity treated as a corporation created or organized in or under the laws of the United States or any State or political subdivision thereof or therein (including the District of Columbia);
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of its substantial decisions, or certain electing trusts that were in existence on August 20, 1996, and were treated as domestic trusts on August 20, 1996.

The Exchange Offer

The exchange of outstanding notes for new notes pursuant to this exchange offer will not be treated as an "exchange" for United States federal income tax purposes because the new notes will not be considered to differ materially in kind or extent from the outstanding notes. Rather, any new notes received by you will be treated as a continuation of your investment in the outstanding notes. As a result, there will be no United States federal income tax consequences to you resulting from the exchange offer and you will have the same adjusted tax basis and holding period in the new notes as you had in the outstanding notes immediately prior to the exchange.

Treatment of Interest

Stated interest on the notes will be taxable to a U.S. Holder as ordinary income at the time it is accrued or received (in accordance with the U.S. Holder's method of tax accounting).

Market Discount

If a U.S. Holder purchases a new note (or purchased an outstanding note and exchanges it for a new note) for an amount that is less than the stated principal amount of the note, the amount of such difference is treated as "market discount" for U.S. federal income tax purposes, unless such difference is less than 1/4 of one percent of the stated principal amount multiplied by the remaining number of complete years to maturity from the date of the acquisition.

A U.S. Holder holding a note with market discount generally will be required to treat any full or partial principal payment, or any gain upon the sale, exchange or retirement (including redemption or repurchase) of the note, as ordinary income to the extent of the accrued market discount on the note that such holder has not previously included in income. A U.S. Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry a note with market discount.

In general, any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless the holder elects to accrue the market discount under a constant yield method. A U.S. Holder may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield method), rather than on disposition of the note, in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in gross income on an accrual basis, once made, applies to all market discount obligations acquired by the holder on or after the first day of the first taxable year to which the election applies, and is irrevocable without the consent of the IRS. The holder's tax basis in the notes will be increased by the amount of any market discount included in gross income under such an election.

Amortizable Bond Premium

In general, if a U.S. Holder purchases a new note (or purchased an outstanding note and exchanges it for a new note) for an amount in excess of the sum of all amounts payable on the note (other than stated interest payments), such excess will be considered to be "amortizable bond premium." A U.S. Holder generally may elect to amortize the bond premium over the remaining term of the note on a constant yield method as an offset to interest. A special rule applies to determine the amount of amortizable bond premium on debt instruments (such as the notes) that may be redeemed prior to maturity at the issuer's option. Under these rules, a U.S. Holder will calculate the amount of amortizable bond premium based on the amount payable at the applicable call date, but only if the use of the call date (in lieu of the stated maturity date) results in a smaller amortizable bond premium for the period ending on the call date. If a U.S. holder does not elect to amortize bond premium, that premium will decrease the gain or increase the loss such holder would otherwise recognize on disposition of the note.

If a U.S. Holder elects to amortize bond premium, its tax basis in the note will be reduced by the amount of allowable amortization. The election to amortize bond premium applies to all taxable debt obligations held during or after the taxable year for which the election is made, and is irrevocable without the consent of the IRS.

The rules regarding market discount and amortizable bond premium are complex, and you should consult your own tax advisors regarding these rules.

Treatment of Dispositions of Notes

Upon the sale, exchange, retirement or other taxable disposition of a note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount received on such disposition (other than amounts representing accrued and unpaid interest not previously included in income) and the U.S. Holder's tax basis in the note. A U.S. Holder's tax basis in a note will be, in general, the cost of the note to the U.S. Holder, increased by any market discount included in income and decreased by any amortizable bond premium. Subject to the market discount rules discussed above, gain or loss realized on the sale, exchange or retirement of a note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such sale, exchange or retirement, the note has been held for more than one year. Net long-term capital gain recognized by a non-corporate U.S. Holder is generally subject to U.S. federal income tax at a preferential rate. The ability of a U.S. Holder to deduct a capital loss is subject to limitations under the Code.

Federal Tax Consequences to Non-U.S. Holders

The following is a general discussion of the U.S. federal income and estate tax consequences of the exchange offer, and of the beneficial ownership and disposition of new notes by a holder that is not a partnership or a United States person, referred to herein as a "Non-U.S. Holder." For purposes of the following discussion, any interest income and any gain realized on the sale, exchange or other disposition of a note will be considered "U.S. trade or business income" if such interest income or gain is (i) effectively connected with the conduct of a trade or business in the United States or (ii) in the case of a treaty resident, attributable to a permanent establishment (or in the case of an individual, to a fixed base) in the United States.

The Exchange Offer

The exchange of outstanding notes for new notes pursuant to this exchange offer will not be a taxable sale or exchange for United States federal income tax purposes.

Treatment of Interest

A Non-U.S. Holder will not be subject to U.S. federal income or withholding tax in respect of interest income on a note if each of the following requirements is satisfied:

- The interest is not U.S. trade or business income (as defined above).

- The Non-U.S. Holder provides to us or our paying agent a properly completed an IRS Form W-8BEN (or substitute form), together with all appropriate attachments, signed under penalties of perjury, identifying the Non-U.S. Holder and stating, among other things, that the Non-U.S. Holder is not a United States person. If a note is held through a securities clearing organization, bank or another financial institution that holds customers' securities in the ordinary course of its trade or business, this requirement is satisfied if (i) the Non-U.S. Holder provides such a form to the organization or institution, and (ii) the organization or institution, under penalties of perjury, certifies to us that it has received such a form from the beneficial owner or another intermediary and furnishes us or our paying agent with a copy.

- The Non-U.S. Holder does not actually or constructively own 10% or more of the voting power of our stock.

- The Non-U.S. Holder is not a "controlled foreign corporation" (as defined for federal income tax purposes) that is actually or constructively related to us.

If all of these conditions are not met, a 30% U.S. withholding tax will apply to interest income on the notes, unless one of the following two exceptions is satisfied. The first exception is that an applicable income tax treaty reduces or eliminates such tax, and a Non-U.S. Holder claiming the benefit of that treaty provides to us or our paying agent a properly completed IRS Form W-8BEN (or

substitute form). The second exception is that the interest is U.S. trade or business income (as defined above) and the Non-U.S. Holder provides an appropriate statement to that effect on a properly completed IRS Form W-8ECI (or substitute form). In the case of the second exception, such Non-U.S. Holder generally will be subject to U.S. federal income tax with respect to all income from the notes on a net income basis in the same manner as a U.S. Holder, as described above. Additionally, Non-U.S. Holders that are corporations could be subject to a branch profits tax on such income. Special procedures contained in Treasury regulations may apply to partnerships, trusts and intermediaries. We urge Non-U.S. Holders to consult their own tax advisors for information on the impact of these withholding regulations.

Treatment of Dispositions of Notes

Generally, a Non-U.S. Holder will not be subject to U.S. federal income tax on gain realized upon the sale, exchange, retirement or other disposition of a note unless:

- such holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met, or

- the gain is U.S. trade or business income (as defined above).

Treatment of Notes for U.S. Federal Estate Tax Purposes

A note held, or treated as held, by an individual who is a Non-U.S. Holder at the time of his or her death will not be subject to U.S. federal estate tax, provided that the Non-U.S. Holder does not at the time of death actually or constructively own 10% or more of the combined voting power of all classes of our stock and payments of interest on such notes would not have been considered U.S. trade or business income (as defined above).

U.S. Information Reporting Requirements and Backup Withholding

When required, we will report to the holders of the notes and the IRS amounts paid on or with respect to the notes and the amount of any tax withheld from such payments.

Certain non-corporate U.S. Holders may be subject to backup withholding at a rate equal to the fourth lowest marginal rate of income tax applicable to unmarried individuals on payments made on or with respect to the notes and on payment of the proceeds from the disposition of a note. This rate is currently 28%. In general, backup withholding will apply to a U.S. Holder only if the U.S. Holder:

- fails to furnish its Taxpayer Identification Number, or TIN, which for an individual is his or her Social Security Number;

- furnishes an incorrect TIN;

- is notified by the IRS that it has failed properly to report payments of interest and dividends; or

- under certain circumstances, fails to certify, under penalties of perjury, that it has furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments.

A U.S. Holder will be eligible for an exemption from backup withholding by providing a properly completed IRS Form W-9 (or substitute form) to us or our paying agent.

A Non-U.S. Holder that provides an IRS Form W-8BEN (or substitute form), together with all appropriate attachments, signed under penalties of perjury, identifying the Non-U.S. Holder and stating that the Non-U.S. Holder is not a United States person, will not be subject to U.S. backup withholding and generally will not be subject to IRS information reporting requirements provided that neither we nor our paying agent has actual knowledge that the holder is a United States person or otherwise does

not satisfy the requirements of an exemption. Certain information reporting requirements still may apply even if an exception from backup witholding is established.

The payment of the proceeds from the disposition of notes to or through the United States office of any broker, United States or foreign, will be subject to information reporting and possible backup withholding unless the owner certifies as to its non-United States status under penalties of perjury or otherwise establishes an exemption, provided that the broker does not have actual knowledge or reason to know that the holder is a United States person or that the conditions of any other exemption are not, in fact, satisfied. The payment of the proceeds from the disposition of notes to or through a non-United States office of a non-United States broker will not be subject to information reporting or backup withholding unless the non-United States broker has certain types of relationships with the United States, referred to as a United States related person. In the case of the payment of the proceeds from the disposition of the notes to or through a non-United States office of a broker that is either a United States person or a United States related person, the Treasury regulations require information reporting (but not backup withholding) on the payment unless the broker has documentary evidence in its files that the owner is a Non-U.S. Holder and the broker has no knowledge (or reason to know) to the contrary. Non-U.S. Holders should consult their own tax advisors on the application of information reporting and backup withholding to them in their particular circumstances (including upon their disposition of notes).

Backup withholding is not an additional tax and may be refunded or credited against the holder's U.S. federal income tax liability, provided that certain required information is furnished to the IRS. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting interest and withholding may be made available to the tax authorities in foreign countries under the provisions of a tax treaty or agreement.

The federal tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their own tax advisors with respect to the tax consequences to them of the beneficial ownership and disposition of the notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in federal or other tax laws.

PLAN OF DISTRIBUTION

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of notes received in exchange for outstanding notes where such outstanding notes were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the expiration date of the exchange offer, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until June 15, 2004, all dealers effecting transactions in the new notes may be required to deliver a prospectus.

We will not receive any proceeds from any sale of new notes by broker-dealers. New notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the new notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such new notes. Any broker-dealer that resells new notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such new notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on such resale of new notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the expiration date of the exchange offer, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests such documents as set forth in the letter of transmittal. We have agreed to pay all expenses incident to the exchange offer (including the expenses of one counsel for the holders of the outstanding notes) other than commissions or concessions of any brokers or dealers and will indemnify the holders of the outstanding notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

LEGAL MATTERS

Certain legal matters in connection with the offering and sale of the notes regarding the validity and enforceability of the notes are passed upon for us by Gibson, Dunn & Crutcher LLP, New York, New York. Certain other legal matters are passed upon for us by Dickinson Wright PLLC, Detroit, MI.

EXPERTS

Our consolidated financial statements as of December 31, 2002 and for the year then ended, included elsewhere in this prospectus, have been so included in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. Our consolidated financial statements as of December 31, 2001 and 2000 and for the years then ended, included elsewhere in this prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report included herein. Arthur Andersen LLP has not consented to the incorporation by reference of their report, and we have dispensed with the requirement to file their consent in reliance upon Rule 437a of the Securities Act. In May 2002, our Board of Directors voted to discontinue using Arthur Andersen LLP to audit our financial statements for the year ending December 31, 2002. We had previously retained Arthur Andersen LLP to review our financial statements for the quarter ended March 31, 2002. Because Arthur Andersen LLP has not consented to the incorporation by reference of their report in this prospectus, you will not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statements of material fact contained in the financial statements audited by them or any omission to state a material fact required to be stated therein. See "Risk Factors—You may not be able to seek remedies against Arthur Andersen LLP, our former independent accountants, with respect to our financial statements that were audited by Arthur Andersen." On May 28, 2002, we appointed PricewaterhouseCoopers LLP to audit our financial statements for the year ending December 31, 2002. During 2000 and 2001, there were no disagreements or reportable events as described in Item 304(a) of Regulation S-K promulgated by the SEC between Arthur Andersen LLP and us.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the informational requirements of the Exchange Act, and in accordance with the requirements of the Exchange Act, we file reports and other information with the SEC. You may read and, for a fee, copy any document that we file with the SEC at the public reference facility maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at *http://www.sec.gov* .

Our reports and other information that are filed with the SEC are not incorporated by reference into this prospectus except that the information under the sections entitled "Stock Outstanding and Voting Rights" and "Compensation of Executive Officers and Directors" starting on pages 4 and 11, respectively, of our Proxy Statement, dated March 10, 2003 (and incorporated by reference to the annual report on Form 10-K filed on March 14, 2003), is incorporated into this prospectus by reference. We also incorporate by reference all documents that we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of this offering from the dates of the filing of these documents with the SEC.

We maintain a website on the Internet at address http://www.semcoenergy.com. We make available free of charge on or through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC. This reference to our Internet address is for informational purposes only and shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this prospectus.

You may also request a copy of these filings at no cost, by writing or telephoning us at the following address:

SEMCO Energy, Inc.
Attention: Corporate Secretary
28470 13 Mile Road, Suite 300
Farmington Hills, MI 48334
(248) 702-6000

SEMCO ENERGY, INC. AND ITS CONSOLIDATED SUBSIDIARIES

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REPORTS OF INDEPENDENT ACCOUNTANTS

To SEMCO Energy, Inc.:

In our opinion, the accompanying consolidated statements of financial position and capitalization as of December 31, 2002 and the related consolidated statements of operations, changes in common shareholders' equity and cash flows present fairly, in all material respects, the financial position of SEMCO Energy, Inc. and its subsidiaries at December 31, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001 and for each of the two years in the period ended December 31, 2001, prior to the inclusion of the goodwill transitional disclosures in Note 1, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated February 7, 2002.

As explained in Note 1 to the financial statements, effective January 1, 2002, SEMCO Energy, Inc. changed its method of accounting related to goodwill in accordance with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

As discussed above, the financial statements of SEMCO Energy, Inc. as of December 31, 2001, and for each of the two years in the period ended December 31, 2001 were audited by other independent accountants who have ceased operations. As described in Note 1, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142. We audited the adjustments in the transitional disclosures in Note 1. In our opinion, all such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

PricewaterhouseCoopers LLP

Detroit, Michigan
February 10, 2003

The following report is a copy of a report previously issued by Arthur Andersen LLP. This report has not been reissued by Arthur Andersen LLP, and Arthur Anderson LLP did not consent to the incorporation by reference of this report (as included in our Annual Report on Form 10-K) into any of SEMCO's registration statements.

As discussed in Note 1, the Company has revised its financial statements for the years ended December 31, 2001 and 2000 to include the transitional disclosures required by SFAS No. 142, "Goodwill and Other Intangible Assets." The Arthur Andersen report does not extend to these changes. The revisions to the 2001 and 2000 financial statements related to these transitional disclosures were reported on by PricewaterhouseCoopers LLP, as stated in their report appearing on the preceding page.

To SEMCO Energy, Inc.:

We have audited the accompanying consolidated statements of financial position and capitalization of SEMCO Energy, Inc. (a Michigan corporation) and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SEMCO Energy, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Detroit, Michigan,
February 7, 2002

SEMCO ENERGY, INC.
Consolidated Statements of Operations

	Years ended December 31,		
	2002	2001	2000
	(000's, except per share amounts)		
Operating revenues			
Gas sales	$ 335,655	$ 295,397	$ 273,312
Gas transportation	25,707	25,888	30,783
Construction services	107,365	117,160	95,537
Other	12,238	7,378	10,693
	$ 480,965	$ 445,823	$ 410,325
Operating expenses			
Cost of gas sold	$ 220,422	$ 184,973	$ 161,945
Operation and Maintenance	156,653	162,289	140,236
Depreciation and amortization	35,337	36,505	33,051
Property and other taxes	11,844	11,562	9,860
Restructuring and impairment charges	—	6,103	—
	$ 424,256	$ 401,432	$ 345,092
Operating income	$ 56,709	$ 44,391	$ 65,233
Other income (deductions)			
Interest expense	$ (31,268)	$ (31,784)	$ (34,905)
Other	2,238	2,335	2,828
	$ (29,030)	$ (29,449)	$ (32,077)
Income before income taxes and minority interest	$ 27,679	$ 14,942	$ 33,156
Income taxes	10,139	6,578	11,554
Minority interest—dividends on company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc., net of income taxes of $4,631, $4,632 and $2,695.	8,601	8,603	5,004
Income (loss) from continuing operations	$ 8,939	$ (239)	$ 16,598
Discontinued operations:			
Income (loss) from engineering services operations, net of income tax benefit (expense) of $0, $694 and ($52)	—	$ (1,142)	$ 95
Loss on divestiture of engineering services operations, including losses during phase-out period, net of income tax benefit (expense) of ($1,276), $2,429 and $0	10	(4,980)	—
Net income (loss) available to common shareholders	$ 8,949	$ (6,361)	$ 16,693
Earnings per share—basic			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.92
Net income (loss) available to common shareholders	0.48	(0.35)	0.93
Earnings per share—diluted			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.89
Net income (loss) available to common shareholders	0.48	(0.35)	0.90
Cash dividends per share	$ 0.59	$ 0.84	$ 0.84

Average common shares outstanding—basic	18,472	18,106	17,999
Average common shares outstanding—diluted	18,493	18,106	18,619

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Financial Position

	December 31,	
	2002	2001
	(000's)	
Current assets		
Cash and temporary cash investments, at cost	$ 1,813	$ 1,728
Restricted cash	1,212	—
Receivables, less allowances of $1,909 and $1,849	49,841	64,219
Accrued revenue	40,757	33,153
Gas in underground storage	35,232	12,731
Prepaid expenses	23,449	22,276
Materials and supplies, at average cost	4,254	5,258
Gas charges recoverable from customers	2,200	1,994
Other	1,537	3,608
	$ 160,295	$ 144,967
Property plant and equipment		
Gas distribution	$ 635,992	$ 613,467
Diversified businesses and other	92,774	94,514
	$ 728,766	$ 707,981
Less accumulated depreciation and impairments	207,635	183,436
	$ 521,131	$ 524,545
Deferred charges and other assets		
Goodwill, less accumulated amortization and impairments of $17,764	$ 161,084	$ 161,084
Deferred retiree medical benefits	8,992	9,891
Unamortized debt expense	7,809	7,831
Other	17,203	15,230
	$ 195,088	$ 194,036
Total assets	$ 876,514	$ 863,548
Current liabilities		
Notes payable and current maturities of long-term debt	$ 121,835	$ 137,957
Accounts payable	38,148	30,410
Customer advance payments	11,408	13,530
Accrued interest	7,598	7,665
Accumulated deferred income taxes	1,879	912
Amounts payable to customers	1,073	1,463
Other	19,194	17,076
	$ 201,135	$ 209,013
Deferred credits and other liabilities		
Accumulated deferred income taxes	$ 33,043	$ 33,149
Customer advances for construction	15,841	15,548
Unamortized investment tax credit	1,178	1,445
Other	9,833	12,223
	$ 59,895	$ 62,365
Commitments and contingencies (see Note 13)		
Capitalization		
Long-term debt	$ 366,026	$ 338,966

Company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc.	139,436	139,394
Common shareholders' equity	110,022	113,810
	$ 615,484	$ 592,170

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Cash Flow

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Cash flow provided by (used for) operating activities			
Net income (loss)	$ 8,949	$ (6,361)	$ 16,693
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	35,337	36,505	33,051
Depreciation and amortization in discontinued operations	225	454	421
Accumulated deferred income taxes and investment tax credit	3,516	4,402	6,877
Non-cash impairment charges and subsequent adjustment	(1,732)	7,679	—
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes as shown below	(21,350)	(6,023)	(8,080)
Net cash provided by operating activities	$ 24,945	$ 36,656	$ 48,962
Cash flows provided by (used for) investing activities			
Property additions—gas distribution	$ (29,972)	$ (34,074)	$ (47,466)
Property additions—diversified businesses and other	(5,005)	(21,370)	(19,170)
Proceeds from property sales, net of retirement costs	4,508	(49)	15
Acquisitions of businesses, net of cash acquired	—	—	(784)
Net cash used for investing activities	$ (30,469)	$ (55,493)	$ (67,405)
Cash flows provided by (used for) financing activities			
Issuance of common stock, net of expenses	$ 3,642	$ 2,436	$ 865
Issuance of trust preferred securities, net of expenses	—	—	134,885
Net cash change in notes payable	13,878	(26,185)	(243,708)
Issuance of long-term debt, net of expenses	28,990	58,296	136,619
Repayment of long-term debt and related expenses	(30,125)	(10)	(50)
Payment of dividends	(10,776)	(15,193)	(15,033)
Net cash provided by financing activities	$ 5,609	$ 19,344	$ 13,578
Cash and temporary cash investments			
Net increase (decrease)	$ 85	$ 507	$ (4,865)
Beginning of period	1,728	1,221	6,086
End of period	$ 1,813	$ 1,728	$ 1,221
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes			
Restricted cash	$ (1,212)	$ —	$ —
Receivables, net	14,378	8,920	7,161
Accrued revenue	(7,604)	(941)	(6,832)
Prepaid expenses	(1,173)	(7,967)	12
Materials, supplies and gas in underground storage	(21,497)	(4,185)	4,065
Gas charges recoverable from customers	(206)	704	311
Accounts payable	7,738	(1,890)	(3,780)
Customer advances and amounts payable to customers	(2,219)	(68)	(4,036)
Other	(9,555)	(596)	(4,981)
	$ (21,350)	$ (6,023)	$ (8,080)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Capitalization

	December 31,	
	2002	2001
	(000's)	
Current maturities of long-term debt 6.83% notes due 2002	$ —	$ 30,000
Capitalization		
Long-term debt		
8.00% notes due 2004	$ 55,000	$ 56,900
7.20% notes due 2007	30,000	30,000
8.95% notes due 2008, remarketable 2003	105,378	106,179
6.49% notes due 2009	30,000	—
8.00% notes due 2010	30,758	30,887
8.00% notes due 2016	59,890	60,000
8.32% notes due 2024	25,000	25,000
6.50% medium-term notes due 2005	15,000	15,000
6.40% medium-term notes due 2008	5,000	5,000
7.03% medium-term notes due 2013	10,000	10,000
	$ 366,026	$ 338,966
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc.		
10.25% cumulative trust preferred securities—1,600,000 shares issued and outstanding	$ 38,436	$ 38,394
FELINE PRIDES—10,100,000 shares issued and outstanding	101,000	101,000
	$ 139,436	$ 139,394
Common shareholders' equity		
Common stock, par value $1 per share—40,000,000 shares authorized; 18,682,027 and 18,240,143 shares outstanding	$ 18,682	$ 18,240
Capital surplus	120,089	117,091
Accumulated other comprehensive income (loss)	(7,597)	(2,196)
Retained earnings (deficit)	(21,152)	(19,325)
	$ 110,022	$ 113,810
Total capitalization	$ 615,484	$ 592,170

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Changes in Common Shareholders' Equity

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Common stock			
Beginning of year	$ 18,240	$ 18,056	$ 17,909
Issuance of common stock for acquisitions, the DRIP and other	442	184	147
End of year	$ 18,682	$ 18,240	$ 18,056
Capital surplus			
Beginning of year	$ 117,091	$ 115,186	$ 123,861
Issuance of common stock for acquisitions, the DRIP and other	3,200	2,256	1,718
Costs related to FELINE PRIDES (See Note 4)	(202)	(351)	(10,393)
End of year	$ 120,089	$ 117,091	$ 115,186
Accumulated other comprehensive income (loss)			
Beginning of year	$ (2,196)	$ —	$ —
Minimum pension liability adjustment, net of income tax benefit of $2,922, $781 and $0 (See Note 8)	(5,427)	(1,452)	—
Unrealized derivative loss on interest rate hedge from an investment in an affiliate	26	(744)	—
End of year	$ (7,597)	$ (2,196)	$ —
Retained earnings (deficit)			
Beginning of year	$ (19,325)	$ 2,230	$ 570
Net income (loss)	8,949	(6,361)	16,693
Cash dividends on common stock	(10,776)	(15,194)	(15,033)
End of year	$ (21,152)	$ (19,325)	$ 2,230

Disclosure of Comprehensive Income (Loss)

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Net income (loss) available to common shareholders	$ 8,949	$ (6,361)	$ 16,693
Minimum pension liability adjustment, net of income tax benefit of $2,922, $781 and $0 (See Note 8)	(5,427)	(1,452)	—
Unrealized gain (loss) on interest rate hedge from an investment in an affiliate	26	(744)	—
Total comprehensive income (loss)	$ 3,548	$ (8,557)	$ 16,693

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Note 1. Significant Accounting Policies

Company Description. SEMCO Energy, Inc., is an investor-owned company. SEMCO Energy, Inc. and its subsidiaries (the "Company") operate four reportable business segments: (1) gas distribution; (2) construction services; (3) information technology services; and (4) propane, pipelines and storage. The latter three segments are sometimes referred to together as the "Diversified Businesses." The Company's gas distribution business segment distributes and transports natural gas to approximately 272,000 customers in the state of Michigan and approximately 111,000 customers in the state of Alaska. The Alaska-based operation and the Michigan-based operation are known together as the "Gas Distribution Business" and operate as divisions of SEMCO Energy, Inc.

The construction services segment ("Construction Services") currently conducts most of its business in the midwestern, southern and southeastern areas of the United States. Its primary service is the installation and upgrade of compressor stations and underground natural gas mains and service lines.

The information technology services segment ("IT Services") is headquartered in Michigan and provides IT infrastructure outsourcing services and other IT services with a focus on mid-range computers, particularly the IBM I-Series (AS-400) platform. The Company's other business segments accounted for approximately 79% of IT Services' revenues during 2002.

The propane, pipelines and storage segment sells more than 4 million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin and operates natural gas transmission and storage facilities in Michigan.

The Company began accounting for its engineering services segment as a discontinued operation, effective with the fourth quarter of 2001. For additional information, refer to the "Discontinued Operations" disclosure within this Note.

Basis of Presentation. The financial statements of the Company were prepared in conformity with accounting principles generally accepted in the United States. In connection with the preparation of the financial statements, management was required 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.

Principles of Consolidation. The consolidated financial statements include the accounts of SEMCO Energy, Inc. and its wholly-owned subsidiaries. Investments in unconsolidated companies where the Company has significant influence, but does not control the entity, are reported using the equity method of accounting.

Certain of the Company's diversified businesses, primarily Construction Services and IT Services, supply services at a profit to the Company's regulated gas distribution business. In accordance with Statement of Financial Accounting Standard ("SFAS") 71, "Accounting for the Effects of Certain Types of Regulation," intercompany profits remaining in the assets of the regulated business at a particular date are not eliminated since it is probable that, through the ratemaking process, the cost will be recovered through future revenue. As a result, $0.1 million, $0.6 million and $0.9 million of profit on revenues earned from the Company's regulated business by the Company's diversified businesses was not eliminated during consolidation in 2002, 2001, and 2000 respectively. All other significant intercompany transactions have been eliminated.

Rate Regulation. The Gas Distribution Business is subject to regulation. The regulatory matters associated with gas distribution customers located in the City of Battle Creek, Michigan, and surrounding communities are subject to the jurisdiction of the City Commission of Battle Creek

("CCBC"). The Michigan Public Service Commission ("MPSC") has jurisdiction over the regulatory matters related to the Company's remaining Michigan customers. Regulatory matters for gas distribution customers in Alaska are subject to the jurisdiction of the Regulatory Commission of Alaska ("RCA"). These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. The Gas Distribution Business is subject to the provisions of SFAS 71. Refer to Note 2 for additional information regarding SFAS 71.

Restricted Cash. At December 31, 2002, the Company had $1.2 million of restricted cash. The Company expects this cash will be disbursed or that the restricted status will be removed within one year.

Property, Plant, Equipment and Depreciation. The Company's property, plant and equipment ("property") is recorded at cost. The Company provides for depreciation on a straight-line basis over the estimated useful lives of the related property. The ratio of depreciation to the average balance of property approximated 4.9% for the year 2002 and 4.7% for the years 2001 and 2000.

On January 1, 2002, the Company adopted 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 Accounting Principles Board ("APB") Opinion 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."

SFAS 144 requires long-lived assets to be measured at the lower of either the carrying amount or the fair value less the cost to sell the assets, 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 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 144 will result in the Company accounting for any future impairment or disposal of long-lived assets under the provisions of SFAS 144, but has not changed the accounting used for previous asset impairments or disposals.

Gas in Underground Storage. The gas inventory of the Gas Distribution Business at December 31, 2002 is reported at average cost. The gas inventory at December 31, 2001 was also stated at average cost with the exception of the inventory held by the Battle Creek division of the Gas Distribution Business, which was stated at last-in, first-out ("LIFO") cost. At December 31, 2001, the replacement cost of the Battle Creek division's gas inventory exceeded the LIFO cost by $0.2 million.

During 2002, the Battle Creek Division changed its method of accounting for gas inventory from LIFO to average cost. This change in accounting principle was made in order to provide a better matching of expenses with revenues and make Battle Creek's accounting for gas inventory consistent with the Company's other gas distribution divisions and other Michigan gas distribution companies. This accounting change was not material to the financial statements, and, accordingly, no retroactive restatement of prior years' financial statements was made.

In general, commodity costs and variable transportation costs are capitalized as gas in underground storage. Fixed costs, primarily pipeline demand charges and storage charges, are expensed as incurred through cost of gas.

Goodwill. Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible assets of businesses acquired. On January 1, 2002, the Company adopted

SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 addresses financial accounting and reporting for all business combinations and requires that all business combinations entered into subsequent to June 30, 2001 be recorded under the purchase method. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition.

In compliance with SFAS 142, goodwill amortization ceased effective January 1, 2002. Prior to January 1, 2002, goodwill was being amortized on a straight-line basis over periods of up to 40 years. Amortization expense was approximately $4.6 million in 2001 and $4.0 million in 2000. During 2001, the Company recorded a charge of $4.0 million for the impairment of goodwill associated with the Company's construction services segment and its discontinued engineering services business. The Company's carrying amount for goodwill at December 31, 2002 was $161.1 million, of which $140.2 million related to the Gas Distribution Business, $17.7 million related to Construction Services, $3.1 million related to the Propane, Pipelines and Storage segment and $0.1 million related to IT Services.

The Company was required to complete a transition impairment test in the year of adoption of SFAS 142 and perform subsequent impairment tests on the remaining goodwill balance annually or at any time when events occur which could impact the value of the Company's business segments. If an impairment test of goodwill shows that the carrying amount of the goodwill is in excess of the fair value, a corresponding impairment loss would be recorded in the Consolidated Statements of Operations. The transition impairment tests were performed for the Company's business units and the results of those tests indicate that no impairment of the Company's goodwill balances existed as of January 1, 2002. The 2002 annual impairment tests were also performed for the Company's business segments and indicated that there was no impairment of goodwill. As a result, there was no change in the carrying amount of goodwill at December 31, 2002 when compared to December 31, 2001.

The following table presents what would have been reported as net income (loss) available to common shareholders and the related per share amounts on a basic and diluted basis in 2002, 2001 and 2000, exclusive of amortization expense (including any related tax effects) related to goodwill.

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Net income (loss) available to common shareholders			
Reported income (loss) from continuing operations	$ 8,939	$ (239)	$ 16,598
Discontinued operations	10	(6,122)	95
Reported net income (loss) available to common shareholders	8,949	(6,361)	16,693
Add back: Goodwill amortization, net of income taxes	—	2,806	2,449
Adjusted net income (loss) available to common shareholders	$ 8,949	$ (3,555)	$ 19,142
Adjusted earnings per share—basic			
Reported income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.92
Discontinued operations	0.00	(0.34)	0.01
Reported net income (loss) available to common shareholders	0.48	(0.35)	0.93
Add back: Goodwill amortization, net of income taxes	—	0.15	0.13
Adjusted net income (loss) available to common shareholders	$ 0.48	$ (0.20)	$ 1.06
Adjusted earnings per share—diluted			
Reported income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.89
Discontinued operations	0.00	(0.34)	0.01
Reported net income (loss) available to common shareholders	0.48	(0.35)	0.90
Add back: Goodwill amortization, net of income taxes	—	0.15	0.13
Adjusted net income (loss) available to common shareholders	$ 0.48	$ (0.20)	$ 1.03

Long-term Note Receivable. The Company sold its entire interest in an Arkansas pipeline to ENOGEX Arkansas Pipeline Corporation ("ENOGEX") in 1998. Pursuant to the terms included in the sales agreement, the Company will receive annual payments of $0.8 million from ENOGEX for 17 years beginning in the year 2004. At December 31, 2002, the Company has a long-term discounted note receivable of $7.7 million for this note, which is reported in deferred charges and other assets in the Consolidated Statements of Financial Position.

Revenue Recognition. The Gas Distribution Business bills monthly on a cycle basis and follows the industry practice of recognizing accrued revenue for gas services rendered to its customers but not billed at month end. Construction Services recognizes revenues as services are rendered. In instances when projects are long-term, Construction Services uses the percentage of completion method. At December 31, 2002, Construction Services did not have any significant long-term projects. The propane business recognizes propane sales in the same period that the propane is delivered to customers.

Cost of Gas. The Alaska-based gas distribution operation ("ENSTAR") has a regulator-approved GCA pricing mechanism, which allows for the adjustment of rates charged to customers in Alaska for increases and decreases in the cost of gas purchased. Under the GCA pricing mechanism, the gas charge portion of customers' gas rates is adjusted annually to reflect the estimated cost of gas purchased for the upcoming 12-month period. Any difference between actual cost of gas purchased and the estimate is deferred as a current asset or current liability and included in the next annual adjustment to the gas charge portion of rates. The GCA may be adjusted quarterly if it is determined that there are significant variances from the estimates used in the annual determination.

ENSTAR has RCA approved gas purchase contracts with several entities. The base price of gas purchased under these contracts can be adjusted annually based on factors such as the price of certain traded oil futures, certain natural gas futures and other inflationary measures. Under the GCA pricing mechanism, customers in Alaska are charged amounts that allow the Company to recoup its cost of purchased gas. As a result, the Company does not earn any income on the gas charge portion of ENSTAR's rates.

Prior to April 1, 1999, the Company's Michigan-based gas distribution operation had a regulator-approved gas cost recovery ("GCR") pricing mechanism for the geographic areas subject to the regulatory jurisdiction of the MPSC and CCBC. The GCR pricing mechanism works similarly to the GCA pricing mechanism. During the three-year period from April 1, 1999 to March 31, 2002, the MPSC and CCBC authorized the Company to suspend its GCR clause and freeze in its customer base rate a fixed gas charge of $3.24 per thousand cubic feet ("Mcf"). The Company was able to offer this Michigan GCR suspension and rate freeze mainly as a result of agreements reached with TransCanada Gas Services, Inc. ("TransCanada"), which also covered the three-year period from April 1, 1999 to March 31, 2002. During 2001, TransCanada sold its gas marketing business and assigned the agreements to BP Canada Energy Marketing Corp. (formerly "BP Gas and Power"), with the Company's consent. Under the agreements, TransCanada or BP Canada Energy Marketing Corp ("BP") provided a significant portion of the Company's natural gas requirements, and managed the Company's natural gas supply and the supply aspects of transportation and storage operations in Michigan for the three-year period, at a cost that was, in most instances, below the $3.24 price charged to customers. As a result, during the three-year period from April 1, 1999 through March 31, 2002, the Michigan gas distribution operation retained any gas costs savings that resulted when the cost of purchased natural gas was below the $3.24 fixed price charged to customers, subject to a customer profit sharing mechanism described in Note 2.

When the suspension period for the GCR pricing mechanism expired on March 31, 2002, the Company reinstated its GCR pricing mechanism for customers subject to the jurisdiction of the MPSC ("MPSC customers"). Consequently, effective April 1, 2002, the Company could no longer earn any income on the gas charge portion of MPSC customers' rates. The Company received approval from the CCBC to extend the GCR suspension period and fixed gas charge program, with a new fixed gas charge, until March 31, 2005 for customers subject to its jurisdiction ("CCBC customers").

The Company has entered into new agreements with BP for the natural gas supply requirements of the CCBC customers, supply portfolio management for the MPSC customers, and transportation and storage asset management for both the CCBC and MPSC customers.

Under the new BP agreement covering MPSC customers, the Company no longer purchases gas at a fixed cost over a number of years. In keeping with the Company's switch back to the GCR pricing mechanism for MPSC customers, the Company is required to solicit bids for all supplies with term lengths longer than three days. Supplies with term lengths of three days or less are purchased from BP. The new BP agreement covering CCBC customers will continue to have a fixed cost for the purchase of natural gas and is effective for the three-year period from April 1, 2002 through March 31, 2005.

In accordance with the GCR pricing mechanism, the Company had $2.2 million recorded in current assets at December 31, 2002 for gas charges recoverable from customers. Also at December 31, 2002, the Company had $1.1 million recorded in current liabilities for amounts payable to customers in accordance with the GCA pricing mechanism.

Income Taxes. Investment tax credits ("ITC") utilized in prior years for income tax purposes are deferred for financial accounting purposes and are amortized through credits to the income tax provision over the lives of the related property. The Company files a consolidated federal income tax

return and income taxes are allocated among the subsidiaries within each business segment based on their separate taxable income.

Discontinued Operations. In December 2001, the Company's board of directors approved a plan to redirect the Company's business strategy, which included the divestiture of its engineering services business. As a result, the operating results and loss on disposal of this business have been segregated and reported as discontinued operations in the Consolidated Statements of Operations. A loss of approximately $5.0 million, representing the estimated loss during the phase-out period and the estimated loss on disposal, was reported as discontinued operations in the 2001 Consolidated Statement of Operations. The Company sold its engineering services business effective November 1, 2002. There was a difference of $10 thousand between the actual losses and estimated losses, which is reported as discontinued operations in 2002. For additional information, refer to Note 14 of the Notes to Consolidated Financial Statements.

Statements of Cash Flow. For purposes of the Consolidated Statements of Cash Flow, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash and temporary cash investments. Supplemental cash flow information for the years ended December 31, 2002, 2001 and 2000, is summarized in the following table.

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Cash paid during the year for:			
Interest	$ 30,304	$ 31,301	$ 29,153
Income taxes, net of (refunds)	$ (2,243)	$ 4,258	$ 4,160
Non-cash investing and financing activities:			
Capital stock issued for acquisitions	$ —	$ —	$ 1,000
Details of acquisitions:			
Fair value of assets acquired	$ —	$ —	$ 3,364
Fair value of liabilities assumed	—	—	(1,576)
Company stock issued	—	—	(1,000)
Cash paid	$ —	$ —	$ 788
Less cash acquired	—	—	4
Net cash paid for acquisitions	$ —	$ —	$ 784

Note 2. Regulatory Matters

RCA. The Company's Alaska gas distribution division, ENSTAR Natural Gas Company and its subsidiary, Alaska Pipeline Company (together known as "ENSTAR"), have been undergoing a rate review with the RCA since 2000.

The Company received an Order dated August 8, 2002 from the RCA on its review of rates for ENSTAR based on normalized data for the year 2000. In its Order the RCA established a revenue requirement of $107.6 million and a 12.55% return on equity. In response to a petition by ENSTAR, the RCA issued an additional Order dated September 16, 2002 which revised the indicated annual revenue reduction from $2.1 million to $2.0 million, which was 1.84% of ENSTAR's revenue in the normalized 2000 test year. The Order required ENSTAR to implement the rate reduction by September 27, 2002 on an across-the-board basis. The RCA also required ENSTAR to file an updated cost of service study by September 9, 2002 and a rate design in December 2002, with a hearing on the

rate design filing scheduled for May 2003. ENSTAR has implemented the rate reduction and filed both the cost of service study and the rate design as required. The rate design filed with the RCA by ENSTAR requests greater recovery of fixed costs in the monthly customer charge and declining block rates for gas sales customers.

MPSC and CCBC. During the three-year period from April 1, 1999 to March 31, 2002, the division of the Gas Distribution Business, subject to the jurisdiction of the MPSC, was under an MPSC order which, among other things, authorized the Company to: (1) suspend its GCR clause; (2) freeze in its customer base rate, a fixed gas charge of $3.24 per Mcf; (3) freeze distribution rate adjustments and (4) adopt a new income sharing mechanism for use during the 1999, 2000 and 2001 calendar years.

The MPSC order was applicable only in the geographic areas subject to the regulatory jurisdiction of the MPSC, and, therefore, did not govern rates regulated by the CCBC. However, the Gas Distribution Business voluntarily requested, and the CCBC approved, a similar freeze in the gas charge at $3.24 for customers subject to the jurisdiction of the CCBC. The CCBC also approved a suspension of the GCR clause, a distribution rate freeze and an income sharing mechanism similar to the MPSC approved program. The changes were effective for the same time period as the changes approved by the MPSC.

Several of the items in the MPSC order were interrelated. The fixed gas charge and the suspension of the GCR clause meant that customers paid $3.24 per Mcf regardless of the Company's actual cost of gas. The Gas Distribution Business was able to offer this Michigan GCR suspension and rate freeze mainly as a result of agreements reached with TransCanada. Refer to the "Cost of Gas" section in Note 1 for further information about the GCR clause, fixed gas charges and the agreements with TransCanada.

The profit incentive and sharing mechanism was effective for the calendar years 1999, 2000 and 2001. Under the mechanism, if the Company's return on equity for its Michigan-based natural gas distribution business exceeded 12.75%, certain portions of the excess return would be credited to customers, i.e., would be reflected prospectively in reduced rates. Four safety and reliability performance measures were required to be met in order not to reduce the return on equity threshold used in the income sharing mechanism.

The Company received approval from the CCBC to extend the GCR suspension period and the fixed gas charge program, with a new fixed gas charge, until March 31, 2005 for CCBC customers. The profit incentive and sharing mechanism discussed previously will remain in effect through March 2005 for CCBC customers. The Company also received approval during 2001 from the CCBC to start charging CCBC customers on a thermal basis rather than a volumetric basis. The Company buys all its natural gas by the dekatherm and now also sells it to these customers by the dekatherm.

The Company filed an application with the MPSC in late 2001 to extend its fixed charge program until March 31, 2005 and increase the current fixed charge for MPSC customers. However, the Company was unable to reach an agreement with the MPSC and other interested parties on a fixed customer charge for natural gas for the three years of the proposed extended period. As a result, the Company reinstated its GCR pricing mechanism when the fixed gas charge program expired on March 31, 2002. Refer to the Cost of Gas section of Note 1 for information regarding the GCR pricing mechanism.

Beginning in 2002, the profit incentive and sharing mechanism discussed previously is no longer in effect for MPSC customers. Instead, the profit incentive and sharing mechanism in effect for the calendar year 1998 was reinstated for 2002. Under this mechanism, referred to as a reverse taper incentive, if the return on equity for the division of Company's Michigan-based natural gas distribution

business that serves its MPSC customers exceeds 10.75%, certain portions of the excess return between 10.75% and 16.0% would be credited to customers. For purposes of this mechanism, if the return on equity exceeds 16.0%, the Company is required to file a general rate case with the MPSC. The return on equity did not exceed 10.75% for 2002.

On November 21, 2002, the MPSC regulated division of SEMCO Energy Gas Company filed an application for a general rate increase of $10.9 million. Among the principal reasons for the requested increase were higher pension and healthcare costs and investment of approximately $120 million in a new plant since the last rate case was approved in 1997. In addition to specific rate relief, the application sought an innovative rate design, which would mitigate some of the effects of warmer than normal weather on the Company's earnings. This new rate design calls for greater recovery of fixed costs in the monthly customer charge and declining block rates for gas sales customers. This would provide more stability in customer bills by moving costs from the peak heating season to summer and off-peak heating months. The filing also requests a change to customer billing based on the heat content of natural gas, or therms, rather than the current volumetric measure, cubic feet. An order is expected in 2003.

Regulatory Assets and Liabilities. The Gas Distribution Business is subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." As a result, the actions of regulators affect when revenues and expenses are recognized. Regulatory assets represent incurred costs to be recovered from customers through the ratemaking process. Regulatory liabilities represent benefits to be refunded to customers.

In the event the Company determines that the Gas Distribution Business no longer meets the criteria for following SFAS 71, the accounting impact would be an extraordinary, non-cash charge to operations of an amount that could be material. Criteria that give rise to the discontinuance of SFAS 71 include (1) increasing competition that restricts the ability of the Gas Distribution Business to establish prices to recover specific costs and (2) a significant change in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company's periodic review of these criteria currently supports the continuing application of SFAS 71.

The following table summarizes the regulatory assets and liabilities recorded in the Consolidated Statements of Financial Position.

	December 31,	
	2002	2001
	(000's)	
Regulatory assets		
Deferred retiree medical benefits	$ 8,992	$ 9,891
Gas charges recoverable from customers	2,200	1,994
Unamortized loss on retirement of debt	1,881	2,126
Other	2,303	2,126
	$ 15,376	$ 16,137
Regulatory liabilities		
Tax benefits amortizable to customers	$ 3,086	$ 3,448
Unamortized investment tax credit	1,228	1,593
Amounts payable to customers (gas cost overrecovery)	1,073	1,463
	$ 5,387	$ 6,504

Note 3. Income Taxes

SFAS 109. The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting For Income Taxes." SFAS 109 requires an annual measurement of deferred tax assets and deferred tax liabilities based upon the estimated future tax effects of temporary differences and carryforwards.

Provision for Income Taxes. The table below summarizes the components of the Company's provision for income taxes.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Federal income taxes:			
Currently payable (refundable)	$ 2,442	$ (7,056)	$ 3,065
Deferred to future periods	2,796	4,717	5,935
Investment tax credits ("ITC")	(267)	(267)	(267)
State income taxes:			
Currently payable (refundable)	907	695	(473)
Deferred to future periods	906	734	651
Total income tax expense (benefit)	$ 6,784	$ (1,177)	$ 8,911
Less amounts included in:			
Dividends on trust preferred securities	(4,631)	(4,632)	(2,695)
Discontinued operations	1,276	(3,123)	52
Income taxes, excluding amounts shown separately	$ 10,139	$ 6,578	$ 11,554

Reconciliation of Statutory Rate to Effective Rate. The table below provides a reconciliation of the difference between the Company's provision for income taxes and income taxes computed at the statutory rate.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Net income (loss)	$ 8,949	$ (6,361)	$ 16,693
Add back: income taxes	6,784	(1,177)	8,911
Pre-tax income (loss)	$ 15,733	$ (7,538)	$ 25,604
Computed federal income taxes	$ 5,507	$ (2,638)	$ 8,961
Amortization of deferred ITC	(267)	(267)	(267)
Amortization of non-deductible amounts resulting from acquisitions	119	237	237
State income tax expense, net of federal tax benefit	1,178	928	79
Other	247	563	(99)
Total income taxes	$ 6,784	$ (1,177)	$ 8,911

Deferred Income Taxes. Deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. At December 31, 2002, there was a valuation allowance of $0.6 million recorded against deferred tax assets. The

valuation allowance relates to a capital loss incurred in 2002 that is likely to expire before being realized for tax purposes. At December 31, 2001, there was no valuation allowance recorded against deferred tax assets. The Company has an estimated net operating loss ("NOL") carryforward for federal tax purposes of $35.6 million at December 31, 2002, of which $21.0 million expires in 2021 and $14.6 million expires in 2022. The table below shows the principal components of the Company's deferred tax assets (liabilities).

	December 31,	
	2002	2001
	(000's)	
Property	$ (46,413)	$ (35,235)
Retiree medical benefit obligation	986	1,249
Retiree medical benefit regulatory assets	(3,147)	(3,462)
ITC	686	820
Unamortized debt expense	(864)	(1,025)
Property taxes	(2,460)	(2,329)
Goodwill	(3,929)	(1,430)
Other comprehensive income	3,704	781
Reserves associated with discontinued operations, restructuring and impairments	2,304	4,108
Net operating losses	12,465	—
Valuation allowance for deferred tax assets	(580)	—
Other	2,326	2,462
Total deferred taxes	$ (34,922)	$ (34,061)
Gross deferred tax liabilities	$ (88,837)	$ (71,695)
Gross deferred tax assets	54,495	37,634
Valuation allowance for deferred tax assets	(580)	—
Total deferred taxes	$ (34,922)	$ (34,061)

Note 4. Capitalization

Common Stock Equity. During 2002 and the last half of 2001, the Company issued approximately 372,000 shares and 166,000 shares, respectively of its common stock to the Company's Direct Stock Purchase and Dividend Reinvestment Plan ("DRIP") to meet the dividend reinvestment and stock purchase requirements of its participants. During 2000 and the first half of 2001, the DRIP purchased Company common stock on the open market to meet these requirements.

The Company issued approximately 70,000, 19,000 and 52,000 shares of Company common stock to certain of the Company's employee benefit plans in 2002, 2001 and 2000, respectively. Also during 2002 and 2001, the Company purchased approximately 40,000 shares and 48,000 shares, respectively, of its common stock on the open market to contribute to certain of its employee benefit plans. The Company issued 83,000 shares of its common stock to the shareholders of a business acquired during 2000.

Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiaries. The Company's Capital Trusts were established for the sole purpose of issuing trust preferred securities and lending the gross proceeds to the Company. The sole assets of the Capital Trusts are debt securities of the Company with terms similar to the terms of the related trust preferred securities. The Capital Trusts are subsidiaries of the Company.

In April 2000, SEMCO Capital Trust I issued 1.6 million shares of 10.25% cumulative trust preferred securities ("10.25% TPS") in a public offering at a price of $25 per security. SEMCO Capital Trust I used the $40 million in proceeds from the issuance of the 10.25% TPS to invest in subordinated debentures of the Company bearing an interest rate of 10.25%. The 10.25% TPS are subject to mandatory redemption upon repayment of the subordinated debentures at maturity or their earlier redemption. The subordinated debentures mature in 2040, but may be redeemed at any time after April 19, 2005, or at any time within 90 days following the occurrence of certain special events. The Company used the entire net proceeds from the sale of the subordinated debentures to repay a portion of the bridge loan utilized in the ENSTAR acquisition.

Also during 2000, the Company issued 10.1 million FELINE PRIDES in a public offering at a price of $10 per security. Each FELINE PRIDES consists of a stock purchase contract of the Company and a 9% trust preferred security of SEMCO Capital Trust II due 2005 with a stated face value per security of $10 ("9% TPS"). SEMCO Capital Trust II used the $101 million in proceeds to invest in 9% senior deferrable notes of the Company due 2005. The Company used the net proceeds from the sale of the senior deferrable notes to repay a portion of the bridge loan utilized for the acquisition of ENSTAR and to repay a portion of its short-term lines of credit.

Under the terms of each stock purchase contract (which is a component of a FELINE PRIDES unit), the FELINE PRIDES holder is obligated to purchase, and the Company is obligated to sell, between .7794 and .8651 shares of Company common stock in August 2003. The actual number of shares of common stock to be sold will depend on the average market value of a share of common stock in August 2003. In addition to payments on the 9% TPS, the Company is also obligated to pay the FELINE PRIDES holders a quarterly contract adjustment payment on each stock purchase contract at an annual rate of 2% of $10. The present value of the contract adjustment payments, or $5.6 million, was recorded as a liability and as a reduction to common stock capital surplus when the FELINE PRIDES were issued. As the Company pays the contract adjustment payments, common stock capital surplus is also reduced by the interest component of the payments. In addition, common stock capital surplus was reduced by $4.6 million for the issuance costs of the FELINE PRIDES.

The FELINE PRIDES holders can settle their obligation to purchase Company common stock by paying cash or by having their 9% TPS remarketed in August 2003. The distribution rate on the 9% TPS will also be reset in August 2003. The reset rate will be equal to the sum of the reset spread and the rate on the two-year benchmark treasury and will be determined by the reset agent as the rate the TPS should bear in order to have an approximate market value of 100.5% of $10. However, the Company may limit the reset rate to be no higher than the rate on the two-year benchmark treasury plus 200 basis points (or 2%).

In the case of FELINE PRIDES holders who decide to have their 9% TPS remarketed, $10 of the proceeds from remarketing each 9% TPS will automatically be applied to satisfy in full the obligation to purchase Company common stock under the related stock purchase contract. If the remarketing agent is unable to remarket the 9% TPS at the reset rate, as described above, the Company may exercise its right as a secured party to dispose of the 9% TPS in accordance with the provisions of the FELINE PRIDES in order to satisfy any unfulfilled obligation to purchase common stock under the related stock purchase contract.

Long-Term Debt. In August 2002, the Company issued $30 million of 6.49% Senior Notes due 2009 ("2009 Senior Notes"). Interest on the 2009 Senior Notes is payable semiannually. The proceeds from the sale were used to redeem $30 million of 6.83% Senior Notes, which matured on October 1, 2002.

In June 2001, the Company issued $60 million of 8% Senior Notes due 2016 ("2016 Senior Notes"). Interest on the 2016 Senior Notes is payable quarterly. On or after June 30, 2006, the Company may redeem some or all of the 2016 Senior Notes at a redemption price of 100% of the principal amount plus any accrued and unpaid interest. The 2016 Senior Notes contain provisions that give the estates or heirs of deceased 2016 Senior Note holders the right to request that the Company redeem their 2016 Senior Notes. During 2002, the Company redeemed $110 thousand of 2016 Senior Notes in accordance with these provisions. The proceeds from the sale of the 2016 Senior Notes were used to repay short-term debt and for general corporate purposes.

In August 2001, the Company entered into an interest rate swap agreement with a financial institution in order to hedge its $55 million 2004 Senior Notes. The swap agreement, which covered the Notes through maturity, effectively converted the fixed rate on the Notes to a floating rate of interest. Under the terms of the swap agreement, the Company paid the counterparty a floating rate of interest based on LIBOR plus a spread of 297 basis points and received payments based on a fixed rate of 8%. During 2002, the Company terminated the interest rate swap and received $2.2 million. This amount is being recognized pro-rata in the Company's Consolidated Statements of Operations, as a reduction in interest expense, over the remaining term of the $55 million 2004 Senior Notes.

In April 2000, the Company sold $30 million of 8% Senior Notes due 2010 ("2010 Senior Notes") in a public offering. Interest on the 2010 Senior Notes is paid semi-annually. The 2010 Senior Notes contain provisions that give the estates or heirs of deceased 2010 Senior Note holders the right to request that the Company redeem their 2010 Senior Notes. During 2002, 2001 and 2000, the Company redeemed $15 thousand, 10 thousand and $50 thousand, respectively, of 2010 Senior Notes in accordance with these provisions.

The Company also sold $105 million of 8.95% Remarketable or Redeemable Securities ("ROARS") in a public offering in June 2000. The ROARS were issued at a discount of approximately $0.3 million. Interest on the ROARS is payable semi-annually. The ROARS mature in July 2008; however, the Company may purchase, or be required to purchase, all of the ROARS in July 2003 if they are not remarketed as discussed below. The Company used the entire net proceeds from the sale of the 2010 Senior Notes and ROARS to repay a portion of the bridge loan utilized for the acquisition of ENSTAR.

In conjunction with the sale of the ROARS, the Company entered into a remarketing agreement with Banc of America Securities LLC ("BAS") under which BAS has the option to purchase all the ROARS in July 2003, at 100% of the aggregate principal amount of the ROARS. The Company received an option premium of approximately $2.5 million for the remarketing option, which is included with the ROARS in long-term debt in the Company's Consolidated Statements of Financial Position. The option premium is being amortized to income over the life of the ROARS.

If BAS elects to purchase the ROARS in July 2003, and the Company does not exercise its right to elect a floating interest rate or its right to redeem the ROARS, both of which are discussed below, BAS will remarket the ROARS at a new interest rate. The new fixed interest rate would be equal to the sum of 6.5% (the "Base Rate") and an applicable spread. Under the terms of the ROARS, the applicable spread is defined as the lowest bid received by BAS from various leading dealers of publicly traded debt securities, expressed as a spread above the Base Rate and based on a purchase price equal to the Dollar Price of the ROARS. The Dollar Price of the ROARS is defined as the present value, at the remarketing date in July 2003, of the remaining scheduled payments of principal and interest through maturity in July 2008 calculated at the Base Rate, discounted to the remarketing date in July 2003 using the rate on U.S. treasury securities with maturities comparable to the remaining term of the ROARS.

If BAS elects to purchase the ROARS in July 2003, the Company will have the right to elect that BAS remarket the ROARS for a period of up to one year using a floating interest rate ("Floating Rate Period") rather than the fixed interest rate described above. At the end of the Floating Rate Period, BAS can elect to purchase the ROARS to remarket at a new fixed interest rate as described above.

If BAS elects to purchase the ROARS for remarketing in July 2003 or at the end of the Floating Rate Period, the Company will also have the right to redeem the ROARS directly from BAS at either time at the Dollar Price as defined above. If BAS does not elect to purchase the ROARS in July 2003, the Company is required to redeem all of the ROARS at that time at 100% of the aggregate principal amount of the ROARS. If BAS does not exercise its option to purchase the ROARS at the end of the floating rate period, the Company is required to redeem all of the ROARS at that time at the Dollar Price.

The Company's long-term and short-term debt agreements contain restrictive financial covenants including, among others, maintaining a Fixed Charges Coverage Ratio (as defined in the agreements) of at least 1.50 and placing limits on the payment of dividends beyond certain levels. Non-compliance with these covenants could result in an acceleration of the due dates for the debt obligations under the agreements. As of December 31, 2002, the fixed charges coverage ratio was 1.89, and the Company was in compliance with all of the covenants in these agreements.

There are no annual sinking fund requirements for the Company's existing debt over the next five years. Debt maturing over the next five years includes the maturity of $55 million of 2004 Senior Notes, $15 million of 6.5% medium-term notes in 2005 and $30 million of 7.2% notes in 2007. The Company may also purchase, or be required to purchase, the $105 million of ROARS in July 2003, or during the subsequent twelve months, if they are not remarketed, as discussed previously. In addition, if the $101 million of 9% TPS are successfully remarketed in 2003, they will mature in 2005.

Note 5. Short-Term Borrowings

During 2002, the Company entered into a $145 million credit agreement with a group of banks, replacing four lines of credit totaling $145 million, which were due to expire. The new agreement, all of which is committed, consists of an $80 million three-year revolver and a $65 million 364-day facility, with a one-year term loan option. The outstanding balances owed by the Company under these credit facilities at December 31, 2002, 2001 and 2000 were $121.2 million, $105.5 million and $133.4 million, respectively. Interest on these credit facilities is at variable rates, which do not exceed the banks' prime lending rates.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Notes payable balance at year end	$ 121,835	$ 107,957	$ 134,142
Unused lines of credit at year end	$ 23,800	$ 39,500	$ 26,650
Average interest rate at year end	2.8%	2.6%	7.3%
Maximum borrowings at any month-end	$ 123,244	$ 122,033	$ 371,621
Average borrowings	$ 99,584	$ 101,362	$ 214,813
Weighted average cost of borrowings	2.9%	4.8%	7.2%

Note 6. Financial Instruments

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments:

Cash, Temporary Cash Investments, Accounts Receivables, Payables and Notes Payable. The carrying amount approximates fair value because of the short maturity of those instruments.

Long-Term Debt. The fair values of the Company's long-term debt are estimated based on quoted market prices for the same or similar issues or, where no market quotes are available, based on discounted future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. Although the current fair value of the long-term debt may differ from the current carrying amount, settlement of the reported debt is generally not expected until maturity, with the possible exception of the ROARS which could be redeemed in July 2003 as discussed in Note 4.

The table below shows the estimated fair values of the Company's long-term debt as of December 31, 2002 and 2001.

	December 31,	
	2002	2001
	(000's)	
Long-term debt, including current maturities		
Carrying amount	$ 366,026	$ 368,966
Fair value	376,915	385,416

Note 7. Risk Management Activities And Derivative Transactions

The Company's business activities expose it to a variety of risks, including commodity price risk and interest rate risk. The Company's management identifies risks associated with the Company's business and determines which risks it wants to manage and which type of instruments it should use to manage those risks.

The Company records any derivative instruments it enters into under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS 137 and SFAS 138, which were amendments to SFAS 133 (hereinafter collectively referred to as "SFAS 133"). SFAS 133 requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the Consolidated Statement of Financial Position as either an asset or liability measured at its fair value. SFAS 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Company will, from time to time, enter into fixed to floating interest rate swaps in order to maintain its desired mix of fixed-rate and floating-rate debt. These swaps are designated as fair value hedges and the difference between the amounts paid and received under these swaps is recorded as an adjustment to interest expense over the term of the swap agreement. If the swaps are terminated, any unrealized gains or losses are recognized pro-rata over the remaining term of the hedged item as an increase or decrease in interest expense. The Company entered into one such interest rate swap in August 2001 in order to hedge the Company's $55 million of 2004 Senior Notes. The swap was terminated in August 2002 and the Company received $2.2 million, which is being recognized pro-rata,

as a reduction in interest expense, over the remaining term of the Notes. In accordance with SFAS 133, the Company's Consolidated Statement of Financial Position, at December 31, 2001, included an asset of $1.9 million and an increase in long-term debt of $1.9 million for this interest rate swap.

An affiliate, in which the Company has a 50% investment, uses a floating to fixed interest rate swap agreement to hedge the variable interest rate payments on a portion of its long-term debt. This swap is designated as a cash flow hedge and the difference between the amounts paid and received under the swap is recorded as an adjustment to interest expense over the term of the agreement. The Company's share of changes in the fair value of the swap are recorded in accumulated other comprehensive income until the swap is terminated. As a result of this interest rate swap agreement, the Company's Consolidated Statements of Financial Position, at December 31, 2002 and December 31, 2001, reflected a $0.7 million reduction in the Company's equity investment in the affiliate and in accumulated other comprehensive income.

Note 8. Pension Plans And Other Postretirement Benefits

Pensions. The Company has defined benefit pension plans that cover the employees of certain companies in the consolidated group. Pension plan benefits are generally based upon years of service or a combination of years of service and compensation during the final years of employment. The Company's funding policy is to contribute amounts annually to the plans based upon actuarial and economic assumptions designed to achieve adequate funding of projected benefit obligations. The Company also has a supplemental executive retirement plan ("SERP"), which is an unfunded defined benefit pension plan.

During 2000, certain pension plans covering employees at the Company's gas distribution operations and corporate offices in Michigan and Alaska were amended. The amendments to certain of the plans included a special frozen benefit for certain eligible employees. In conjunction with the amendments, the Company offered early retirement programs to certain eligible employees. The programs gave the employees the options of receiving either a lump-sum pension benefit payment or an immediate annuity. Sixty-three employees elected to take the early retirement offer. As a result of the 2000 early retirement program, the Company incurred a one-time gain, which reduced 2000 net periodic pension costs by approximately $0.4 million.

Because of unfavorable returns on pension plan assets in 2001 and 2002, certain pension plans were underfunded at December 31, 2002 and 2001. As a result, a minimum pension liability of $3.0 million was recorded during 2001 and an additional minimum pension liability of $8.3 million was recorded in 2002. The total minimum pension liability at December 31, 2002 was $11.3 million.

Other Postretirement Benefits. The Company has postretirement benefit plans that provide certain medical and prescription drug benefits to qualified retired employees, their spouses and covered dependents. Determination of benefits is based on a combination of the retiree's age and years of service at retirement. The Company accounts for retiree medical benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard requires the full accrual of such costs during the years that the employee renders service to the Company until the date of full eligibility.

In 2002, 2001 and 2000, the Company expensed retiree medical costs of $2.0 million, $1.9 million and $1.5 million, respectively. The retiree medical expense for each of those years includes $0.9 million of amortization of previously deferred retiree medical costs. Prior to getting regulatory approval for the recovery of retiree medical benefits in rates, the Michigan gas distribution operation deferred, as a regulatory asset, any portion of retiree medical expense that was not yet provided for in customer rates. After receiving rate approval for recovery of such costs, the Company began amortizing, as a retiree medical expense, the amounts previously deferred.

	Pension Benefits			Other Postretirement Benefits		
	Year Ended December 31,					
	2002	2001	2000	2002	2001	2000
	(000's)					
Components of net benefit cost						
Service cost	$ 2,089	$ 2,097	$ 1,988	$ 357	$ 348	$ 364
Interest cost	4,222	4,054	4,076	2,377	2,527	2,235
Expected return on plan assets	(5,611)	(5,897)	(6,600)	(2,048)	(2,150)	(1,967)
Amortization of transition obligation	40	53	53	922	921	920
Amortization of prior service costs	163	150	106	—	—	—
Amortization of net (gain) or loss	264	(301)	(502)	(553)	(601)	(950)
Amortization of regulatory asset	—	—	—	899	899	899
Net gain due to special termination benefits	—	—	(354)	—	—	—
Net benefit cost (credit)	$ 1,167	$ 156	$ (1,233)	$ 1,954	$ 1,944	$ 1,501

The Company has certain Voluntary Employee Benefit Association ("VEBA") trusts to fund its retiree medical benefits and contributed $0.5 million and $3.0 million to the trusts in 2001 and 2000, respectively. There were no contributions to the VEBA trusts during 2002. The Company can also partially fund retiree medical benefits on a discretionary basis through an Internal Revenue Code Section 401(h) account. No cash contributions were made to the 401(h) account in 2002, 2001 and 2000.

The following table provides reconciliations of the plan benefit obligations, plan assets and funded status of the plans.

	Pension Benefits		Other Postretirement Benefits	
	Year Ended December 31,			
	2002	2001	2002	2001
	(000's)			
Change in benefit obligation				
Benefit obligation at January 1	$ 61,175	$ 57,184	$ 33,964	$ 34,323
Service cost	2,089	2,097	357	348
Interest cost	4,222	4,054	2,377	2,527
Actuarial (gain) loss	2,869	3,461	2,370	(1,671)
Benefits paid from plan assets	(3,287)	(5,615)	—	—
Benefits paid from corporate assets, net of participant contributions	—	—	(1,667)	(1,563)
Plan amendments	—	(6)	(5,610)	—
Benefit obligation at December 31	$ 67,068	$ 61,175	$ 31,791	$ 33,964
Change in plan assets				
Fair value of plan assets at January 1	$ 53,930	$ 62,579	$ 21,964	$ 22,851
Actual return on plan assets	(5,458)	(3,034)	(2,589)	(1,387)
Company contributions	4,225	—	—	500
Benefits paid from plan assets	(3,287)	(5,615)	—	—
Fair value of plan assets at December 31	$ 49,410	$ 53,930	$ 19,375	$ 21,964
Reconciliation of funded status of the plans				
Funded (unfunded) status	$ (17,658)	$ (7,245)	$ (12,416)	$ (12,000)
Unrecognized net (gain) loss	22,643	8,968	1,456	(6,104)
Unrecognized prior service cost	661	824	(528)	—
Unrecognized net transition obligation	25	65	4,133	10,137
Additional minimum pension liability	(11,343)	(2,983)	—	—
Prepaid (accrued) benefit cost	$ (5,672)	$ (371)	$ (7,355)	$ (7,967)
Weighted average assumptions as of December 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected long-term rate of return on plan assets	8.50%	9.75%	8.50%	9.75%
Rate of compensation increase	4.00%	4.00-5.00%	4.00%	4.00-5.00%

The 2002 postretirement medical costs were developed based on the health care plan in effect at January 1, 2002. As of December 31, 2002, the actuary assumed that retiree medical cost increases in 2003 would be 7% and prescription drug cost increases in 2003 would be 12%. The actuary also assumed that the rate of increase in retiree medical costs and prescription drug costs would decrease uniformly to 5% in 2008 and thereafter. The health care cost trend rate assumption significantly affects the amounts reported. For example, a one percentage point increase in each year would increase the accumulated retiree medical obligation as of December 31, 2002 by $4.4 million and the aggregate of the service and interest cost components of net periodic retiree medical costs for 2002 by $0.4 million.

401(k) Plans and Profit Sharing Plans. The Company has defined contribution plans, commonly referred to as 401(k) plans, covering the employees of certain of its businesses or divisions. Certain of

the 401(k) plans contain provisions for Company matching contributions. The amount expensed for the Company match provisions was $1.1 million for 2002, 2001 and 2000.

The Company has profit sharing plans covering the employees of certain of its businesses or divisions. Annual contributions are generally discretionary or determined by a formula, which contains minimum contribution requirements. Profit sharing expense was $0.4 million for 2002 and $0.3 million for 2001 and 2000.

Note 9. Stock-Based Compensation

The Company has a long-term incentive plan providing for the issuance of up to 500,000 shares of non-qualified common stock options, adjusted for any subsequent stock dividends and stock splits. During 2000, the Company's Board of Directors approved a second such plan that provides for the issuance of non-qualified stock options up to an amount not to exceed five percent of the total outstanding shares of the Company. The options are reserved for the executives and directors of the Company and are awarded based upon both the Company's and individual's performance. The options vest at the rate of 33 1/3 % per year beginning one year after the date of grant and expire ten years after the grant date.

The exercise price of all the options granted is equal to the average of the high and low market price on the options' grant date. Both the number of options granted and the exercise price are adjusted accordingly for any stock dividends and stock splits occurring during the options' life. The fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model and the weighted average assumptions shown in the table below.

	2002	2001	2000
Risk-free interest rate	4.45%	4.92%	6.55%
Dividend yield	6.63%	5.86%	6.98%
Volatility	34.39%	29.42%	24.96%
Average expected term (years)	5	5	5
Fair value of options granted	$ 1.41	$ 2.57	$ 1.80

The following table summarizes information concerning outstanding and exercisable options at December 31, 2002.

	Options Outstanding			Options Exercisable	
Range of Exercisable Prices	Number Outstanding	Remaining Contractual Life in Years	Weighted Average Exercise Price ($)	Number Exercisable	Weighted Average Exercise Price ($)
$ 6.94 - $ 9.99	251,979	9.2	7.48	—	—
$11.50 - $14.35	436,181	6.9	13.62	229,750	13.30
$14.37 - $15.95	349,958	6.6	14.91	213,292	15.24
$16.19 - $17.14	101,100	3.3	17.02	101,100	17.02
	1,139,218			544,142	

There were 989,000 employee stock options available for grant at December 31, 2002. The following table shows the stock option activity during the past three years and the number of stock options exercisable under the Company's plans at the end of each such year.

	Number of Shares	Weighted Average Exercise Price ($)
Outstanding at December 31, 1999	317,786	16.16
Granted	192,701	12.07
Exercised	—	—
Canceled	(44,707)	14.18
Outstanding at December 31, 2000	465,780	14.65
Granted	555,040	14.33
Exercised	(667)	11.94
Canceled	(71,404)	14.25
Outstanding at December 31, 2001	948,749	14.49
Granted	251,979	7.48
Exercised	—	—
Canceled	(61,510)	14.16
Outstanding at December 31, 2002	1,139,218	12.96
Options exercisable at December 31, 2000	200,924	16.38
Options exercisable at December 31, 2001	298,403	15.48
Options exercisable at December 31, 2002	544,142	14.75

The Company accounts for all stock options under the provisions and related interpretations of Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees." In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has chosen to continue accounting for these transactions under APB 25 for purposes of determining net income and to present the pro forma disclosures required by SFAS 123. If compensation expense had been determined in a manner consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below.

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Net income (loss)			
As reported	$ 8,949	$ (6,361)	$ 16,693
Pro forma	8,533	(6,664)	16,517
Earnings per share—basic			
As reported	$ 0.48	$ (0.35)	$ 0.93
Pro forma	0.46	(0.37)	0.92
Earnings per share—diluted			
As reported	$ 0.48	$ (0.35)	$ 0.90
Pro forma	0.46	(0.37)	0.89

Note 10. Earnings Per Share

The Company computes earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings per Share." SFAS 128 requires the computation and presentation of two EPS amounts, basic and diluted. Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to that of basic EPS except that the weighted average number of common shares outstanding is increased to include any shares that would be available if outstanding stock options and stock purchase contracts ("dilutive securities") were exercised. The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price of the Company's common stock during the period and excludes the effect of stock purchase contracts when their reference price exceeds the average market price of common stock during the period.

The following table provides the computations of basic and diluted earnings per share for the years ended December 31, 2002, 2001 and 2000.

	Year Ended December 31,		
	2002	2001	2000
	(000's, except per share amounts)		
Earnings per share computation			
Income (loss) from continuing operations	$ 8,939	$ (239)	$ 16,598
Discontinued operations(a)	10	(6,122)	95
Net income (loss) available to common shareholders	$ 8,949	$ (6,361)	$ 16,693
Weighted average common shares outstanding—basic	18,472	18,106	17,999
Earnings per share—basic			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.92
Discontinued operations(a)	0.00	(0.34)	0.01
Net income (loss) available to common shareholders	$ 0.48	$ (0.35)	$ 0.93
Weighted average common shares outstanding	18,472	18,106	17,999
Incremental shares from assumed conversions of:			
FELINE PRIDES—stock purchase contracts(b)	—	—	599
Stock options(b)	21	—	21
Weighted average common shares outstanding—diluted(b)	18,493	18,106	18,619
Earnings per share—diluted			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.89
Discontinued operations(a)	0.00	(0.34)	0.01
Net income (loss) available to common shareholders	$ 0.48	$ (0.35)	$ 0.90

(a)
Effective December 2001, the Company began accounting for the engineering services business as a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in the Consolidated Statements of Operations.

(b)
The FELINE PRIDES and stock options were not included in the computation of diluted earnings per share for 2001 because their effect was antidilutive.

Note 11. Business Segments

The Company follows SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which specifies standards for reporting information about operating segments ("business segments") in annual financial statements and requires selected information in interim financial statements. Business segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, to make decisions on how to allocate resources and to assess performance. The Company's chief operating decision-making group is the Chief Executive Officer ("CEO") and certain other executive officers who report directly to the CEO. The operating segments are organized and managed separately because each segment offers different products or services. The Company evaluates the performance of its business segments based on the operating income generated. Operating income does not include income taxes, interest expense, discontinued operations and non-operating income and expense items.

Under SFAS 131, an operating segment that does not exceed certain quantitative levels is not considered a reportable segment. Instead, the results of all segments that do not exceed the quantitative thresholds can be combined and reported as one segment and referred to as "all other." The Company's propane, pipelines and storage business segment and information technology services segment did not meet these quantitative thresholds and could have been grouped into the "all other" category. However, the Company has decided to voluntarily disclose information on these business segments.

The Company currently operates four reportable business segments. They are gas distribution, construction services, information technology services and propane, pipelines and storage. Refer to Note 1 for a brief description of each business segment.

In December 2001, the Company's Board of Directors approved a plan to redirect the Company's business strategy, which included the divestiture of its engineering services business. The operating results of the engineering services business are segregated and reported as discontinued operations in the Consolidated Statements of Operations. The Company sold its engineering services business effective November 1, 2002. For further information refer to Note 14 of the Notes to Consolidated Financial Statements.

The accounting policies of the Company's four operating segments are the same as those described in Note 1 except that intercompany transactions have not been eliminated in determining individual segment results. The following table provides business segment information as well as a reconciliation ("Corporate and other") of the segment information to the applicable line in the consolidated financial

statements. Corporate and other includes corporate related expenses not allocated to segments, intercompany eliminations and results of other smaller operations.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Operating revenues(a)			
Gas distribution	$ 364,711	$ 324,365	$ 307,851
Construction services	119,254	126,205	105,231
Information technology services(b)	9,618	10,275	5,184
Propane, pipelines and storage	7,058	7,443	6,949
Corporate and other(c)	(19,676)	(22,465)	(14,890)
Total consolidated revenues	$ 480,965	$ 445,823	$ 410,325
Depreciation and amortization(a)			
Gas distribution	$ 25,342	$ 27,180	$ 26,272
Construction services	8,049	7,504	5,360
Information technology services(b)	586	397	60
Propane, pipelines and storage	931	1,008	999
Corporate and other	429	416	360
Total consolidated depreciation	$ 35,337	$ 36,505	$ 33,051
Operating income (loss)(a)			
Gas distribution	$ 59,076	$ 50,337	$ 62,876
Construction services	(1,999)	(1,374)	3,676
Information technology services(b)	602	431	481
Propane, pipelines and storage	1,946	1,871	1,530
Corporate and other	(2,916)	(6,874)	(3,330)
Total consolidated operating income	$ 56,709	$ 44,391	$ 65,233
Assets at year end			
Gas distribution	$ 741,613	$ 734,115	$ 741,593
Construction services	72,170	74,453	69,276
Engineering services(a)	—	4,302	8,837
Information technology services(b)	4,569	4,384	1,808
Propane, pipelines and storage	22,443	23,125	24,827
Corporate and other	35,719	23,169	4,882
Total consolidated assets	$ 876,514	$ 863,548	$ 851,223
Capital investments(d)			
Gas distribution	$ 29,972	$ 34,074	$ 47,466
Construction services	3,001	14,855	15,318
Engineering services(a)	—	275	209
Information technology services(b)	437	1,960	2,143
Propane, pipelines and storage	267	335	251
Corporate and other	1,300	3,945	3,033
Total consolidated capital investments	$ 34,977	$ 55,444	$ 68,420

(a)
Effective December 2001, the Company began accounting for the engineering services segment as

a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in the Consolidated Statements of Operations.*(b)* Operations began for the information technology services segment in April 2000.

(c)
Includes the elimination of intercompany construction service revenue of $11,889,000, $12,986,000 and $9,694,000 for 2002, 2001 and 2000, respectively. Includes the elimination of intercompany information technology revenue of $7,620,000, $9,349,000 and $5,032,000 for 2002, 2001 and 2000, respectively.

(d)
Capital investments include purchase of property, plant and equipment and net amounts paid for business acquisitions, including non-cash amounts such as deferred payments and the value, at the time of issuance, of Company stock issued as part of the acquisitions.

Note 12. Investment In Affiliate

The equity method of accounting is used for interests where the Company has significant influence, but does not control the entity. At December 31, 2002, the Company's only investment in affiliates was a 50% ownership interest in the Eaton Rapids Gas Storage System ("ERGSS"). The investment in the unconsolidated affiliate is reported in deferred charges and other assets in the Consolidated Statements of Financial Position. ERGSS provides natural gas storage services to the Company's Gas Distribution Business. ERGSS had annual operating revenues associated with services provided to the Gas Distribution Business of $3.2 million in 2002 and $3.0 million in 2001 and 2000. The table below summarizes the financial information for ERGSS.

	2002	2001	2000
		(000's)	
Operating revenues	$ 5,791	$ 5,714	$ 5,806
Operating income	$ 3,718	$ 3,489	$ 3,579
Net income	$ 2,747	$ 2,379	$ 2,372
The Company's share of net income	$ 1,374	$ 1,190	$ 1,186
Current assets	$ 2,647	$ 3,598	$ 1,435
Non-current assets	23,491	20,552	22,767
Total assets	$ 26,138	$ 24,150	$ 24,202
Current liabilities	$ 5,679	$ 3,332	$ 2,024
Non-current liabilities	11,147	12,567	13,023
Equity	9,312	8,251	9,155
Total liabilities and equity	$ 26,138	$ 24,150	$ 24,202
The Company's equity investment	$ 4,656	$ 4,126	$ 4,165

Note 13. Commitments And Contingencies

Capital Investments. The Company's plans for expansion and improvement of its business properties are continually reviewed. Aggregate capital expenditures for property in 2003 are projected at approximately $33 million. The Company has no plans to incur additional expenditures for business acquisitions in 2003.

Lease Commitments. The Company leases buildings, vehicles and equipment. The resulting leases are classified as operating leases in accordance with SFAS No. 13, "Accounting for Leases." A

significant portion of the Company's vehicles are leased. Leases on the majority of the Company's new vehicles are for a minimum of twelve months. The Company has the right to extend each vehicle lease annually and to cancel the extended lease at any time. During 2002, the Company received $4.4 million in proceeds from the sale of two buildings and land. The Company is leasing these facilities back over the period January 2003 through September 2005 for normal operating purposes. The annual lease payments during this period will amount to approximately $0.5 million.

The Company's future minimum lease payments that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2002 totaled $13.1 million consisting of (in millions): 2003—$1.8; 2004—$1.7; 2005—$1.3; 2006—$1.1; 2007—$1.1 and thereafter—$6.1. Total lease expense approximated $2.2 million, $2.5 million and $2.3 million in 2002, 2001 and 2000, respectively. The annual future minimum lease payments are less than the lease expense incurred in 2000 through 2002 because most of the vehicle leases at December 31, 2002 were on a month-to-month basis and were subject to cancellation at any time. However, management expects to renew or replace substantially all leases.

Environmental Issues. Prior to the construction of major natural gas pipelines, gas for heating and other uses was manufactured from processes involving coal, coke or oil. The Company owns seven Michigan sites, which formerly housed such manufacturing facilities and expects that it will ultimately incur investigation and remedial action costs at some of these sites and one other site. The Company has closed a related site with the approval of the appropriate environmental regulatory authority in the State of Michigan and has developed plans and conducted preliminary field investigations at two other sites. The Company is in the process of estimating its liabilities and potential costs in connection with these sites, but the amounts of these estimates are not yet available. In accordance with an MPSC accounting order, any environmental investigation and remedial action costs will be deferred and amortized over ten years. Rate recognition of the related amortization expense will not begin until after a prudence review in a general rate case.

Personal Property Taxes. The Company and other Michigan utilities have asserted that Michigan's valuation tables in effect prior to 2000 resulted in the substantial overvaluation of utility personal property. Valuation tables established by the Michigan State Tax Commission ("STC") are used to estimate the reduction in value of personal property based on the property's age. In 1998, the Company began filing its personal property tax information with local taxing jurisdictions, using a revised calculation of the value of personal property subject to taxation. A number of local taxing jurisdictions accepted the revised calculation, and the Company recorded lower property tax expense in 1998 and subsequent years associated with the accepting taxing jurisdiction. The Company has also filed appeals to recover excess payments made in 1997 and subsequent years based on the revised calculation and recorded lower property tax expense as a result of the filings.

In November 1999, the STC approved new valuation tables that more accurately recognize the value of a utility's personal property. The new tables became effective in 2000 and are being used for current year assessments in most jurisdictions. However, several local taxing jurisdictions have taken legal action attempting to prevent the STC from implementing the new valuation tables and have continued to prepare assessments based on the superceded tables.

The Company will seek to apply the new tables retroactively and to ultimately settle the pending tax appeals related to prior periods. This is a solution supported by the STC in the past. The legal action, along with possible additional appeals by local taxing jurisdictions or negotiated settlements, may delay the time period for recovery and ultimately impact the amount of recovery. As of December 31, 2002, the Company had a receivable of approximately $4.0 million recorded for the Company's estimated recovery of these prior year excess property tax payments.

On November 7, 2002, the MPSC issued an order requiring each natural gas and electric utility company subject to its jurisdiction to show cause as to why each such utility should not reduce its rates to reflect the new personal property valuation tables that were placed in effect in 2000 by the STC and why it should not refund to the ratepayers any recovery amounts it receives as refunds from taxing jurisdictions as it implements the new valuation tables. The Company filed a response to the Order in December 2002. In its response, the Company stated that its rates should not be reduced and that refunds to customers should not be required as a result of changes in personal property tax multipliers. The reasons sighted by the Company were that (1) its existing rates have been and currently are insufficient for it to earn its authorized rate of return, (2) most of the potential for refunds relates to disputes arising out of tax years prior to the change in the tax multipliers, (3) for that portion of the receivable applicable to the change in the rate multipliers, customers have already received the benefits of the resulting lower property tax expenses through certain incentive regulation and income sharing rate mechanisms that were implemented in conjunction with the Company's approved rates and (4) to order any refund to customers of amounts received by the Company from taxing authorities would constitute prohibited retroactive ratemaking.

Other Contingencies. Under the terms of the Company's acquisition agreement, the former owners of K&B Construction were given the opportunity to receive additional consideration if future results of operations exceed certain targeted levels. The amounts potentially payable to the former owners of K&B are subject to set-off for certain liabilities. There has been no additional consideration paid in connection with the K&B acquisition. The amounts potentially payable have been placed in escrow and are reflected in restricted cash in the Company's Consolidated Statements of Financial Position pending the outcome of certain claims and litigation.

In the normal course of business, the Company may be a party to certain lawsuits and administrative proceedings before various courts and government agencies. These lawsuits and proceedings may involve personal injury, property damage, contractual issues and other matters. Management cannot predict the ultimate outcome of any pending or threatening litigation or of actual or possible claims; however, management believes resulting liabilities, if any, will not have a material adverse impact upon the Company's financial position or results of operations.

Note 14. Restructuring and Discontinuation of Operations

During the fourth quarter of 2001, the Company announced a redirection of its business strategy and began restructuring its corporate, business unit and operational structures. This involved the integration of the Company's Michigan and Alaska gas distribution divisions and the closure of the Company's Houston-based engineering and construction headquarters and related consolidation of administrative functions in Michigan. The redirection also involved the divestiture of the Company's engineering services business and the ceasing of operations in certain regions of the construction business that were not likely to contribute to shareholder value in the near term. The new strategy concentrates more on profitable growth within each line of business and less on acquisitions.

The Company recorded $6.1 million of restructuring and impairment charges in the fourth quarter of 2001 for the planned restructuring activities and the ceasing of operations in certain regions of its construction business. The charges are included in operating expenses in the Consolidated Statements of Operations and include severance expense, costs associated with terminating leases, writedowns of certain construction operations and other related expenses. There was no material adjustment to the restructuring and impairment charges during 2002.

The activities of the Company's engineering services business have been accounted for as a discontinued operation and, accordingly, the operating results and the loss on the disposal of this

business segment are segregated and reported as discontinued operations in the Consolidated Statements of Operations. Operating results, net of income taxes, from the discontinued operations were $(1.1) million and $0.1 million for 2001 and 2000, respectively. In the fourth quarter of 2001, the Company recorded a loss of $5.0 million, net of income taxes, for the estimated loss the Company expected to incur on the disposal of its engineering business segment, including estimated losses from operations during the phase-out period. In November 2002, the Company sold its engineering services business. The sale resulted in a loss, net of income taxes, of $5.0 million, including actual operating losses during the phase-out period. There was a difference of $10 thousand between the actual losses and the estimated losses, which is included in discontinued operations for 2002.

Components of amounts reflected in the Consolidated Statements of Income and Consolidated Statements of Financial Position for the engineering services business are presented in the following table.

	2002	2001	2000
		(000s)	
Consolidated statements of operations—data			
Revenues	$ —	$ 12,247	$ 20,655
Operating expenses	—	14,340	20,630
Operating income (loss)	—	(2,093)	25
Other income (deductions)	—	257	122
Income tax benefit (expense)	—	694	(52)
Income (loss) from discontinued operations	$ —	$ (1,142)	$ 95
Gain (loss) on divestiture of discontinued operations, including losses during phase-out period, net of income tax (expense) benefit of ($1,277), $2,429 and $0	$ 10	$ (4,980)	$ —
Consolidated statements of financial position data			
Current assets	$ —	$ 4,050	$ 5,136
Property, plant and equipment, net	—	250	1,233
Deferred charges and other assets, net	—	2	2,468
Current liabilities	—	(4,880)	(3,401)
Deferred credits and other liabilities	—	—	(911)
Net assets (liabilities) of discontinued operations held for sale	$ —	$ (578)	$ 4,525

Note 15. Quarterly Financial Information (Unaudited)

In the opinion of the Company, the following quarterly information includes all adjustments necessary for a fair statement of the results of operations for such periods. Earnings and dividends per share for each quarter are calculated based upon the weighted average number of shares outstanding during each quarter. As a result, adding the earnings or dividends per share for each quarter of a year may not equal annual earnings or dividends per share due to changes in shares outstanding throughout

the year. Due to the seasonal nature of the Company's gas distribution business, the results of operations reported on a quarterly basis show substantial variations.

Quarters	First	Second	Third	Fourth
	(000's, except per share amounts)			
2002				
Operating revenues	$ 155,911	$ 106,100	$ 72,693	$ 146,261
Operating income	28,619	10,341	(346)	18,095
Income (loss) from continuing operations	11,330	45	(7,014)	4,578
Net income (loss) available to common shareholders	11,330	45	(7,014)	4,588
Earnings per share from income (loss) from continuing operations:				
—basic	0.62	—	(0.38)	0.25
—diluted	0.62	—	(0.38)	0.25
Earnings per share from net income (loss) available to common shareholders:				
—basic	0.62	—	(0.38)	0.25
—diluted	0.62	—	(0.38)	0.25
Cash dividends per share	0.21	0.13	0.13	0.13
2001				
Operating revenues	$ 149,978	$ 86,512	$ 76,804	$ 132,529
Operating income	25,666	5,344	939	12,442
Income (loss) from continuing operations	9,478	(3,345)	(6,503)	131
Net income (loss) available to common shareholders	9,056	(3,339)	(6,645)	(5,433)
Earnings per share from income (loss) from continuing operations:				
—basic	0.52	(0.19)	(0.36)	0.01
—diluted	0.50	(0.19)	(0.36)	0.01
Earnings per share from net income (loss) available to common shareholders:				
—basic	0.50	(0.18)	(0.37)	(0.30)
—diluted	0.48	(0.18)	(0.37)	(0.30)
Cash dividends per share	0.21	0.21	0.21	0.21

SEMCO ENERGY, INC.

Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Operating Revenues						
Gas sales	$ 73,163	$ 63,869	$ 254,679	$ 186,092	$ 404,242	$ 311,220
Gas transportation	5,929	5,646	14,113	13,961	25,859	26,447
Construction services	17,449	33,906	30,350	55,780	81,935	122,268
Other	2,984	2,679	7,487	6,178	13,547	11,409
	99,525	106,100	306,629	262,011	525,583	471,344
Operating Expenses						
Cost of gas sold	51,187	40,510	188,346	119,292	289,476	195,638
Operations and maintenance	32,720	43,354	63,204	79,973	139,884	169,082
Depreciation and amortization	8,878	8,892	17,951	17,653	35,635	36,206
Property and other taxes	2,953	3,003	5,862	6,133	11,573	11,975
Restructuring and impairment charges	—	—	—	—	—	6,103
	95,738	95,759	275,363	223,051	476,568	419,004
Operating Income	3,787	10,341	31,266	38,960	49,015	52,340
Other Income (Deductions)						
Interest expense	(9,052)	(7,477)	(17,009)	(15,151)	(33,126)	(31,216)
Debt exchange and extinguishment costs	(24,030)	—	(24,030)	—	(24,030)	—
Other	781	709	1,479	1,034	2,683	2,003
	(32,301)	(6,768)	(39,560)	(14,117)	(54,473)	(29,213)
Income (Loss) Before Income Taxes and Minority Interest	(28,514)	3,573	(8,294)	24,843	(5,458)	23,127
Income Tax Expense (Benefit)	(10,033)	1,378	(2,637)	9,168	(1,666)	9,521
Minority interest—dividends on company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc., net of income taxes of $1,158, $1,158, $2,316, $2,316, $4,631 and $4,632.	2,150	2,150	4,300	4,300	8,601	8,603
Income (Loss) from Continuing Operations	(20,631)	45	(9,957)	11,375	(12,393)	5,003
Discontinued Operations						
Loss from engineering services operations, net of income tax benefit of $0, $0, $0, $0, $0 and $434	—	—	—	—	—	(726)
Loss on divestiture of engineering services operations including losses during phase-out period, net of income tax benefit (expense) of $0, $0, $0, $0, ($1,276) and $2,429	—	—	—	—	10	(4,980)
Net Income (Loss) Available to Common Shareholders	$ (20,631)	$ 45	$ (9,957)	$ 11,375	$ (12,383)	$ (703)
Earnings per Share—Basic						
Net income (loss) from continuing operations	$ (1.09)	$ —	$ (0.53)	$ 0.62	$ (0.66)	$ 0.27
Net income (loss) available to common shareholders	$ (1.09)	$ —	$ (0.53)	$ 0.62	$ (0.66)	$ (0.04)
Earnings per Share—Diluted						
Net income (loss) from continuing operations	$ (1.09)	$ —	$ (0.53)	$ 0.62	$ (0.66)	$ 0.27
Net income (loss) available to common shareholders	$ (1.09)	$ —	$ (0.53)	$ 0.62	$ (0.66)	$ (0.04)
Cash Dividends Paid per Share	$ 0.125	$ 0.125	$ 0.250	$ 0.335	$ 0.500	$ 0.755

Average Common Shares Outstanding—Basic	18,988	18,431	18,884	18,374	18,726	18,261
Average Common Shares Outstanding—Diluted	18,988	18,472	18,884	18,400	18,726	18,261

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.

Consolidated Statements of Financial Position

Assets

(In thousands)

	June 30, 2003	December 31, 2002
	(Unaudited)	
Current Assets		
Cash and temporary cash investments, at cost	$ 740	$ 1,813
Restricted cash	29,862	1,212
Receivables, less allowances of $2,379 and $1,909	33,512	49,841
Accrued revenue	9,750	40,757
Gas in underground storage, at average cost	34,082	35,232
Prepaid expenses	25,710	23,449
Materials and supplies, at average cost	5,107	4,254
Gas charges recoverable from customers	16,031	2,200
Other	980	1,537
	155,774	160,295
Property, Plant and Equipment		
Gas distribution	647,173	635,992
Diversified businesses and other	91,929	92,774
	739,102	728,766
Less—accumulated depreciation and impairments	223,996	207,635
	515,106	521,131
Deferred Charges and Other Assets		
Goodwill, less accumulated amortization and impairments of $17,764	161,084	161,084
Deferred retiree medical benefits	8,542	8,992
Unamortized debt expense	16,272	7,809
Other	21,436	17,203
	207,334	195,088
Total Assets	$ 878,214	$ 876,514

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.

Consolidated Statements of Financial Position

Liabilities and Capitalization

(In thousands)

	June 30, 2003	December 31, 2002
	(Unaudited)	
Current Liabilities		
Notes payable and current maturities of long-term debt	$ 84,732	$ 121,835
Accounts payable	27,499	38,148
Customer advance payments	9,083	11,408
Accrued interest	7,130	7,598
Accumulated deferred income taxes	1,879	1,879
Amounts payable to customers	2,737	1,073
Other	15,377	19,194
	148,437	201,135
Deferred Credits and Other Liabilities		
Accumulated deferred income taxes	33,186	33,043
Customer advances for construction	14,945	15,841
Unamortized investment tax credit	1,044	1,178
Other	8,563	9,833
	57,738	59,895
Long-Term Debt	435,286	366,026
Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiaries Holding Solely Debt Securities of Semco Energy, Inc.	139,457	139,436
Common Shareholders' Equity		
Common stock—$1 par value; 40,000,000 shares authorized; 19,064,054 and 18,682,027 shares outstanding	19,064	18,682
Capital surplus	121,571	120,089
Accumulated other comprehensive income (loss)	(7,524)	(7,597)
Retained earnings (deficit)	(35,815)	(21,152)
	97,296	110,022
Total Liabilities and Capitalization	$ 878,214	$ 876,514

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.

Consolidated Statements of Cash Flow

(Unaudited)

(in thousands)

	Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Cash Flows Provided by (Used for) Operating Activities				
Net income (loss)	$ (9,957)	$ 11,375	$ (12,383)	$ (703)
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	17,951	17,653	35,635	36,206
Depreciation and amortization in discontinued operations	—	198	27	426
Debt exchange and extinguishment costs	24,030	—	24,030	—
Accumulated deferred income taxes and investment tax credit	9	186	3,339	4,427
Non-cash impairment charges and subsequent adjustment	—	—	(1,732)	7,679
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes as shown below	10,829	9,812	(20,333)	(18,829)
Net Cash Provided by (Used for) Operating Activities	42,862	39,224	28,583	29,206
Cash Flows Provided by (Used for) Investing Activities				
Property additions—gas distribution	(11,322)	(13,631)	(27,663)	(30,037)
Property additions—diversified businesses and other	(935)	(2,686)	(3,254)	(13,413)
Proceeds from property sales, net of retirement costs	636	883	4,261	970
Net Cash Used for Investing Activities	(11,621)	(15,434)	(26,656)	(42,480)
Cash Flows Provided by (Used for) Financing Activities				
Issuance of common stock, net of expenses	1,902	1,944	3,600	4,236
Net change in notes payable	(65,103)	(21,301)	(29,924)	15,305
Issuance of long-term debt, net of expenses	197,713	—	226,703	(142)
Repayment of long-term debt	(110,090)	—	(140,215)	(10)
Debt exchange and extinguishment costs	(24,030)	—	(24,030)	—
Restricted cash for long-term debt retirement	(28,000)	—	(28,000)	—
Payment of dividends on common stock	(4,706)	(6,136)	(9,346)	(13,745)
Net Cash Provided by (Used for) Financing Activities	(32,314)	(25,493)	(1,212)	5,644
Cash and Temporary Cash Investments				
Net increase (decrease)	(1,073)	(1,703)	715	(7,630)
Beginning of period	1,813	1,728	25	7,655
End of period	$ 740	$ 25	$ 740	$ 25
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes:				
Restricted cash	$ (650)	$ —	$ (1,862)	$ —
Receivables, net	16,329	17,395	13,312	2,312
Accrued revenue	31,007	20,435	2,968	3
Prepaid expenses	(2,261)	3,107	(6,541)	(5,529)

Materials, supplies and gas in undergroung storage	297	(9,044)	(12,156)	(12,313)
Gas charges recoverable from customers	(13,831)	(1,354)	(12,683)	(1,038)
Accounts payable	(10,649)	(11,083)	8,172	(4,981)
Customer advances and amounts payable to customers	(1,557)	(6,706)	2,930	1,346
Other	(7,856)	(2,938)	(14,473)	1,371
	$ 10,829	$ 9,812	$ (20,333)	$ (18,829)

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

Note 1—Significant Accounting Policies

Under the rules and regulations of the Securities and Exchange Commission for Form 10-Q Quarterly Reports, certain footnotes and other financial statement information normally included in the year-end financial statements of SEMCO Energy, Inc. and its subsidiaries (the "Company") have been condensed or omitted in the accompanying unaudited financial statements. These financial statements prepared by the Company should be read in conjunction with the financial statements and notes thereto included in the Company's 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The information in the accompanying financial statements reflects, in the opinion of the Company's management, all adjustments (which include only normal recurring adjustments) necessary for a fair statement of the information shown, subject to year-end and other adjustments, as later information may require.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Goodwill—Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible assets of businesses acquired. The Company accounts for Goodwill under the provisions of Statement of Financial Accounting Standard ("SFAS") 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets." SFAS 141 addresses financial accounting and reporting for all business combinations and requires that all business combinations entered into subsequent to June 2001 be recorded under the purchase method. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. In conjunction with the requirements of these Statements, the Company ceased Goodwill amortization effective January 1, 2002.

The Company is also required to perform impairment tests annually on the remaining goodwill balance or at any time when events occur which could impact the value of the Company's business segments. If an impairment test of goodwill shows that the carrying amount of the goodwill is in excess of the fair value, a corresponding impairment loss would be recorded in the Consolidated Statements of Operations. The 2002 annual impairment tests were performed for the Company's business units and the results of those tests indicated that there was no impairment of Goodwill. The 2003 annual impairment test has also been performed for the Company's construction services business segment and indicates that there is no impairment of goodwill. As a result, there was no change in the carrying amount of goodwill at June 30, 2003 when compared to December 31, 2002. The 2003 annual impairment tests for the remaining business units will be conducted during the fourth quarter of 2003.

The following table presents what would have been reported as net income (loss) available to common shareholders and the related per share amounts on a basic and diluted basis in all periods

presented, exclusive of amortization expense (including any related tax effects) recognized in those periods related to goodwill.

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002	2003	2002
Net income (loss) available to common shareholders						
Reported net income (loss) from continuing operations	$ (20,631)	$ 45	$ (9,957)	$ 11,375	$ (12,393)	$ 5,003
Discontinued operations	—	—	—	—	10	(5,706)
Reported net income (loss) available to common shareholders	(20,631)	45	(9,957)	11,375	(12,383)	(703)
Add back: Goodwill amortization, net of income taxes	—	—	—	—	—	1,401
Adjusted net income (loss) available to common shareholders	$ (20,631)	$ 45	$ (9,957)	$ 11,375	$ (12,383)	$ 698
Adjusted earnings per share—basic						
Reported net income (loss) from continuing operations	$ (1.09)	$ 0.00	$ (0.53)	$ 0.62	$ (0.66)	$ 0.27
Discontinued operations	—	—	—	—	—	(0.31)
Reported net income (loss) available to common shareholders	(1.09)	0.00	(0.53)	0.62	(0.66)	(0.04)
Add back: Goodwill amortization, net of income taxes	—	—	—	—	—	0.08
Adjusted net income (loss) available to common shareholders	$ (1.09)	$ 0.00	$ (0.53)	$ 0.62	$ (0.66)	$ 0.04
Adjusted earnings per share—diluted						
Reported net income (loss) from continuing operations	$ (1.09)	$ 0.00	$ (0.53)	$ 0.62	$ (0.66)	$ 0.27
Discontinued operations	—	—	—	—	—	(0.31)
Reported net income (loss) available to common shareholders	(1.09)	0.00	(0.53)	0.62	(0.66)	(0.04)
Add back: Goodwill amortization, net of income taxes	—	—	—	—	—	0.08
Adjusted net income (loss) available to common shareholders	$ (1.09)	$ 0.00	$ (0.53)	$ 0.62	$ (0.66)	$ 0.04

Comprehensive Income—The Company's comprehensive income (loss) for the three, six and twelve months ended June 30, 2003 and June 30, 2002 is summarized in the following table.

	Three months ended June 30,		Six months ended June 30,		Twelve months ended June 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Net income (loss) available to common shareholders	$ (20,631)	$ 45	$ (9,957)	$ 11,375	$ (12,383)	$ (703)
Minimum pension liability adjustment, net of income tax benefits of $2,922 and $781	—	—	—	—	(5,427)	(1,452)
Unrealized derivative gain (loss) on interest rate hedge from an investment in an affiliate	63	66	73	205	(106)	(539)
Total other comprehensive income (loss)	$ (20,568)	$ 111	$ (9,884)	$ 11,580	$ (17,916)	$ (2,694)

Stock Based Compensation—The Company accounts for all stock options under the provisions and related interpretations of Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees." In accordance with SFAS 123, "Accounting for Stock-Based Compensation," the Company has chosen to account for these transactions under APB 25 for purposes of determining net income but must present the pro forma disclosures required by SFAS 123 as amended by SFAS 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." If compensation expense had been determined in a manner consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below.

Years Ended December 31,	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002	2003	2002
	(000's)					
Net income (loss), as reported	$ (20,631)	$ 45	$ (9,957)	$ 11,375	$ (12,383)	$ (703)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	95	84	198	199	409	388
Pro forma net income (loss)	$ (20,726)	$ (39)	$ (10,155)	$ 11,176	$ (12,792)	$ (1,091)
Earnings per share—basic						
As reported	$ (1.09)	$ —	$ (0.53)	$ 0.62	$ (0.66)	$ (0.04)
Pro forma	$ (1.09)	$ —	$ (0.54)	$ 0.61	$ (0.67)	$ (0.06)
Earnings per share—diluted						
As reported	$ (1.09)	$ —	$ (0.53)	$ 0.62	$ (0.66)	$ (0.04)
Pro forma	$ (1.09)	$ —	$ (0.54)	$ 0.61	$ (0.67)	$ (0.06)

New Accounting Standards—On January 1, 2003 the Company adopted SFAS 143, "Accounting for Asset Retirement Obligations." 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.

The Company adopted SFAS 143 on January 1, 2003 and has determined that it does not have any asset retirement obligations (ARO) that are to be recorded in accordance with SFAS 143. However, the Company does have non-ARO negative salvage value that is recorded in the accumulated depreciation of its gas distribution business. The non-ARO negative salvage value is recognized as a component of depreciation expense when the Company receives amounts in its gas distribution customer rates for estimated future removal costs related to its regulated gas distribution infrastructure. The Company reflects these amounts in its accumulated depreciation accounts in accordance with industry practice. As of June 30, 2003, the non-ARO negative salvage included in accumulated depreciation was approximately $50.3 million.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS 145 eliminates SFAS 4, Reporting Gains and Losses from Extinguishment of Debt" ("SFAS 4") and thus allows for only those gains or losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS 145 also amends SFAS 13, Accounting for Leases" ("SFAS 13") to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The provisions of this Statement relating to the rescission of SFAS 4 are effective for fiscal years beginning after May 15, 2002. The provisions of this Statement relating to the amendment of SFAS 13 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002. In accordance with the provisions of SFAS 145, the Company reported debt extinguishments costs incurred during the second quarter of 2003 as a separate line item within the continuing operations section of the Consolidated Statements of Operations. Under previous FASB guidance these costs would have been reported as an extraordinary charge. For further information on the debt extinguishments costs see Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements. The remaining provisions of SFAS 145 have not had a material impact on the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 did not have a material impact on the Company's financial statements.

In November 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123." SFAS 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In

addition, SFAS 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company continues to account for all stock options under the provisions and related interpretations of APB 25 and reports the disclosure of stock options in accordance with the provisions of SFAS 148. The adoption of the disclosure provisions of SFAS 148 did not to have a material impact on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees and standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions of FIN 45 related to recognizing a liability at inception of the guarantee do not apply to product warranties or guarantees accounted for as derivatives. The initial recognition and initial measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions were effective for financial statements for periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of FIN 45 on January 1, 2003 did not have a material impact on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 addresses conditions for consolidating an entity based on variable interests (as defined in the standard) rather than voting interests. FIN 46 clarifies that variable interest entities that do not disperse risks among the parties involved should be consolidated by the entity that is determined to be the primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003. For variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003, FIN 46 must be adopted no later than the first fiscal year or interim period beginning after June 15, 2003. FIN 46 did not have an impact on the Company during the three or six months ended June 30, 2003. The Company is evaluating its consolidated capital trusts to determine whether they are variable interest entities under FIN 46. The trusts, "SEMCO Capital Trust I" and "SEMCO Capital Trust II", have issued $40 million and $101 million, respectively, of mandatorily redeemable preferred securities and are consolidated as of June 30, 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component. This Statement also amends the definition of an "underlying" to conform it to language used in FIN 45 and certain other existing pronouncements. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. In addition, all provisions of this Statement should be applied prospectively except that: a) the provisions of this Statement that relate to SFAS 133 implementation issues that have been effective for fiscal quarters that began prior to June 30, 2003, should continue to be applied in accordance with their respective effective dates and b) provisions related to forward

purchases or sales of when-issued securities or securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company does not believe that the adoption of SFAS 149 will have a material impact on its financial condition and results of operation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003. For financial instruments created before the issuance date of this Statement, this Statement is effective at the interim period beginning July 1, 2003. Transition shall be achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instrument at fair value or other measurement attribute required by this Statement.

The Company has trust preferred securities and FELINE PRIDES that were in existence prior to the issuance of this Statement. Each FELINE PRIDES includes a trust preferred security. These securities have characteristics of both liabilities and equity and have been reported in the Consolidated Statements of Financial Position as a separate line item between long-term debt and common shareholders equity. The trust preferred securities will be reclassified to the long-term debt section in compliance with the provisions of this Statement. The Company does not expect the adoption of this Statement to have a material impact on its net income (loss) available to common shareholders.

Note 2—Short-Term Borrowings and Capitalization

Short-Term Borrowings—During the second quarter of 2003, the Company amended its bank credit facility to permit the issuance of additional debt securities, to increase the facility from $145 million to $155 million and to extend the maturity date of the 364-day component of the facility to May 20, 2004. The $155 million bank credit facility consists of an $85.5 million multi-year revolver, which expires in June 2005, and a $69.5 million 364 day facility, with a one year term loan option. This amendment provides covenant relief to permit the recently completed offering of senior unsecured notes (as described below), including the incurrence of costs associated with the offering and the other transactions that occurred concurrently with the offering. On June 30, 2003, $97.8 million of the Company's bank credit facility was unused.

Covenants contained in the Company's amended bank credit facility require maintenance of a minimum net worth of $215.0 million, a fixed-charge coverage ratio of at least 1.2 until September 30, 2003, at least 1.33 until March 31, 2004 and 1.5 thereafter, and a debt-to-capitalization ratio of less than 0.70 until the earlier of March 31, 2004 or the sale of Alaska Pipeline Company, at which time the debt-to-capitalization ratio must be less than 0.65. As of June 30, 2003, the Company was in compliance with all debt covenants. Failure to comply with such covenants may result in a default with respect to the related debt and could lead to the acceleration of such debt or any instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that the Company would be able to refinance or otherwise repay such indebtedness.

Long-Term Debt—In May 2003, the Company completed an offering of an aggregate of $300 million of senior unsecured notes. The offering consisted of $150 million of 7.125% senior

unsecured notes due 2008 ("7.125% Notes") and $150 million of 7.75% senior unsecured notes due 2013 ("7.75% Notes"). The Company used approximately $92.3 million of the 7.75% Notes in an exchange for $77 million of its outstanding 8.95% Remarketable or Redeemable Securities("ROARS"). After the exchange was completed the Company cancelled the $77 million of ROARS. The Company accounted for the debt exchange under the provisions of Emerging Issues Task Force Opinion No. 96-19 ("EITF 96-19"). In accordance with EITF 96-19, the Company used the book value of the ROARS ($77 million) as the initial book value for the $92.3 million of 7.75% Notes issued in the exchange. The difference between the face amount and the initial book value of the 7.75% Notes will be amortized as interest expense, using the effective interest method, over the life of the notes. As a result, the book value of the 7.75% Notes will increase by the amount of amortization expense recognized over the life of the notes. The exchange of the $92.3 million of 7.75% Notes for the $77 million of ROARS was a non-cash financing activity. As a result, it is not reflected in the Company's Consolidated Statements of Cash Flows.

The Company used a portion of the proceeds from the issuance of the new notes, to repurchase its $55 million of outstanding 8.00% Senior Notes due 2004, $30 million of outstanding 7.2% Senior Notes due 2007 and $25 million of outstanding 8.32% Senior Notes due 2024. Approximately $29.6 million of the proceeds was placed into a restricted escrow account and used to repurchase the remaining $28 million of ROARS in July 2003 and to pay the accrued interest thereon. At June 30, 2003, the $28 million of ROARS is reflected in the Company's Consolidated Statement of Financial Position as a current maturity of long-term debt. For further information concerning the repurchase of the remaining ROARS, see Note 7 of the Condensed Notes to the Unaudited Consolidated Financial Statements. Approximately $24 million of the proceeds was used to pay make-whole premiums or similar amounts in connection with the repurchase of the $138 million in notes and securities discussed above. The make-whole premiums or similar amounts were incurred, in most instances, in order to repurchase these obligations prior to their maturity. The Company expensed the $24 million ($15.6 million net of taxes) at the time of the refinancing. The remainder of the proceeds was used to pay expenses associated with the issuance of the new notes (approximately $9.6 million was incurred through June 30, 2003), to pay down short-term debt and for working capital and general corporate purposes.

The following table identifies the changes in long-term debt since December 31, 2002 as a result of the recent debt offerings, debt exchange and debt repurchases discussed above:

	June 30, 2003	December 31, 2002
Long-term debt		
8.00% notes due 2004	$ —	$ 55,000
7.20% notes due 2007	—	30,000
8.95% notes due 2008, remarketable 2003	—	105,378
7.125% notes due 2008	150,000	—
6.49% notes due 2009	30,000	30,000
8.00% notes due 2010	30,681	30,758
7.75% notes due 2013	134,840	—
8.00% notes due 2016	59,765	59,890
8.32% notes due 2024	—	25,000
6.50% medium-term notes due 2005	15,000	15,000
6.40% medium-term notes due 2008	5,000	5,000
7.03% medium-term notes due 2013	10,000	10,000
	$ 435,286	$ 366,026

Common stock equity—On June 19, 2003, the Company's Board of Directors changed the annual dividend rate on the common stock of the Company from $0.50 per share to $0.30 per share and declared a quarterly cash dividend of $0.075 per share on the Company's common stock. The dividend is payable on August 15, 2003 to shareholders of record at the close of business on August 1, 2003.

In May 2003, the Company paid a quarterly cash dividend of $0.125 per share on its common stock. The total cash dividend was approximately $2.4 million of which $.4 million was reinvested by shareholders into common stock through participation in the Direct Stock Purchase and Dividend Reinvestment Plan ("DRIP"). The cash dividends for the six months ended June 30, 2003, were $4.7 million, of which $.8 million was reinvested by shareholders through participation in the DRIP. During the three and six months ended June 30, 2003, the Company issued approximately 131,000 and 303,000 shares of Company common stock, respectively, to meet the dividend reinvestment and stock purchase requirements of its DRIP participants. Also during the three and six months ended June 30, 2003, the Company issued approximately 38,000 and 79,000 shares, respectively, of its common stock to certain of the Company's employee benefit plans.

Note 3—Risk Management Activities and Derivative Transactions

The Company's business activities expose it to a variety of risks, including commodity price risk and interest rate risk. The Company's management identifies risks associated with the Company's business and determines which risks it wants to manage and which types of instruments it should use to manage those risks.

The Company records all derivative instruments it enters into under the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS 137 and SFAS 138, which were amendments to SFAS 133 (hereinafter collectively referred to as "SFAS 133"). SFAS 133 requires

that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the statement of financial position, as either an asset or liability, measured at its fair value. SFAS 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. For derivatives designated as cash flow hedges, changes in fair value are recorded in other comprehensive income for the portion of the change in value of the derivative that is an effective hedge.

An affiliate, in which the Company has a 50% ownership interest, uses a floating to fixed interest rate swap agreement to hedge the variable interest rate payments on a portion of its long-term debt. This swap is designated as a cash flow hedge and the difference between the amounts paid and received under the swap is recorded as an adjustment to interest expense over the term of the agreement. The Company's share of changes in the fair value of the swap are recorded in accumulated other comprehensive income until the swap is terminated. As a result of this interest rate swap agreement, the Company's Consolidated Statements of Financial Position, at June 30, 2003 and December 31, 2002, reflected reductions of $.6 million and $.7 million, respectively, in the Company's equity investment in the affiliate and in accumulated other comprehensive income.

Note 4—Earnings Per Share

The computations of basic and diluted earnings per share for the three, six and twelve months ended June 30, 2003 and 2002 are as follows (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002	2003	2002
Earnings per share computation						
Income (loss) from continuing operations	$ (20,631)	$ 45	$ (9,957)	$ 11,375	$ (12,393)	$ 5,003
Discontinued operations(a)	—	—	—	—	10	(5,706)
Net income (loss) available to common shareholders.	$ (20,631)	$ 45	$ (9,957)	$ 11,375	$ (12,383)	$ (703)
Weighted average common shares outstanding	18,988	18,431	18,884	18,374	18,726	18,261
Earnings per share—basic						
Income (loss) from continuing operations	$ (1.09)	0.00	$ (0.53)	$ 0.62	$ (0.66)	$ 0.27
Discontinued operations(a)	—	—	—	—	—	(0.31)
Net income (loss) available to common shareholders.	$ (1.09)	$ 0.00	$ (0.53)	$ 0.62	$ (0.66)	$ (0.04)
Weighted average common shares outstanding	18,988	18,431	18,884	18,374	18,726	18,261
Incremental shares from assumed conversions of:						
FELINE PRIDES—stock purchase contracts(b)	—	—	—	—	—	—
Stock options	—	41	—	26	—	—
Diluted weighted average common shares outstanding(b)	18,988	18,472	18,884	18,400	18,726	18,261
Earnings per share—diluted						
Income (loss) from continuing operations	$ (1.09)	$ 0.00	$ (0.53)	$ 0.62	$ (0.66)	$ 0.27
Discontinued operations(a)	—	—	—	—	—	(0.31)
Net income (loss) available to common shareholders.	$ (1.09)	$ 0.00	$ (0.53)	$ 0.62	$ (0.66)	$ (0.04)

(a)
Effective December 2001, the Company began accounting for the engineering services business as a discontinued operation. Accordingly, it's operating results are segregated and reported as discontinued operations in the Consolidated Statement of Operations.

(b)
48,835, 24,945, 12,302 and 12,919 shares of stock options were not included in the computation of diluted earnings per share for the three, six and twelve month periods ending June 30, 2003 and the twelve month period ending June 30, 2002, respectively, because their effect was antidilutive.

Note 5—Business Segments

The Company operates four reportable business segments: (1) gas distribution; (2) construction services; (3) information technology services; and (4) propane, pipelines and storage. The latter three segments are sometimes referred to together as the "Diversified Businesses." For information regarding the determination of reportable business segments, refer to Note 11 of the Notes to the Consolidated Financial Statements in the Company's 2002 Annual Report on Form 10-K.

The Company's gas distribution segment distributes and transports natural gas to approximately 272,000 customers in the state of Michigan and approximately 113,000 customers in the state of Alaska. The construction services segment ("Construction Services") currently conducts most of its business in the mid-western, southern and southeastern areas of the United States. Its primary service is the installation and upgrade of compressor stations and underground natural gas mains and service lines. The information technology service segment ("IT Services") is headquartered in Michigan and provides IT infrastructure outsourcing services, and other IT services with a focus on mid-range computers, particularly the IBM I-Series (AS-400) platform. The propane, pipelines and storage segment sells more than four million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin and operates natural gas transmission and storage facilities in Michigan.

The accounting policies of the operating segments are the same as those described in Notes 1 and 11 of the Notes to the Consolidated Financial Statements in the Company's 2002 Annual Report on Form 10-K, except that intercompany transactions have not been eliminated in determining individual segment results. The following table provides business segment information as well as a reconciliation ("Corporate and other") of the segment information to the applicable line in the Consolidated Financial Statements. Corporate and Other includes corporate related expenses not allocated to segments, intercompany eliminations and results of other smaller operations.

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Operating revenues						
Gas distribution	$ 80,122	$ 70,355	$ 270,934	$ 201,807	$ 433,838	$ 340,746
Construction services	19,864	36,524	34,976	62,105	92,125	136,313
Information technology services.	2,268	2,317	4,422	4,578	9,462	9,705
Propane, pipelines and storage.	1,414	1,416	4,241	3,654	7,645	6,979
Corporate and other(a)	(4,143)	(4,512)	(7,944)	(10,133)	(17,487)	(22,399)
Total operating revenues	$ 99,525	$ 106,100	$ 306,629	$ 262,011	$ 525,583	$ 471,344
Operating income (loss)						
Gas distribution	$ 6,068	$ 8,535	$ 36,601	$ 38,727	$ 56,950	$ 56,219
Construction services	(1,881)	1,939	(5,521)	629	(8,149)	252
Information technology services.	157	143	377	319	660	513
Propane, pipelines and storage.	323	381	1,221	990	2,177	1,779
Corporate and other	(880)	(657)	(1,412)	(1,705)	(2,623)	(6,423)
Total operating income	$ 3,787	$ 10,341	$ 31,266	$ 38,960	$ 49,015	$ 52,340

(a)
Includes the elimination of intercompany construction services revenue of $2,415,000, $4,626,000 and $10,190,000 for the three, six and twelve months ended June 30, 2003, respectively, and $2,618,000, $6,325,000 and $14,045,000 for the three, six and twelve months ended June 30, 2002, respectively. Also includes the elimination of intercompany information technology services revenue of $1,686,000, $3,236,000 and $7,128,000 for the three, six and twelve months ended June 30, 2003, respectively, and $1,858,000, $3,728,000 and $8,187,000 for the three, six and twelve months ended June 30, 2002, respectively.

Note 6—Commitments and Contingencies

Environmental Matters—Prior to the construction of major natural gas pipelines, gas for heating and other uses was manufactured from processes involving coal, coke or oil. The Company owns seven Michigan sites, which formerly housed such manufacturing facilities and expects that it will ultimately incur investigation and remedial action costs at some of these sites and one other site. The Company has closed a related site with the approval of the appropriate environmental regulatory authority in the State of Michigan and has developed plans and conducted preliminary field investigations at two other sites. The Company is in the process of estimating its liabilities and potential costs in connection with these sites, but the scope of the Company's liabilities has not been finally determined. In accordance with a Michigan Public Service Commission ("MPSC") accounting order, any environmental investigation and remedial action costs will be deferred and amortized over ten years. Rate recognition of the related amortization expense will not begin until after a prudence review in a general rate case.

Other—In the normal course of business, the Company may be a party to certain lawsuits and administrative proceedings before various courts and government agencies. These lawsuits and proceedings may involve personal injury, property damage, contractual issues and other matters.

Management cannot predict the ultimate outcome of any pending or threatened litigation or of actual or possible claims; however, management believes resulting liabilities, if any, will not have a material adverse impact upon the Company's financial position or results of operations. Notwithstanding the above statement, in late March 2003 the Company was served a complaint in a putative class-action lawsuit alleging that the approximately 30 defendants, including SEMCO Energy and SEMCO Energy Ventures, Inc., engaged in practices that violated the Sherman Anti-Trust Act and tortuously interfered with the business of the plaintiffs. The Company is considering potential legal and factual defenses to these claims and intends to vigorously defend itself in this action. Although the Company cannot make assurances, management believes that this suit will not have a material adverse effect on its business or results of operations. Refer to Note 13 of the Notes to the Consolidated Financial Statements in the Company's 2002 Annual Report on Form 10-K for further details regarding other commitments and contingencies.

Note 7—Subsequent Events

In July 2003, the Company exercised its right to redeem the remaining $28 million of outstanding ROARS. The funds used to repurchase the ROARS and pay the accrued interest thereon are reflected in the Company's Statements of Financial Position as restricted cash at June 30, 2003.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus does not offer to sell or ask for offers to buy any securities other than those to which this prospectus relates and it does not constitute an offer to sell or ask for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who cannot legally be offered the securities. The information contained in this prospectus is current only as of its date.

PROSPECTUS



SEMCOENERGY

Exchange Offer for Outstanding
7 1/8 % Senior Notes due 2008
in exchange for new
7 1/8 % Senior Notes due 2008
and
7 3/4 % Senior Notes due 2013
in exchange for new
7 3/4 % Senior Notes due 2013

November 13, 2003

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$300,000,000
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SEMCO ENERGY INC - SEN

Filed: January 23, 2004 (period:)

Form of prospectus reflecting facts events constituting substantive change from last form

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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-111872

PROSPECTUS

$50,000,000



SEMCO Energy, Inc.

Exchange Offer for All Outstanding
$50,000,000 in 7 3/4 % Senior Notes due 2013
(CUSIP Nos. 78412DAM1 and U81559AC7)
for new
7 3/4 % Senior Notes due 2013
This Exchange Offer will expire at 5:00 p.m., New York City time,
on February 26, 2004, unless extended.

Terms of the Exchange Offer:

- We will exchange all outstanding notes that are validly tendered and not withdrawn prior to the expiration of the exchange offer.

- You may withdraw tendered outstanding notes at any time prior to the expiration of the exchange offer.

- The exchange of outstanding notes will not be a taxable exchange for United States federal income tax purposes.

- The terms of the new notes to be issued are substantially identical to the terms of the outstanding notes, except that transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes do not apply.

- Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act of 1933, as amended. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of new notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities.

- There is no existing market for the new notes to be issued and we do not intend to apply for their listing on any securities exchange.

- As of September 30, 2003, the notes would have ranked equal in right of payment to $502.9 million of unsecured senior indebtedness.

- We may redeem some or all of the notes at any time on or after May 15, 2008 at the redemption prices set forth in this prospectus. We may redeem up to 35% of the aggregate principal amount of the notes issued under the indenture using net proceeds of certain public equity offerings completed on or prior to May 15, 2006. See the section entitled "Description of Notes—Optional Redemption" beginning on page 84 for more information on the redemption provisions applicable to the notes. There is no sinking fund for the notes. Upon a change of control, we may be required to purchase each holder's notes at 101% of the principal amount. See the section entitled "Description of Notes—Repurchase at the Option of the Holders" beginning on page 84 for more information on the repurchase provisions applicable to the notes.

- Pursuant to the terms of the indentures, we may issue additional notes.

See the "Description of Notes" section beginning on page 82 for more information about the new notes to be issued in this exchange offer.

See the section entitled "Risk Factors" beginning on page 13 for a discussion of the risks associated with the new notes.

Neither the Securities and Exchange Commission nor any state securities and exchange commission has approved or disapproved of these securities or passed upon the adequacy or the accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Prospectus dated January 22, 2004

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You should rely only on the information contained herein or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these notes. The information in this document may only be accurate as of the date of this document.

This prospectus incorporates important business and financial information about SEMCO Energy, Inc. that is not included in or delivered with the document. This information is available to you free of charge upon written or oral request to Fifth Third Bank, Attn: Geoffrey Anderson, Corporate Trust Department, 38 Fountain Square Plaza (MD 10AT60), Cincinnati, OH 45202. The telephone number is (513) 534-8189. To obtain timely delivery you must request this information no later than February 19, 2004, which is five business days before the date you must make your investment decision.

PROSPECTUS SUMMARY

This summary contains material information about us and this exchange offer but may not contain all of the information that is important to you. For a more complete understanding of this exchange offer, we encourage you to read this entire prospectus and the documents we refer you to. You should carefully consider the information set forth under "Risk Factors." In addition, certain statements are forward-looking statements which involve risks and uncertainties. See "Special Note Regarding Forward-Looking Statements."

The Exchange Offer

Notes offered	$50,000,000 aggregate principal amount of new 7 3/4 % Senior Notes due 2013, all of which will have been registered under the Securities Act. The terms of the new notes offered in the exchange offer are substantially identical to those of the outstanding notes, except that certain transfer restrictions, registration rights and additional interest provisions relating to the outstanding notes do not apply to the registered new notes. See "Description of Notes" for a full description of which restrictions, rights and interest provisions do not apply to the new notes.
Outstanding notes	$50,000,000 aggregate principal amount of new 7 3/4 % Senior Notes due 2013 issued on December 17, 2003.
The exchange offer	We are offering to issue registered new notes in exchange for a like principal amount and like denomination of our outstanding notes. We are offering to issue these registered new notes to satisfy our obligations under a registration rights agreement that we entered into with the initial purchaser of the outstanding notes when we sold the outstanding notes in a transaction that was exempt from the registration requirements of the Securities Act. You may tender your outstanding notes for exchange by following the procedures described under the caption "The Exchange Offer."
Tenders; Expiration date; Withdrawal	The exchange offer will expire at 5:00 p.m., New York City time, on February 26, 2004, which is 30 days after the exchange offer is commenced, unless we extend it. If you decide to exchange your outstanding notes for new notes, you must acknowledge that you are not engaging in, and do not intend to engage in, a distribution of the new notes. You may withdraw any outstanding notes that you tender for exchange at any time prior to the expiration of the exchange offer. If we decide for any reason not to accept any outstanding notes you have tendered for exchange, those outstanding notes will be returned to you without cost promptly after the expiration or termination of the exchange offer. See "The Exchange Offer—Terms of the Exchange Offer" for a more complete description of the tender and withdrawal provisions.

Conditions to the exchange offer	The exchange offer is subject to customary conditions, some of which we may waive. See "The Exchange Offer—Conditions to the Exchange Offer" for a description of the conditions. Other than the federal securities laws, we are not subject to federal or state regulatory requirements in connection with the exchange offer.
U.S. federal income tax considerations	Your exchange of outstanding notes for new notes to be issued in the exchange offer will not result in any gain or loss to you for U.S. federal income tax purposes.
Use of proceeds	We will not receive any cash proceeds from the exchange offer.
Exchange agent	Fifth Third Bank
Consequences of failure to exchange your outstanding notes	Outstanding notes that are not tendered or that are tendered but not accepted will continue to be subject to the restrictions on transfer that are described in the legend on those notes. In general, you may offer or sell your outstanding notes only if they are registered under, or offered or sold under an exemption from, the Securities Act and applicable state securities laws. Except in limited circumstances with respect to specific types of holders of outstanding notes, we, however, will have no further obligation to register the outstanding notes. If you do not participate in the exchange offer, the liquidity of your outstanding notes could be adversely affected. See "Description of Notes—Registration Rights; Additional Interest" for a description of the limited circumstances under which we have a further obligation to register the outstanding notes.
Consequences of exchanging your outstanding notes	Based on interpretations of the staff of the SEC, we believe that you may offer for resale, resell or otherwise transfer the new notes that we issue in the exchange offer without complying with the registration and prospectus delivery requirements of the Securities Act if you: • acquire the new notes issued in the exchange offer in the ordinary course of your business; • are not participating, do not intend to participate, and have no arrangement or undertaking with anyone to participate, in the distribution of the new notes issued to you in the exchange offer; and • are not an "affiliate" of our company as defined in Rule 405 of the Securities Act. If any of these conditions is not satisfied and you transfer any new notes issued to you in the exchange offer without delivering a proper prospectus or without qualifying for a registration exemption, you may incur liability under the Securities Act. We will not be responsible for or indemnify you against any liability you may incur.

	Any broker-dealer that acquires new notes in the exchange offer for its own account in exchange for outstanding notes which it acquired through market-making or other trading activities, must acknowledge that it will deliver a prospectus when it resells or transfers any new notes issued in the exchange offer. See "Plan of Distribution" for a description of the prospectus delivery obligations of broker-dealers in the exchange offer.

The Notes

The terms of the new notes we are issuing in this exchange offer and the outstanding notes are identical in all material respects, except the new notes offered in the exchange offer:

- will have been registered under the Securities Act;

- will not contain transfer restrictions and registration rights that relate to the outstanding notes; and

- will not contain provisions relating to the payment of additional interest to be made to the holders of the outstanding notes under circumstances related to the timing of the exchange offer.

A brief description of the material terms of the notes follows:

Issuer	SEMCO Energy, Inc.
Notes Offered	$50,000,000 in aggregate principal amount of 7¾% Senior Notes due 2013. The notes constitute an additional issuance of 7 3/4 % Senior Notes due 2013 pursuant to our indenture dated as of May 15, 2003, under which $150,000,000 in aggregate principal amount of 7 3/4 % Senior Notes due 2013 was previously issued.
Maturity Date	May 15, 2013.
Interest	7¾% per annum, payable semi-annually in arrears on May 15 and November 15. Interest on the notes will accrue from November 15, 2003 and will be paid commencing on May 15, 2004.
Ranking	The notes will rank: • equal in right of payment to all of our existing and future unsecured senior indebtedness, including indebtedness under our credit facility; and • senior in right of payment to our existing and future subordinated indebtedness. As of September 30, 2003, after giving pro forma effect to the Offering, the notes would have ranked: • equal in right of payment to $502.9 million of unsecured senior indebtedness (consisting of $53.2 million of borrowings under our credit facility and $449.7 million of existing debt); and

	• senior in right of payment to $40.0 million of subordinated indebtedness.
Optional Redemption	We may redeem any of the notes at any time on or after May 15, 2008, in whole or in part, in cash at the redemption prices described in this prospectus, plus accrued and unpaid interest and additional interest, if any, to the date of redemption.
	In addition, on or before May 15, 2006, we may redeem up to 35% of the aggregate principal amount of notes with the net proceeds of certain equity offerings. We may make that redemption only if, after the redemption, at least 65% of the aggregate principal amount of notes remains outstanding.
	See "Description of Notes—Optional Redemption."
Change of Control	Upon a change of control, we may be required to make an offer to purchase each holder's notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, to the date of purchase. See "Description of Notes—Repurchase at the Option of Holders—Change of Control."
Certain Covenants	The notes were issued under our indenture with Fifth Third Bank, as trustee, dated as of May 15, 2003. The indenture contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:
	• incur additional indebtedness;
	• create certain liens;
	• permit payment or dividend restrictions on certain of our subsidiaries;
	• pay dividends on, redeem or repurchase our capital stock;
	• make investments;
	• sell all or substantially all of our assets or consolidate or merge with or into other companies; and
	• engage in transactions with affiliates.
	These limitations are subject to a number of important qualifications and exceptions. Once the notes have an investment grade rating from both Moody's Investor Service, or Moody's, and Standard and Poor's Rating Group, or S&P, and no default or event of default shall have ocurred or be continuing, we will not be subject to many of these limitations, including, among other things, payment or dividend restrictions on certain of our subsidiaries, our ability to incur additional indebtedness and our ability to engage in transactions with affiliates. See "Description of Notes—Certain Covenants."

Events of Default	Each of the following is an event of default under the indenture: • failure for 30 days to pay interest, or additional interest, if any, when due on the notes; • failure to pay principal of, or premium, if any, on the notes when due; • failure to perform specified covenants with respect to the notes for 30 days after notice of failure to so comply; • failure to perform any other agreement contained in the indenture for 60 days after notice of failure to so comply; • any payment default or acceleration of indebtedness prior to maturity under any existing or future mortgage, indenture or instrument of indebtedness with aggregate principal amount of $10.0 million or more; • failure to pay final judgments in excess of $10.0 million or more, which are not paid, discharged or stayed within 60 days; • except as permitted by the indenture, any guarantee relating to the notes being held in any judicial proceeding to be unenforceable, invalid or cease to be in effect or such guarantee is otherwise disaffirmed; and • certain events of bankruptcy or insolvency involving us or any of our restricted subsidiaries. In the case of an event of default arising from certain events of bankruptcy or insolvency, all outstanding notes will become due and payable immediately without further action or notice. If any other event of default occurs and is continuing, the applicable trustee or holders of at least 25% in principal amount of the then outstanding notes may declare all of the notes to be due and payable immediately. See "Description of Notes—Events of Default and Remedies."

Our Company

We are a diversified energy and infrastructure services company, headquartered in southeastern Michigan. Our two primary businesses are: (1) a regulated gas distribution business with operations in Michigan and Alaska; and (2) an unregulated diversified business group with operations in construction services; propane, pipelines and storage; and information technology, or IT, services. Our gas distribution operations in Michigan and Alaska operate as divisions of SEMCO Energy while our diversified business operations are organized as subsidiaries of SEMCO Energy.

We had total consolidated operating revenues, EBITDA (as defined in "—Summary Consolidated Financial Data") and operating income for the year ended December 31, 2002 of $481.0 million, $95.8 million and $56.7 million, respectively, and for the nine months ended September 30, 2003 of $379.9 million, $15.2 million and $10.4 million, respectively. Operating revenues, EBITDA and

operating income (loss), including intercompany transactions, from our gas distribution business for the year ended December 31, 2002 were $364.7 million, $85.0 million and $59.1 million, respectively, and for the nine months ended September 30, 2003 were $319.9 million, $56.9 million and $37.6 million, respectively. Operating revenues and operating income (loss), including intercompany transactions, from our diversified business group for the year ended December 31, 2002 were $135.9 million and $0.5 million, respectively, and for the nine months ended September 30, 2003 were $73.0 million and $(24.8) million, respectively. For the twelve months ended September 30, 2003, our EBITDA was $44.0 million.

Our ratio of earnings to fixed charges, as defined under Item 503 of SEC Regulation S-K, for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 were 2.0, 2.2, 1.6, 1.0 and 1.3, respectively, and for the twelve months ended September 30, 2003 was 0.2. This ratio is more strictly defined than the fixed charges coverage ratio used to determine compliance with our debt covenants discussed below. See "Risk Factors."

Gas Distribution Business. We purchase, transport and distribute natural gas to approximately 385,000 residential, commercial and industrial customers in Michigan and Alaska. Our Michigan gas operations are known as SEMCO Gas, and our Alaskan operations are known as ENSTAR. Our gas distribution business is our largest business segment and contributed approximately 89% of our EBITDA in 2002.

SEMCO Gas provides natural gas and associated services and products to approximately 271,000 residential, commercial and industrial customers in Michigan. Our largest concentration of customers, approximately 112,000, is located in southeastern Michigan. Our Michigan customer base is very diverse with approximately 65% of our Michigan gas sales revenue coming from residential customers. Our average number of customers in Michigan increased by an average of approximately 2.6% annually during 1999 through 2001. By comparison, recent surveys by the American Gas Association indicate that the customer growth rate for the U.S. gas distribution industry averaged approximately 1.3% annually during the same three-year period.

ENSTAR is the sole provider of natural gas distribution services to approximately 114,000 customers in the Anchorage, Alaska metropolitan and adjoining areas. ENSTAR's service area encompasses approximately 50% of the population of Alaska. ENSTAR has two types of customers: gas sales customers and gas transportation customers. Gas sales customers are primarily residential and commercial. ENSTAR provides transportation services, on behalf of gas producers and gas marketers, to primarily commercial facilities. Our average number of customers in Alaska increased by an average of approximately 2.8% annually during 1999 through 2001, which is well above the three-year national average recently published by the American Gas Association. According to data supplied by the American Gas Association, ENSTAR also has one of the highest consumption of natural gas per residential customer among investor-owned utilities in the United States.

Diversified Business Group. Our diversified business group includes: (1) construction services; (2) propane, pipelines and storage; and (3) IT services. All three of our unregulated business segments are complementary to our core gas distribution operations. Specifically, our IT service business uses existing technical infrastucture and services required to support our core gas distribution business for external customers, whereby we realize additional revenue and income.

The principal source of revenue for our construction services business is the installation and upgrade of compressor stations and underground natural gas mains and service lines. Our construction services business operates in the mid-western, southern and southeastern regions of the United States and has offices in Georgia, Illinois, Iowa, Michigan and Texas. The customers in our construction services business primarily include natural gas distribution companies and gas transmission pipeline companies. In November 2003, we announced that we would pursue a sale of our construction services business. See "—Recent Events and Other Matters."

Our propane, pipelines and storage business is primarily conducted in two related areas: pipelines and storage; and propane distribution. The pipelines and storage business consists of three gas pipelines and an underground gas storage facility, all of which are located in Michigan in or adjacent to our principal regulated service territory. Our pipelines and storage business principal customers are SEMCO Gas, Detroit Edison Company, Panhandle Eastern Pipeline Company and Ohio Gas Company. Our propane distribution business, operating under the tradename "Hotflame," supplies more than four million gallons of propane annually to retail customers in Michigan's upper peninsula and in northeast Wisconsin.

Our IT services business, which began operations in April 2000, provides IT infrastructure outsourcing services under the Aretech Information Services brand name. Aretech primarily provides data hosting and IT consulting services to small and medium-sized businesses in southeast Michigan.

Business Strategy

Our business strategy has two key elements: (1) a continued strong focus on our core competencies in our gas distribution business; and (2) opportunistic and prudent growth of our diversified business group. In our gas distribution business, we seek opportunities to expand our distribution system in an economical manner through the attachment of potential customers located on or near our existing distribution system. In our diversified business group, we intend to continue to exercise financial discipline in evaluating any new business opportunities with a principal focus on expanding our business primarily through internal growth rather than through acquisitions. The principal elements of our business strategy are described below.

Focus on our Core Competence. Growth of our customer base in our gas distribution business and attention to improving the operational efficiencies in our businesses are the key focal points of our business strategy. In addition to seeking growth within our existing service territories for our gas distribution business, we may selectively analyze acquisitions that provide attractive, complementary service territories and additional economies of scale. Over the past several years, a large number of diversified energy companies have elected to aggressively pursue unregulated business opportunities in the merchant power, telephony and internet infrastructure, and commodity trading businesses. As a result of these expansions, the lack of financial discipline and an unforeseen decline in the general economic environment, many of these companies that expanded aggressively in the recent past now find themselves in difficult financial positions with high levels of debt and unsustainable business models. In contrast, we continue to remain focused on our core business of gas distribution.

Maintain Regulatory Relationships. In our regulated gas distribution business, it is important that we maintain positive relationships with the regulatory bodies under whom we have the authority to provide gas distribution. Because our focus is and has been on our core gas distribution business, we have not been distracted from our efforts to maintain good relationships with the regulatory authorities that regulate our gas distribution business. See "Business—Regulatory Matters" for a description of such regulatory authorities.

Focus on Continued Business Optimization. We intend to continue to operate and only enter new diversified businesses that are complementary to our core gas distribution business. The diversified businesses in which we currently operate benefit from the managerial expertise we have gained from the operation of our gas distribution business. We plan to grow these diversified businesses only where we can do so profitably and within our capital expenditure budgets. As part of our strategy, we have eliminated unprofitable or marginal performers within our diversified business group in the recent past, including the discontinuance of our engineering business and the announcement of our intent to pursue a sale of the construction services business. To maintain our objective of prudent and opportunistic growth in our diversified business group, we will continue to focus on expanding our business primarily through internal growth rather than through acquisitions. Although our focus is not on expansion

through acquisition, we may consider opportunistic acquisition proposals in our propane, pipelines and storage business.

Competitive Strengths

Barriers to Entry. Our gas distribution business is regulated by state and local governmental authorities, and we are required to obtain franchise and certificate authority to engage in the delivery of gas. We believe that the capital necessary to build, maintain and expand a gas distribution system discourages new competitors from entering into our service territories. As of December 31, 2002, we had 160 miles and 396 miles of gas transmission pipeline and 5,423 miles and 2,421 miles of gas distribution pipelines in SEMCO Gas and ENSTAR, respectively. Given our expertise in each of our service territories and our success in providing good service at a price that the regulatory bodies deem appropriate, we do not believe it is likely that the regulatory bodies would grant another natural gas distribution franchise in our service territories.

Attractive Service Territories. ENSTAR is the only natural gas distribution company in Anchorage, Alaska in a service territory that has one of the highest gas consumption per residential customer in the United States. Our gas distribution business in our service territories in Alaska and Michigan has grown well above the national average for customer growth rates in the United States gas distribution industry over the recent past. Our service territories provide ready access to natural gas supplies due to their proximity to supply sources and through our supply contracts. We also benefit from our positive relationships with the regulatory authorities in each service territory.

Strong Supply and Storage Networks with Long-term Fuel Supply. We have sufficient long-term gas supply contracts, storage and pipeline access for our gas distribution business. In Michigan at SEMCO Gas, there is one year and four months remaining on our contracts with BP Canada Energy Marketing Corporation, or BP Canada, to provide gas and transportation and storage asset management services to all of the customers in our service territory. In addition to our agreements with BP Canada, SEMCO Gas has access to natural gas supplies throughout the United States and Canada via major interstate pipelines that run through Michigan. SEMCO Gas has pipeline capacity contracts with ANR Pipeline Company, Great Lakes Gas Transmission Limited Partnership, Northern Natural Gas Company and Panhandle Eastern Pipe Line Company. SEMCO Gas also owns or leases underground storage facilities in Michigan with a working capacity of approximately 15.3 billion cubic feet, or Bcf. Our owned and leased storage capacity equals approximately 36% of our 2002 annual gas sales volumes in Michigan. In Alaska at ENSTAR, we have gas supply contracts of varying terms with Marathon Oil Company, Chevron U.S.A. Inc., ConocoPhillips Alaska, Inc., Anchorage Municipal Light and Power, Aurora Gas Company and Union Oil Company of California, or Unocal. Collectively, the gas suppliers are obligated to supply all of ENSTAR's gas requirements through 2005. There are no minimum purchase requirements under our gas purchase contracts which are material in relation to the total requirements of either SEMCO Gas or ENSTAR.

Highly Experienced Management Team. Our management team is comprised of an experienced group of industry veterans with an average tenure in the utility business of more than 20 years with experience in a wide variety of management functions.

Infrastructure Investments. Over the last few years, we have made material investments in our infrastructure. We have improved technology in our gas distribution business and upgraded equipment used in our construction services business. These investments have resulted in increased customer service and administrative and operational efficiencies in our businesses. Due to these recent investments, we expect to reduce our capital expenditures in 2003 to approximately $32 million.

Recent Events and Other Matters

Sale of Alaska Pipeline Company and Construction Services Business. As part of our continued commitment to improving our capital structure, on September 16, 2003, we entered into a definitive agreement to sell our wholly-owned subsidiary, Alaska Pipeline Company, or APC, to Atlas Pipeline Partners, L.P. for approximately $95 million. APC operates a natural gas transmission pipeline in Alaska, and ENSTAR Natural Gas Company is its only customer. APC is part of our gas distribution business for segment reporting. Under the terms of the sale, ENSTAR will continue to purchase all of APC's gas transmission capacity for at least 10 years at a rate of $.075 per thousand cubic feet, or Mcf, of gas transported, plus a monthly reservation fee of $943,000. The average amount of gas transported through APC's system was 132 million cubic feet per day in 2002. ENSTAR will also continue to operate APC's pipelines for a minimum of five years. The sale is subject to approval under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, approval by the Regulatory Commission of Alaska and various consents under contract. Proceeds of the sale will be used to reduce our outstanding debt obligations. As of September 30, 2003, the book value of APC's assets was approximately $89 million. We expect the transaction to close in the first half of 2004.

In addition, on November 12, 2003, we announced that we would pursue a sale of our wholly-owned subsidiary, EnStructure, our construction services business. Our construction services business had operating revenue and operating losses for the year ended December 31, 2002 of $119.3 million and $2.0 million, respectively, and for the nine months ended September 30, 2003 of $84.1 million and $29.9 million, respectively. We anticipate that proceeds of the sale will be used to strengthen our financial position by supporting the growth of our gas distribution business through the funding of its capital expenditures, or by paying down indebtedness. As of September 30, 2003, after recording the impairment charges, the book value of the construction services business's assets was approximately $40 million. We have not yet determined any timeframe for the sale and we cannot provide any estimate when or on what terms the sale might occur, if at all. Pending a sale, we intend to continue to support the capital requirements, if any, of the construction services business.

Credit Rating Downgrade. On November 13, 2003, Standard & Poor's Rating Services lowered our corporate credit rating to BB- from BB, with a negative outlook. Standard and Poor's cited as the reason for the downgrade the reduction in our expected cash flow, which pressures an already weak financial profile.

Resignation of Marcus Jackson, SEMCO's Chairman, President and Chief Executive Officer. On December 2, 2003, Marcus Jackson, our Chairman, President and Chief Executive Officer, resigned. Mr. Jackson has been succeeded on an interim basis by Eugene N. (Gene) Dubay as President and Chief Executive Officer, pending the appointment of a permanent successor. Mr. Dubay, who is also Senior Vice President and Chief Operating Officer of SEMCO Energy Gas Company, reports to our Board of Directors through its lead director, John Hinton, who now serves as non-executive Chairman.

Also on December 2, 2003, we entered into a Separation Agreement with Mr. Jackson under which we agreed, among other things, to pay Mr. Jackson a total amount of $180,000 in bi-weekly installments and to continue our obligation to pay Mr. Jackson's monthly pension as such pension becomes due under the provisions of the Employment Agreement between us and Mr. Jackson, dated June 1, 2001.

Amendment of Credit Facility. On December 12, 2003, we amended our credit facility to:

- permit the Offering;

- reduce aggregate commitments under the credit facility by $30.0 million to $125.0 million;

- modify the debt-to-capitalization ratio covenant to 72% or less through March 31, 2004, so long as the sale of APC has not been consummated, and 65% or less thereafter; and

- require that 50% of the portion of the proceeds from the sale of APC in excess of $90.0 million be used to repay the credit facility and permanently reduce commitments under the credit facility.

The "Offering," as used in this prospectus, shall mean the offer and sale of the outstanding 7¾% Senior Notes due 2013 issued on December 17, 2003 under an indenture dated May 15, 2003.

Risk Factors

Investment in the notes involves certain risks. You should carefully consider the information under "Risk Factors" and all other information included in this prospectus before investing in the notes.

Additional Information

We are a Michigan corporation and our principal executive offices are located at 28470 13 Mile Road, Suite 300, Farmington Hills, Michigan 48334. Our telephone number is (248) 702-6000.

Summary Consolidated Financial Data

The following summary consolidated financial data for the years ended December 31, 2000, 2001 and 2002 and for the nine months ended September 30, 2002 and 2003 was derived from, and should be read in conjunction with, our audited consolidated financial statements and the related notes thereto for and as of the years ended December 31, 2000, 2001 and 2002 and our unaudited consolidated financial statements and the related notes thereto for and as of the nine months ended September 30, 2002 and 2003, which are included elsewhere in this prospectus.

	Year ended December 31,			Nine Months ended September 30,	
	2000	2001	2002	2002	2003
	(in thousands of dollars, except ratios)				
Statement of Operations Data:					
Operating revenue	$ 410,325	$ 445,823	$ 480,965	$ 334,704	$ 379,863
Operating expenses:					
Cost of gas sold	161,945	184,973	220,422	139,367	213,873
Operations and maintenance	140,236	162,289	156,653	121,131	99,434
Depreciation and amortization	33,051	36,505	35,337	26,487	26,749
Property and other taxes	9,860	11,562	11,844	9,105	8,961
Goodwill impairment charge	—	—	—	—	17,649
Restructuring and asset impairment charges	—	6,103	—	—	2,825
Total operating expenses	345,092	401,432	424,256	296,090	369,491
Operating income	65,233	44,391	56,709	38,614	10,372
Interest expense	(34,905)	(31,784)	(31,268)	(23,102)	(29,300)
Other Data:					
EBITDA(1)	101,680	74,440	95,795	67,041	15,243
Capital expenditures	66,636	55,444	34,977	26,323	21,533
Cash flow provided by (used in):					
Operating activities	48,962	36,656	24,945	28,295	8,378
Investing activities	(67,405)	(55,493)	(30,469)	(24,960)	(19,891)
Financing activities	13,578	19,344	5,609	(210)	13,890
Ratio of net debt to EBITDA	4.34 x	6.38 x	5.07 x		
Ratio of EBITDA to interest expense and dividends on trust preferred securities	2.39x	1.65x	2.15x		
Ratio of net debt to capitalization(2)(3)	61.6%	65.2%	66.1%		

	As of December 31,		As of September 30,	
	2001	2002	2002	2003
	(in thousands of dollars)			
Balance Sheet Data:				
Cash and cash equivalents	$ 1,728	$ 1,813	$ 4,853	$ 4,190
Total assets	863,548	876,514	851,501	914,832
Net debt(2)	475,195	486,048	475,885	575,166
Trust preferred securities(2)	139,394	139,436	139,426	—
Common shareholders' equity	113,810	110,022	112,476	172,667

(1)
EBITDA represents earnings before interest, dividends on trust preferred securities, taxes, depreciation and amortization. EBITDA is presented here because we believe it is commonly used by investors as an indication of a company's ability to incur and service debt and other capital and is commonly used as an analytical tool to measure liquidity in our industry. We have also presented certain ratios that include EBITDA for the same reasons. While we believe EBITDA and ratios based on EBITDA are useful measures for investors, they are not measurements presented in accordance with United States generally accepted accounting principles, or GAAP, and we do not intend EBITDA or ratios derived therefrom to represent cash flows from operations as defined by GAAP. You should not consider EBITDA or ratios derived therefrom in isolation or as a substitute for net income, cash flows from operations or any other items calculated in accordance with GAAP or an indicator of our liquidity. Our calculation of EBITDA and ratios based on EBITDA may or may not be

consistent with that of other companies. We strongly urge you to review the reconciliation information contained in this prospectus and our financial statements, including the notes thereto. The following are the components of our EBITDA:

	Year ended December 31,			Twelve Months ended September 30, 2003	Nine Months ended September 30,	
	2000	2001	2002		2002	2003
	(in thousands of dollars)					
Consolidated						
Net income (loss)	$ 16,693	$ (6,361)	$ 8,949	$ (30,210)	$ 4,361	$ (34,798)
Interest expense	34,905	31,784	31,268	37,466	23,102	29,300
Dividends on trust preferred securities	7,699	13,235	13,232	9,923	9,924	6,616
Income tax expense (benefit)	11,554	6,578	10,139	(6,597)	6,428	(10,308)
Income tax benefit related to dividends on trust preferred securities	(2,695)	(4,632)	(4,631)	(3,473)	(3,473)	(2,316)
Income tax expense (benefit) related to discontinued operations	52	(3,123)	1,276	1,276	—	—
Depreciation and amortization	33,051	36,505	35,337	35,599	26,487	26,749
Depreciation and amortization related to discontinued operations	421	454	225	13	212	—
EBITDA	$ 101,680	$ 74,440	$ 95,795	$ 43,997	$ 67,041	$ 15,243
Gas Distribution Business						
Net income	$ 25,911	$ 19,397	$ 26,058		$ 15,587	$ 14,729
Interest expense	23,906	19,933	18,874		13,988	14,738
Income tax expense	13,930	11,518	14,699		8,840	8,305
Depreciation and amortization	26,272	27,180	25,342		19,047	19,168
EBITDA	$ 90,019	$ 78,028	$ 84,973		$ 57,462	$ 56,940

We view EBITDA as a liquidity measure and, therefore, the nearest GAAP measure is cash flow from operations. The following is a reconciliation of our EBITDA to our cash flow from operations:

	Year ended December 31,			Twelve Months ended September 30, 2003	Nine Months ended September 30,	
	2000	2001	2002		2002	2003
	(in thousands of dollars)					
Consolidated						
EBITDA	$ 101,680	$ 74,440	$ 95,795	$ 43,997	$ 67,041	$ 15,243
Interest expense	(34,905)	(31,784)	(31,268)	(37,466)	(23,102)	(29,300)
Dividends on trust preferred securities	(7,699)	(13,235)	(13,232)	(9,923)	(9,924)	(6,616)
Income tax expense (benefit)	(11,554)	(6,578)	(10,139)	6,597	(6,428)	10,308
Income tax benefit related to dividends on trust preferred securities	2,695	4,632	4,631	3,473	3,473	2,316
Income tax (expense) benefit related to discontinued operations	(52)	3,123	(1,276)	(1,276)	—	—
Changes in assets and liabilities and other non-cash items	(1,203)	6,058	(19,566)	(374)	(2,765)	16,427
Cash flow from operations	$ 48,962	$ 36,656	$ 24,945	$ 5,028	$ 28,295	$ 8,378
Gas Distribution Business						
EBITDA	$ 90,019	$ 78,028	$ 84,973		$ 57,462	$ 56,940

Interest expense	(23,906)	(19,933)	(18,874)	(13,988)	(14,738)
Income tax expense	(13,930)	(11,518)	(14,699)	(8,840)	(8,305)
Changes in assets and liabilities and other non-cash items	14,563	5,685	(288)	20,689	(11,928)
Cash flow from operations	$ 66,746	$ 52,262	$ 51,112	$ 55,323	$ 21,969

(2)
Net debt represents long-term and short-term debt, less cash and cash equivalents. Prior to July 1, 2003, the trust preferred securities were reported as a separate line item between long-term debt and common shareholders' equity. For periods after July 1, 2003, the trust preferred securities are reflected in long-term debt in compliance with Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity."

(3)
The capitalization figure used in the ratio of net debt to capitalization includes net debt, trust preferred securities and common shareholders' equity.

RISK FACTORS

Investing in the notes involves a number of risks. You should carefully consider all of the information contained in this prospectus, including the risk factors set forth below, before investing in the notes offered pursuant to this prospectus. We describe below those risk factors, currently known and unique to us, which make an investment in the notes speculative or risky. We may encounter risks in addition to those described below. In such case, you may lose all or part of your original investment in the notes.

Risks Relating to Our Indebtedness

Failure to comply with the covenants in our credit facility could lead to the acceleration of such debt and we then may have difficulty making payments on the notes or refinancing our credit facility when due.

Covenants contained in our amended credit facility require maintenance of a minimum net worth of $215.0 million, a fixed-charge coverage ratio of at least 1.33 until March 31, 2004 and 1.5 thereafter, and a debt-to-capitalization ratio of 0.72 or less through March 31, 2004, so long as the sale of APC has not been consummated, and 0.65 or less thereafter. As of September 30, 2003, our net worth was $230.2 million, our fixed charge coverage ratio was 1.48 and our debt-to-capitalization ratio was 0.68. Unless our operating results improve and we complete the sale of APC in the first half of 2004 and/or complete other deleveraging initiatives, we anticipate that with respect to the results for the second quarter of 2004, we may be required to seek further covenant relief from our lenders under our credit facility or, if unsuccessful, seek other financing alternatives. We cannot assure you that we would be able to obtain such relief or financing alternatives. In addition, we cannot assure you that the APC sale will be consummated as it is subject to regulatory approvals and various other consents under contract. In any such event, failure to comply with our financial covenants may result in a default with respect to the debt under our credit facility and could lead to the acceleration of such debt or any instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness and we may also have difficulty making payments on the notes and renewing our credit facility when due. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources—General Financing Matters" and "Description of Other Indebtedness."

Our credit rating has been recently lowered and any additional reductions in our credit rating may increase our cost of, and possibly decrease our access to, capital which may reduce our earnings and harm our business.

In March 2003, Moody's reduced the credit rating on our senior unsecured debt from Baa3 to Ba2 and announced that we were under further review for another possible downgrade. In May 2003, Moody's confirmed the credit rating on our senior unsecured debt at Ba2 with a stable outlook. In October 2003, Moodys confirmed the credit rating on our senior unsecured debt at Ba2 and changed the outlook to negative. In June 2003, S&P lowered our corporate credit rating from BBB- to BB, with a negative outlook. In November 2003, S&P lowered our corporate credit rating from BB to BB-, with a negative outlook. As a result of these events and other circumstances, two of the pipelines we utilize have required prepayment for their services, one gas supplier has required us to pay multiple times in the month of delivery and other gas suppliers have requested prepayment or letters of credit. We cannot assure you that customers and other suppliers will not impose additional requirements or restrictions on the conduct of our business. As a result of these downgrades, or any future downgrades in our credit ratings, our borrowing costs have increased and may increase further and our access to capital may be limited, and we may be required to utilize a higher percentage of our available borrowing capacity for ordinary course purposes. Increased borrowing costs have increased our costs of operations, and further increases in borrowing costs and/or the utilization of a higher percentage of our available capital for ordinary course purposes may further increase our costs of operations. Any such increases may reduce our earnings and harm our business. We cannot assure you that any of our

current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency. Any lowering of the rating of our senior unsecured debt would likely reduce the value of the notes offered hereby. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Overview—Rating."

Our level of indebtedness may reduce our profitability and limit our growth, and the credit facility and the indentures governing our existing debt contain restrictive covenants that may reduce our flexibility in our business operations and limit our growth, both of which may prevent us from fulfilling our obligations under the notes.

Our business is capital intensive and we have significant amounts of debt. On September 30, 2003, as adjusted to give effect to the Offering and the application of the net proceeds therefrom, we would have had total short and long-term debt of $580.9 million. The terms of the indentures relating to certain of our outstanding debt securities (including the notes) and of the credit agreement relating to our credit facility impose significant restrictions on our ability and, in some cases, the ability of our subsidiaries, to take a number of actions that we may otherwise desire to take, including:

- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;

- requiring us to meet certain financial tests, which may affect our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;

- limiting our ability to sell assets, make investments or acquire assets of, or merge or consolidate with, other companies;

- limiting our ability to pay dividends or make distributions to our shareholders, repurchase or redeem our stock or enter into transactions with our stockholders or affiliates;

- limiting our ability to grant liens, incur additional indebtedness or contingent obligations or obtain additional financing for working capital, capital expenditures, acquisitions and general corporate and other activities; and

- detracting from our ability to successfully withstand a downturn in our business or the economy generally.

Our ability to meet our debt service obligations, including those related to the notes, and to reduce our total indebtedness will be dependent upon our future performance, which will be subject to weather, general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control.

Despite our substantial indebtedness, we may still be able to incur more debt which could further exacerbate the risks associated with our substantial debt.

We are able to incur additional debt in the future. Restrictions applicable to us on the incurrence of additional debt contained in the indentures and credit agreement governing our existing debt are subject to a number of qualifications and exceptions that allow us to incur additional debt. An increase in the amount of our indebtedness may negatively affect our capital structure and credit ratings. If new debt is added to our current debt levels, the risks that we now face would intensify. See "Description of Other Indebtedness" and "Description of Notes—Certain Covenants" for a description of the qualifications and exceptions to the restrictions on the incurrence of additional debt.

To service our indebtedness, including the notes, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the notes, and to fund planned capital expenditures, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to weather, general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In particular, our ability to generate cash has been limited by working capital investments over the past two years due to, among other factors, increases in natural gas prices, natural gas inventories and stricter payment terms from our natural gas suppliers as a result of our credit rating downgrades. These factors may continue to negatively affect our working capital requirements and consequently our ability to generate sufficient cash flows from operations.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the notes, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our credit facility, our existing debt and the notes, on commercially reasonable terms or at all.

We are vulnerable to interest rate risk with respect to our debt which could lead to an increase in interest expense.

We are subject to interest rate risk in connection with the issuance of variable and fixed-rate debt. In order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed and variable-rate interest payment obligations over the life of the arrangements, without exchange of the underlying principal amounts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk Information." We cannot assure you that we will be successful in structuring such swap agreements to effectively manage our risks. If we are unable to do so, our earnings may be reduced.

Risks Relating to Our Operations

Due to seasonal weather conditions, our operating results during the first and fourth quarters may be more favorable than our operating results during the second and third quarters and our historical performance may not be indicative of our future performance.

Our gas distribution business is a seasonal business and is subject to weather conditions. We receive most of our gas distribution revenues and operating income in the first and fourth quarters when demand for natural gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase a significant amount of our natural gas supplies in the second and third quarters and must increase our borrowings in these periods to finance these purchases. Also, because of our seasonality, our results of operations during the first and fourth quarters may not be indicative of results for a full year. In addition, variability in weather from normal temperatures can materially reduce our results of operations. Warmer than normal weather over the last several years has adversely affected the results of operations of our gas distribution business. Weather has been and will continue to be one of the dominant factors affecting our financial performance. For example, difficult weather conditions this year have inhibited construction activity and have delayed the release of construction projects. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Consolidated Results of Operations—The Impact of Weather."

Our customers may be able to acquire natural gas without using our distribution system which would reduce our revenues.

Consistent with other gas distribution utilities, there is potential risk for industrial customers and electric generating plants, located in close proximity to interstate natural gas pipelines, to bypass us and connect directly to such pipelines, which would reduce our revenues. We can make no assurances that our customers will not bypass us or that we could successfully retain such customers by employing any special efforts. See "Business—Gas Distribution Business—Outlook for Gas Distribution."

Our operating results may be reduced by downturns in the economy.

Many of our commercial and industrial customers use natural gas in the production of their products. During economic downturns, these customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of natural gas they require for production. With respect to our construction services business, during economic downturns, new housing starts often decline which leads to a decrease in gas service line installations and, as a significant portion of the spending by our customers in our construction services business is discretionary, our customers may decide to postpone or eliminate non-essential construction projects. Any of these events would negatively affect our revenues and financial results. See "Business—Gas Distribution Business—Outlook for Gas Distribution."

Volatility in the price of natural gas and alternative energy sources could reduce our profits.

The market price of alternative energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for our gas transportation services. Certain large industrial customers have some ability to convert to another form of energy if the price of natural gas increases significantly. Should these customers convert their requirements to another form of energy, our revenue could be reduced. We cannot predict the future stability of natural gas prices nor can we make any assurances that the impact of clean air legislation or any special services we offer will outweigh the negative effects of gas price volatility. See "Business—Gas Distribution Business—Outlook for Gas Distribution."

Our natural gas distribution business is subject to utility rate regulation and certain actions of the regulatory bodies may reduce our revenues and our profitability.

We are regulated by the Michigan Public Service Commission, or MPSC, the Regulatory Commission of Alaska, or RCA, and the City Commission of Battle Creek, Michigan, or CCBC. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. Approximately 75% of our revenues are generated by our regulated gas distribution business. The actions of these regulatory bodies, including the failure to grant any requested rate increase, the timing of any rate increase or any other action by them, may reduce our revenues and our profitability. See "Business—Regulatory Matters."

Changes in our regulatory environment and recent events in the energy markets that are beyond our control may reduce our profitability and limit our access to capital markets.

Our rates and operations in our gas distribution business are subject to regulation by various federal, state and local regulators as well as the actions of federal, state and local legislators. As a result of the energy crisis in California during 2000 and 2001, the volatility of natural gas prices in North America, the bankruptcy filings by certain energy companies and investigations by governmental authorities into energy trading activities, the collapse in market values of energy companies and the downgrading by rating agencies of a large number of companies in the energy sector, companies in the regulated and unregulated energy businesses have generally been under an increased amount of

scrutiny by federal, state and local regulators, participants in the capital markets and the rating agencies. We cannot predict or control what effect these types of events, or future actions of regulatory agencies in response to such events, may have on our business or our access to the capital markets.

We may be required to recognize additional impairment charges which would reduce our reported earnings and could result in a default under our credit facility.

Pursuant to generally accepted accounting principles, we are required to perform impairment tests on our goodwill balance annually or at any time when events occur, which could impact the value of our business segments. Our determination of whether an impairment has occurred is based on an estimate of discounted cash flows attributable to our reporting units that have goodwill. We must make long-term forecasts of future revenues, expenses and capital expenditures related to the reporting unit in order to make the estimate of discounted cash flows. These forecasts require assumptions about future demand, future market conditions, regulatory developments and other factors. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period that could substantially reduce our reported earnings in a period of such change. In addition, such charges would reduce our consolidated net worth and our shareholders' equity, increasing our debt to total capitalization ratio, which may result in a default under our credit facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Goodwill."

We are subject to numerous environmental laws and regulations that may increase our cost of operations, impact or limit our business plans or expose us to environmental liabilities.

Laws and regulations relating to environmental health and safety generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals, and may be enforced by both public officials and private individuals. Compliance with these requirements may cause us to incur substantial capital costs and operating expenses and may impose restrictions on the operation of our business, all of which could be substantial. To the extent not fully recoverable from our customers, these costs could reduce our earnings and harm our business.

In addition, we may be named as a responsible party for environmental clean-up at sites identified by environmental agencies or regulatory bodies regardless of whether we currently own or operate those sites, whether the contamination was caused by other parties or whether or not the operations that may have resulted in or contributed to the site contamination were conducted in full compliance with applicable laws. Given the nature of the past operations conducted by us and others at our properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where an environmental site assessment or other investigation has been conducted. Changes in existing laws or policies or their enforcement, future spills or accidents or the discovery of currently unknown contamination may give rise to remediation liabilities which may be material. Based upon the information presently available to us, we expect that we will ultimately incur investigation and remedial action costs at eight of our Michigan sites including seven that were formerly associated with manufactured gas plant operations. Because the extent of the contamination at these sites has not been fully delineated and the scope of our liability (as compared to other responsible parties, if any) has not been finally determined, it is difficult for us to currently estimate the full extent of our liability and we cannot conclude that our share of such liability will not be material.

Environmental health and safety regulations may also require us to install new or updated pollution control equipment, modify our operations or perform other corrective actions, at our facilities. Existing environmental regulations may be revised or new regulations may be adopted or become applicable to us, which may result in increased compliance costs or additional operating restrictions, could reduce our earnings and harm our business, particularly if those costs are not fully recoverable from our customers.

See "Business—Regulatory Matters—Safety Regulations" and "Business—Regulatory Matters—Environmental Matters."

Our construction services business' ability to win business is subject to competition in the construction industry which could harm our business and results of operations if we are not successful in our strategy to sell our construction services business.

The operating results for our construction services business has declined in the past two years which management believes has been driven, in part, by the state of the U.S. economy, financial issues faced by our construction services business customers and poor productivity in certain regions of our construction services business area. During economic downturns, new housing starts often decline, which leads to a decrease in new gas service line installations. Our construction services business faces competition from regional underground facilities contractors, in-house construction operations of existing or prospective customers and small to medium-sized local contractors. In November 2003, we announced that our Board of Directors instructed management to pursue the sale of our construction services business. We anticipate that the proceeds of a sale will be used to strengthen our financial position by supporting the growth of our gas distribution business through the funding of its capital expenditures, or by paying down indebtedness. As of September 30, 2003, after recording the impairment charges, the book value of the construction services business's assets was approximately $40 million. We have not yet determined any timeframe for the sale and we cannot provide any estimate when or on what terms the sale might occur, if at all. Prior to such sale, or if such sale does not occur, if long-term increases in the need for natural gas infrastructure do not exist and we do not successfully manage the pressure exerted by our competitors, our business and results of operations could be harmed. See "Business—Diversified Business—Construction Services."

We depend upon our management team and other key professionals, and any failure to retain members of our management team or other key professionals and/or to fill vacancies with experienced successors could have a material adverse effect on our business, financial condition and operating results.

The successful implementation of our business strategy and handling of other issues integral to the fulfillment of our business strategy depends, in part, on our experienced management team, as well as several key professionals employed by us. On December 2, 2003, Marcus Jackson, our Chairman, President and Chief Executive Officer, resigned. Mr. Jackson has been succeeded on an interim basis by Eugene N. (Gene) Dubay as President and Chief Executive Officer, pending the appointment of a permanent successor. The loss of other members of our management team or other senior professionals or the failure to fill the position of President and Chief Executive Officer or future vacancies with experienced successors could have a material adverse effect on our business, financial condition and operating results.

Substantial operational risks are involved in operating a natural gas distribution, pipeline and storage system and such operational risks could reduce our revenues and increase our expenses.

There are substantial risks associated with the operation of a natural gas distribution, pipeline and storage system, such as operational hazards and unforeseen interruptions caused by events beyond our control. These include adverse weather conditions, accidents, the breakdown or failure of equipment or processes, the performance of pipeline facilities below expected levels of capacity and efficiency and catastrophic events such as explosions, fires, earthquakes, floods, landslides or other similar events beyond our control. A casualty occurrence might result in injury or loss of life, extensive property damage or environmental damage. Liabilities incurred, and interruptions to the operation of our gas distribution, pipeline or storage system caused by such an event, could reduce revenues generated by us and increase our expenses, thereby impairing our ability to meet our obligations and to make payments under our existing debt and the notes.

Terrorism and the uncertainty of war may restrict our future growth and reduce our operating results.

Terrorist attacks, such as the attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, and future war or risk of war may reduce our results of operations, limit our ability to raise capital and restrict our future growth. The impact that possible terrorist attacks may have on our industry in general, and on us in particular, is not known at this time but could lead to increased volatility in gas rates. Uncertainty surrounding the current military action in Iraq, future military strikes or sustained military campaigns may impact our operations in unpredictable ways, including disruptions of gas supplies and markets, and the possibility that infrastructure facilities, including pipelines, processing plants and storage facilities, could be direct targets of, or indirect casualties of, an act of terror. Terrorist activity may also hinder our ability to transport and deliver gas if transportation facilities or pipelines become damaged as a result of an attack. In addition, war or risk of war may create a downturn in the economy in our service territory. A lower level of economic activity could result in a decline in energy consumption which could reduce our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism or war also could limit our ability to raise capital.

You may not be able to seek remedies against Arthur Andersen LLP, our former independent accountants, with respect to our financial statements that were audited by Arthur Andersen.

On May 28, 2002, we appointed PricewaterhouseCoopers LLP to serve as our independent certified public accountant for fiscal year 2002 after previously dismissing Arthur Andersen. On June 15, 2002, Arthur Andersen LLP, our former independent certified public accountant, was convicted of federal obstruction of justice arising from the government's investigation of Enron Corp. Arthur Andersen had audited our financial statements for the fiscal years ended December 31, 2000 and December 31, 2001. Purchasers of the notes may have no effective remedy against Arthur Andersen in connection with a material misstatement or omission in those financial statements.

Risks Relating to the Notes

The notes are structurally subordinated to all existing and future liabilities of our subsidiaries.

The notes are our general unsecured, senior obligations and thus are structurally subordinated to all of our subsidiaries' existing or future debt and other obligations, whether or not secured. Our subsidiaries generated 17.8% of our consolidated revenues for the nine months ended September 30, 2003 and held 19.3% of our consolidated total assets as of September 30, 2003. At September 30, 2003, our subsidiaries had total liabilities of $23.2 million, excluding intercompany liabilities, of which $5.6 million were trade payables. Our subsidiaries are only limited in their ability to incur debt by the provisions that we have in our indentures and credit agreement governing our existing debt, which are on a consolidated basis, and are not subject to separate restrictions, and there are no limitations on the amount of trade payables incurred by our subsidiaries. In the event of a bankruptcy, liquidation or reorganization of our subsidiaries, our subsidiaries will be obligated to pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us, thus limiting our funds available to pay any amounts due on the notes.

We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture governing the notes.

Upon specific events constituting a change of control, as that term is defined in the indenture governing the notes, we will be required to make an offer in cash to repurchase all or any part of each holder's notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, to the date of repurchase. We cannot assure you that there will be sufficient funds available for us to make the required repurchase of notes at the time of the change

of control. If we fail to repurchase the notes in that circumstance, we will go into default under the indenture governing the notes, the indentures governing our existing debt (including the outstanding notes) and our credit facility. Any future debt which we incur may also contain restrictions on repayment upon a change of control. If any change of control occurs, we cannot assure you that we will have sufficient funds to satisfy all of our debt obligations. You may not be able to determine when we have entered into a transaction that constitutes a change of control, and as a result of this uncertainty, it may be difficult for you to determine whether we have violated any of our covenants under the indenture, to declare an event of default and to exercise your acceleration rights. We may disagree as to whether a specific asset sale or sales constitute a change of control event and, in the event you elect to exercise your rights under the indenture and we contest such election, there cannot be any assurance as to the outcome of such dispute. See "Description of Notes—Repurchase at the Option of Holders—Change of Control."

You may have difficulty selling any outstanding notes that you do not exchange.

If you do not exchange your outstanding notes for the new notes offered in this exchange offer, you will continue to be subject to the restrictions on the transfer of your outstanding notes. Those transfer restrictions are described in the indentures governing the outstanding notes and in the legend contained on the outstanding notes, and arose because we originally issued the outstanding notes under exemptions from, and in transactions not subject to, the registration requirements of the Securities Act.

In general, you may offer or sell your outstanding notes only if they are registered under the Securities Act and applicable state securities laws, or if they are offered and sold under an exemption from those requirements. We do not intend to register the outstanding notes under the Securities Act.

If a large number of outstanding notes are exchanged for new notes issued in the exchange offer, it may be more difficult for you to sell your outstanding notes. In addition, if you do not exchange your outstanding notes in the exchange offer, you will no longer be entitled to exchange your outstanding notes for registered notes or to have those outstanding notes registered under the Securities Act. See "The Exchange Offer—Consequences of Failure to Exchange Outstanding Notes" for a discussion of the possible consequences of failing to exchange your notes.

No public market exists for the notes and an active trading market for the new notes may not develop.

The notes are a new issue of securities with no established trading market. We do not intend to list the notes for trading on any national securities exchange or arrange for any quotation system to quote prices for them. We cannot assure you that an active trading market will develop for the notes.

NOTICE TO INVESTORS

The notes described in this prospectus have not been recommended by or approved by the Securities and Exchange Commission, or the SEC, or any other federal or state securities commission or regulatory authority, nor has the SEC or any such state securities commission or authority passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

You should not construe the contents of this prospectus as investment, legal or tax advice. You should consult your counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the notes. We are not making any representation to you regarding the legality of an investment in the notes by you under appropriate legal investment or similar laws.

In making an investment decision regarding the notes offered by this prospectus, you must rely on your own examination of our company and the terms of this exchange offer, including, without

limitation, the merits and risks involved. This exchange offer is being made on the basis of this prospectus.

The information contained in this prospectus has been furnished by us and other sources we believe to be reliable. This prospectus contains summaries, believed to be accurate, of some of the terms of specific documents, but reference is made to the actual documents, copies of which will be made available upon request, for the complete information contained in those documents.

No person is authorized in connection with any exchange offer made by this prospectus to give any information or to make any representation not contained in this prospectus, and, if given or made, any other information or representation must not be relied upon as having been authorized by us. The information contained in this prospectus is as of the date hereof and subject to change, completion or amendment without notice. Neither the delivery of this prospectus at any time nor any subsequent commitment to enter into any financing shall, under any circumstances, create any implication that there has been no change in the information set forth in this prospectus or in our affairs since the date of this prospectus.

FORWARD-LOOKING STATEMENTS

This prospectus contains "forward-looking statements" that are based on current expectations, estimates and projections of SEMCO Energy, Inc. and its subsidiaries. Statements that are not historical facts, including without limitation, statements under the captions "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" and any other statements located elsewhere in this prospectus in each case regarding our outlook, beliefs, plans, goals and expectations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- the effects of weather and other natural phenomena;
- the economic climate and growth in the geographic regions where we do business;
- the capital intensive nature of our business;
- increased competition within the energy industry as well as from alternative forms of energy;
- the timing and extent of changes in commodity prices for natural gas and propane;
- the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates;
- our ability to bid on and win construction contracts;
- the impact of energy prices on the amount of projects and business available to our construction services business;
- the nature, availability and projected profitability of potential investments available to us;
- our ability to remain in compliance with our debt covenants and accomplish our financing objectives in a timely and cost-effective manner in light of changing conditions in the capital markets;

- our ability to operate acquired businesses in accordance with our plans; and

- our ability to effectively execute our strategic plan.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this prospectus. These forward-looking statements speak only as of the date of this prospectus. We do not intend to update these statements unless the securities laws require us to do so.

INDUSTRY AND MARKET DATA

Industry and market data used throughout this prospectus were obtained through internal company research, surveys and studies conducted by third parties and industry and general publications. Although we have not independently verified market and industry data from third-party sources, these publications generally indicate that they have obtained information from sources that they believe are reliable, but that they do not provide any assurance as to the accuracy and completeness of the information. While we believe internal company estimates and market and industry data are reliable, neither such estimates nor such data have been verified by any independent sources.

Purpose of the Exchange Offer

When we sold the outstanding notes, we entered into a registration rights agreement with the initial purchaser of those notes. Under the registration rights agreement, we agreed to file by March 11, 2004 a registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act. This prospectus is a part of the registration statement we have filed to satisfy our obligation. We also agreed to use our reasonable best efforts to cause this registration statement to be declared effective by the SEC by June 9, 2004. We also agreed to use our reasonable best efforts to keep this registration statement effective for at least 30 days (or longer if required by law). Under certain limited circumstances, we have also agreed to file a shelf registration statement to cover resales of the outstanding notes. If we are obligated to file a shelf registration statement, we have agreed to use our reasonable best efforts to file the shelf registration statement on or prior to 45 days after such filing obligation arises and to cause the shelf registration statement to be declared effective on or prior to 105 days after such filing obligation arises. See "Description of Notes—Registration Rights; Additional Interest" for more information on our filing obligations. The registration rights agreement provides that we are required to pay additional interest to the holders of the outstanding notes whose notes are subject to transfer restrictions if any of the following events of registration default occur:

- the registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act or a shelf registration statement registering the outstanding notes has not been filed by the applicable deadline;

- the registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act or a shelf registration statement registering the outstanding notes is not declared effective by the applicable deadline;

- the exchange offer has not been consummated on or before the 30th business day, or longer, if required by the federal securities laws, after the registration statement for the exchange of the outstanding notes for new notes registered under the Securities Act is declared effective; or

- the registration statement required to be filed has been declared effective by the SEC but (A) the registration statement thereafter ceases to be effective or (B) the registration statement or this prospectus ceases to be usable in connection with resales of notes subject to transfer restrictions during the periods specified in the registration rights agreement because either (1) any event occurs as a result of which this prospectus would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein in the light of the circumstances under which they were made not misleading, or (2) it shall be necessary to amend the registration statement or supplement this prospectus, to comply with the Securities Act or the Securities Exchange Act of 1934, as amended, or their respective rules.

Additional interest would accrue on the notes from and including the date on which any such events of registration default described above occur but excluding the date on which all such events have been cured, in an amount equal to $.05 per week per $1,000 principal amount of notes for the first 90-day period immediately following the occurrence of such event. The amount of additional interest would increase by an additional $.05 per week per $1,000 principal amount of notes with respect to each subsequent 90-day period until all such events have been cured, up to a maximum amount of additional interest for all such events of $.50 per week per $1,000 principal amount of notes.

A copy of the registration rights agreement is filed as an exhibit to the registration statement.

Each broker-dealer that receives new notes for its own account in exchange for the outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making

activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. See "Plan of Distribution."

Terms of the Exchange Offer

This prospectus and the accompanying letter of transmittal together constitute the exchange offer. Subject to the terms and conditions in this prospectus and the letter of transmittal, we will accept for exchange outstanding notes which are properly tendered on or before the expiration date and are not withdrawn as permitted below. We have agreed to use our reasonable best efforts to keep this registration statement effective for at least 30 days (or longer if required by law). The expiration date for this exchange offer is 5:00 p.m., New York City time, on February 26, 2004, or such later date and time to which we, in our sole discretion, extend the exchange offer.

The form and terms of the new notes being issued in the exchange offer are the same as the form and terms of the outstanding notes, except that the new notes being issued in the exchange offer:

- will have been registered under the Securities Act;

- will not bear the restrictive legends restricting their transfer under the Securities Act; and

- will not contain the registration rights and additional interest provisions contained in the outstanding notes, as described below in "Description of Notes—Registration Rights; Additional Interest."

Notes tendered in the exchange offer must be in denominations of the principal amount of $1,000 and any integral multiple of $1,000.

We expressly reserve the right, in our sole discretion:

- to extend the expiration date;

- to delay accepting any outstanding notes;

- if any of the conditions set forth below under "—Conditions to the Exchange Offer" has not been satisfied, to terminate the exchange offer and not accept any outstanding notes for exchange; and

- to amend the exchange offer in any manner.

We will give oral or written notice of any extension, delay, non-acceptance, termination or amendment as promptly as practicable by a public announcement, and in the case of an extension, no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

During an extension, all outstanding notes previously tendered will remain subject to the exchange offer and may be accepted for exchange by us. Any outstanding notes not accepted for exchange for any reason will be returned without cost to the holder that tendered them promptly after the expiration or termination of the exchange offer.

Exchange Offer Procedures

When the holder of outstanding notes tenders and we accept outstanding notes for exchange, a binding agreement between us and the tendering holder is created, subject to the terms and conditions in this prospectus and the accompanying letter of transmittal. Except as set forth below, a holder of

outstanding notes who wishes to tender outstanding notes for exchange must, on or prior to the expiration date:

(1)
transmit a properly completed and duly executed letter of transmittal, including all other documents required by such letter of transmittal, to Fifth Third Bank, the exchange agent, at the address set forth below under the heading "—The Exchange Agent;" or

(2)
if outstanding notes are tendered pursuant to the book-entry procedures set forth below, the tendering holder must transmit an agent's message to the exchange agent at the address set forth below under the heading "—The Exchange Agent."

In addition, one of the following must occur on or prior to the expiration date:

(1)
the exchange agent must receive the certificates for the outstanding notes and the letter of transmittal;

(2)
the exchange agent must receive a timely confirmation of the book-entry transfer of the outstanding notes being tendered into the exchange agent's account at the Depository Trust Company, or DTC, along with the letter of transmittal or an agent's message; or

(3)
the holder must comply with the guaranteed delivery procedures described below.

The term "agent's message" means a message, transmitted to DTC and received by the exchange agent and forming a part of a book-entry transfer, referred to as a "book-entry confirmation," which states that DTC has received an express acknowledgment that the tendering holder agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against such holder.

The method of delivery of the outstanding notes, the letters of transmittal and all other required documents is at the election and risk of the holders. If such delivery is by mail, we recommend registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. No letters of transmittal or notes should be sent directly to us.

Signatures on a letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed unless the outstanding notes surrendered for exchange are tendered:

(1)
by a holder of outstanding notes who has not completed the box entitled "Special Issuance Instructions" or "Special Delivery Instructions" on the letter of transmittal; or

(2)
for the account of an eligible institution.

An "eligible institution" is a firm which is a member of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States.

If signatures on a letter of transmittal or notice of withdrawal are required to be guaranteed, the guarantor must be an eligible institution. If outstanding notes are registered in the name of a person other than the signer of the letter of transmittal, the outstanding notes surrendered for exchange must be endorsed by, or accompanied by a written instrument or instruments of transfer or exchange, in satisfactory form as determined by us in our sole discretion, duly executed by the registered holder with the holder's signature guaranteed by an eligible institution.

We will determine all questions as to the validity, form, eligibility (including time of receipt) and acceptance of outstanding notes tendered for exchange in our sole discretion. Our determination will be final and binding. We reserve the absolute right to:

(1)
reject any and all tenders of any outstanding note improperly tendered;

(2)
refuse to accept any outstanding note if, in our judgment or the judgment of our counsel, acceptance of the outstanding note may be deemed unlawful;

(3)
waive any defects or irregularities as to any particular outstanding note either before or after the expiration date; and

(4)
waive any conditions of the exchange offer before the expiration date, including the right to waive the ineligibility of any class of holders that seek outstanding notes in the exchange offer.

If such waiver described above constitutes a material change, such waiver must occur 5 business days prior to the expiration of the offer.

Our interpretation of the terms and conditions of the exchange offer as to any particular notes either before or after the expiration date, including the letter of transmittal and the instructions to it, will be final and binding on all parties. Holders must cure any defects and irregularities in connection with tenders of notes for exchange within such reasonable period of time as we will determine, unless we waive such defects or irregularities. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of us incur any liability for failure to give such notification.

If a person or persons other than the registered holder or holders of the outstanding notes tendered for exchange signs the letter of transmittal, the tendered outstanding notes must be endorsed or accompanied by appropriate powers of attorney, in either case signed exactly as the name or names of the registered holder or holders that appear on the outstanding notes.

If trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity sign the letter of transmittal or any notes or any power of attorney, such persons should so indicate when signing, and you must submit proper evidence satisfactory to us of such person's authority to so act unless we waive this requirement.

By tendering, each holder will represent to us that, among other things, the person acquiring new notes in the exchange offer is obtaining them in the ordinary course of its business, whether or not such person is the holder, and that neither the holder nor such other person has any arrangement or understanding with any person to participate in the distribution of the new notes. If any holder or any such other person is an "affiliate," as defined in Rule 405 under the Securities Act, of our company, or is engaged in or intends to engage in or has an arrangement or understanding with any person to participate in a distribution of the new notes, such holder or any such other person:

(1)
may not rely on the applicable interpretations of the staff of the SEC; and

(2)
must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

Each broker-dealer that receives new notes for its own account in exchange for the outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such new notes. See "Plan of Distribution."

Acceptance of Outstanding Notes for Exchange; Delivery of New Notes Issued in the Exchange Offer

Upon satisfaction or waiver of all of the conditions to the exchange offer, we will accept, promptly after the expiration date, all outstanding notes properly tendered and will issue new notes registered under the Securities Act. For purposes of the exchange offer, we will be deemed to have accepted properly tendered outstanding notes for exchange when, as and if we have given oral or written notice to the exchange agent, with written confirmation of any oral notice to be given promptly thereafter. See "—Conditions to the Exchange Offer" for a discussion of the conditions that must be satisfied before we accept any notes for exchange.

For each outstanding note accepted for exchange, the holder will receive a new note registered under the Securities Act having a principal amount equal to, and in the denomination of, that of the surrendered outstanding note. Accordingly, registered holders of new notes that are outstanding on the relevant record date for the first interest payment date following the consummation of the exchange offer will receive interest accruing from the issue date of the outstanding notes, or, if interest has been paid, the most recent date to which interest has been paid. Outstanding notes that we accept for exchange will cease to accrue interest from and after the date of consummation of the exchange offer. Under the registration rights agreement, we may be required to make additional payments in the form of additional interest to the holders of the outstanding notes under circumstances relating to the timing of the exchange offer.

In all cases, we will issue new notes in the exchange offer for outstanding notes that are accepted for exchange only after the exchange agent timely receives:

(1)
certificates for such outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent's account at DTC;

(2)
a properly completed and duly executed letter of transmittal or an agent's message; and

(3)
all other required documents.

If for any reason set forth in the terms and conditions of the exchange offer we do not accept any tendered outstanding notes, or if a holder submits outstanding notes for a greater principal amount than the holder desires to exchange, we will return such unaccepted or non-exchanged outstanding notes without cost to the tendering holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC, such non-exchanged outstanding notes will be credited to an account maintained with DTC. We will return the outstanding notes or have them credited to DTC promptly after the expiration or termination of the exchange offer.

Book-Entry Transfers

The exchange agent will make a request to establish an account at DTC for purposes of the exchange offer within two business days after the date of this prospectus. Any financial institution that is a participant in DTC's system must make book-entry delivery of outstanding notes by causing DTC to transfer the outstanding notes into the exchange agent's account at DTC in accordance with DTC's procedures for transfer. Such participant should transmit its acceptance to DTC on or prior to the expiration date or comply with the guaranteed delivery procedures described below. DTC will verify such acceptance, execute a book-entry transfer of the tendered outstanding notes into the exchange agent's account at DTC and then send to the exchange agent confirmation of such book-entry transfer. The confirmation of such book-entry transfer will include an agent's message confirming that DTC has received an express acknowledgment from such participant that such participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against such participant. Delivery of new notes issued in the exchange offer may be effected through book-entry transfer at DTC as applicable. However, the letter of transmittal or facsimile thereof or an agent's message, with any required signature guarantees and any other required documents, must:

(1)
be transmitted to and received by the exchange agent at the address set forth below under "—Exchange Agent" on or prior to the expiration date; or

(2)
comply with the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

If a holder of outstanding notes desires to tender such notes and the holder's notes are not immediately available, or time will not permit such holder's outstanding notes or other required

documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, a tender may be effected if:

(1)
the holder tenders the outstanding notes through an eligible institution;

(2)
prior to the expiration date, the exchange agent receives from such eligible institution a properly completed and duly executed notice of guaranteed delivery, substantially in the form we have provided, by facsimile transmission, mail or hand delivery, setting forth the name and address of the holder of the outstanding notes being tendered and the amount of the outstanding notes being tendered. The notice of guaranteed delivery will state that the tender is being made and guarantee that within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery, the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed letter of transmittal or agent's message with any required signature guarantees and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

(3)
the exchange agent receives the certificates for all physically tendered outstanding notes, in proper form for transfer, or a book-entry confirmation, as the case may be, together with a properly completed and duly executed letter of transmittal or agent's message with any required signature guarantees and any other documents required by the letter of transmittal, within three New York Stock Exchange trading days after the date of execution of the notice of guaranteed delivery.

Withdrawal Rights

You may withdraw tenders of your outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, you must send via telegram, telex, facsimile or transmission letter, a written notice of withdrawal to the exchange agent at one of the addresses set forth below under "—Exchange Agent." Any such notice of withdrawal must:

(1)
specify the name of the person having tendered the outstanding notes to be withdrawn;

(2)
include a statement that the holder of the outstanding notes is withdrawing such holder's election to have such outstanding notes exchanged;

(3)
identify the outstanding notes to be withdrawn, including the principal amount of such outstanding notes; and

(4)
where certificates for outstanding notes are transmitted, specify the name in which outstanding notes are registered, if different from that of the withdrawing holder.

If certificates for outstanding notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an eligible institution unless such holder is an eligible institution. If outstanding notes have been tendered pursuant to the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at DTC to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of such facility. We will determine all questions as to the validity, form and eligibility (including time of receipt) of such notices and our determination will be final and binding on all parties. Any tendered outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any outstanding notes which have been tendered for exchange but which are not exchanged for

any reason will be returned to the holder of those notes without cost to the holder. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at DTC, the outstanding notes withdrawn will be credited to an account maintained with DTC for the outstanding notes. The outstanding notes will be returned or credited to this account promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn notes may be retendered by following one of the procedures described under "—Exchange Offer Procedures" above at anytime on or prior to 5:00 p.m., New York City time, on the expiration date.

Conditions to the Exchange Offer

We are not required to accept for exchange, or to issue new notes in the exchange offer for, any outstanding notes. We may terminate or amend the exchange offer at any time before the acceptance of outstanding notes for exchange if:

(1)
any federal law, statute, rule or regulation is adopted or enacted which, in our judgment, would reasonably be expected to impair our ability to proceed with the exchange offer;

(2)
any stop order is threatened or is in effect with respect to either (i) the registration statement of which this prospectus constitutes a part or (ii) the qualification of the indentures under the Trust Indenture Act of 1939, as amended;

(3)
there is a change in the current interpretation by staff of the SEC which permits the new notes issued in the exchange offer in exchange for the outstanding notes to be offered for resale, resold and otherwise transferred by such holders, other than broker-dealers and any such holder which is an "affiliate" of our company within the meaning of Rule 405 under the Securities Act, without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that the new notes acquired in the exchange offer are acquired in the ordinary course of such holder's business and such holder has no arrangement or understanding with any person to participate in the distribution of the new notes;

(4)
there is a general suspension of or general limitation on prices for, or trading in, securities on any national exchange or in the over-the-counter market;

(5)
any governmental agency creates limits that adversely affect our ability to complete the exchange offer;

(6)
there is any declaration of war, armed hostilities or other similar international calamity directly or indirectly involving the United States, or the worsening of any such condition that existed at the time that we commence the exchange offer;

(7)
there is a change or a development involving a prospective change in our business, properties, assets, liabilities, financial condition, operations or results of operations taken as a whole, that is or may be adverse to us; or

(8)
we become aware of facts that, in our reasonable judgment, have or may have adverse significance with respect to the value of the outstanding notes or the new notes to be issued in the exchange offer.

The preceding conditions are for our sole benefit and we may assert them regardless of the circumstances giving rise to any such condition. We may waive the preceding conditions in whole or in part at any time and from time to time in our sole discretion. If we do so, the exchange offer will remain open for at least five business days following any waiver of the preceding conditions. Our failure at any time to exercise the foregoing rights will not be deemed a waiver of any such right and each such right will be deemed an ongoing right which we may assert at any time and from time to time.

The Exchange Agent

Fifth Third Bank has been appointed as our exchange agent for the exchange offer. All executed letters of transmittal should be directed to our exchange agent at the address set forth below. Questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery should be directed to the exchange agent addressed as follows:

Main Delivery To:
Fifth Third Bank
By mail, hand delivery or overnight courier:
Attention: Geoffrey Anderson
Corporate Trust Department
(MD 10AT60)
Fifth Third Bank
38 Fountain Square Plaza
Cincinnati, OH 45202

By facsimile transmission:
(for eligible institutions only)
(513) 534-6398
Confirm by telephone:
(513) 534-8189

Delivery of the letter of transmittal to an address other than as set forth above or transmission of such letter of transmittal via facsimile other than as set forth above does not constitute a valid delivery of such letter of transmittal.

Fees and Expenses

We will not make any payment to brokers, dealers or others soliciting acceptance of the exchange offer except for reimbursement of mailing expenses. We will pay the cash expenses to be incurred in connection with the exchange offer, including:

- SEC registration fees;
- fees and expenses of the exchange agent and trustee;
- accounting and legal fees;
- printing fees; and
- related fees and expenses.

Transfer Taxes

Holders who tender their outstanding notes for exchange will not be obligated to pay any transfer taxes in connection with the exchange. If, however, new notes issued in the exchange offer are to be delivered to, or are to be issued in the name of, any person other than the holder of the outstanding notes tendered, or if a transfer tax is imposed for any reason other than the exchange of outstanding notes in connection with the exchange offer, then the holder must pay any of these transfer taxes, whether imposed on the registered holder or on any other person. If satisfactory evidence of payment

of, or exemption from, these taxes is not submitted with the letter of transmittal, the amount of these transfer taxes will be billed directly to the tendering holder.

Consequences of Failure to Exchange Outstanding Notes

Holders who desire to tender their outstanding notes in exchange for new notes registered under the Securities Act should allow sufficient time to ensure timely delivery. Neither the exchange agent nor we are under any duty to give notification of defects or irregularities with respect to the tenders of outstanding notes for exchange.

Outstanding notes that are not tendered or are tendered but not accepted will, following the consummation of the exchange offer, continue to be subject to the provisions in the indentures, regarding the transfer and exchange of the outstanding notes and the existing restrictions on transfer set forth in the legend on the outstanding notes and in the offering memorandum dated December 12, 2003, relating to the outstanding notes. Except in limited circumstances with respect to specific types of holders of outstanding notes as described in "Description of Notes—Registration Rights; Additional Interest," we will have no further obligation to provide for the registration under the Securities Act of such outstanding notes. In general, outstanding notes, unless registered under the Securities Act, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently anticipate that we will take any action to register the outstanding notes under the Securities Act or under any state securities laws.

Upon completion of the exchange offer, holders of the outstanding notes will not be entitled to any further registration rights under the registration rights agreement, except under limited circumstances.

Holders of the new notes and any outstanding notes which remain outstanding after consummation of the exchange offer will vote together as a single class for purposes of determining whether holders of the requisite percentage of each class have taken certain actions or exercised certain rights under the indentures. See "Description of Notes."

Consequences of Exchanging Outstanding Notes

Based on interpretations of the staff of the SEC, as set forth in no-action letters to third parties, we believe that the new notes may be offered for resale, resold or otherwise transferred by holders of those new notes, other than by any holder which is our "affiliate" within the meaning of Rule 405 under the Securities Act. The new notes may be offered for resale, resold or otherwise transferred without compliance with the registration and prospectus delivery provisions of the Securities Act, if:

(1)
the new notes issued in the exchange offer are acquired in the ordinary course of the holder's business; and

(2)
the holder, other than broker-dealers, has no arrangement or understanding with any person to participate in the distribution of the new notes issued in the exchange offer.

However, the SEC has not considered the exchange offer in the context of a no-action letter and we cannot guarantee that the staff of the SEC would make a similar determination with respect to the exchange offer as in such other circumstances.

Each holder, other than a broker-dealer, must furnish a written representation, at our request, that:

(1)
it is not an affiliate of ours;

(2)
it is not engaged in, and does not intend to engage in, a distribution of the notes issued in the exchange offer and has no arrangement or understanding to participate in a distribution of notes issued in the exchange offer;

(3)
it is acquiring the new notes issued in the exchange offer in the ordinary course of its business; and

(4)
it is not acting on behalf of a person who could not make representations (1)-(3).

Each broker-dealer that receives new notes for its own account in exchange for outstanding notes must acknowledge that:

(1)
such outstanding notes were acquired by such broker-dealer as a result of market-making or other trading activities; and

(2)
it must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction, including the delivery of a prospectus that contains information with respect to any selling holder required by the Securities Act in connection with any resale of new notes issued in the exchange offer.

Furthermore, any broker-dealer that acquired any of its outstanding notes directly from us:

(1)
may not rely on the applicable interpretation of the SEC staff's position contained in Exxon Capital Holdings Corp., SEC No-Action Letter (April 13, 1989), Morgan, Stanley & Co., Inc., SEC No-Action Letter (June 5, 1991) and Shearman & Sterling, SEC No-Action Letter (July 2, 1993); and

(2)
must also be named as a selling holder of the new notes in connection with the registration and prospectus delivery requirements of the Securities Act relating to any resale transaction.

See "Plan of Distribution" for a discussion of the exchange and resale obligations of broker-dealers in connection with the exchange offer.

In addition, to comply with state securities laws of certain jurisdictions, the new notes issued in the exchange offer may not be offered or sold in any state unless they have been registered or qualified for sale in such state or an exemption from registration or qualification is available and complied with by the holders selling the new notes. We have agreed in the registration rights agreement that, prior to any public offering of transfer restricted notes, we will register or qualify or cooperate with the holders of the new notes and their respective counsel in connection with the registration or qualification of the notes for offer and sale under the securities laws of those states as any holder of the notes reasonably requests in writing. Unless a holder requests, we currently do not intend to register or qualify the sale of the new notes in any state where an exemption from registration or qualification is required and not available.

USE OF PROCEEDS

We will not receive any proceeds from the exchange offer. In consideration for issuing the new notes as contemplated in this prospectus, we will receive in exchange outstanding notes in like principal amount. We will cancel all outstanding notes exchanged for new notes in the exchange offer.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2003, on an actual basis and as adjusted to give effect to the Offering and the application of the net proceeds therefrom. You should read this table in conjunction with our audited consolidated financial statements and the related notes thereto for and as of the years ended December 31, 2000, 2001 and 2002 and our unaudited consolidated financial statements and the related notes thereto for and as of the nine months ended September 30, 2002 and 2003, which are included elsewhere in this prospectus.

	As of September 30, 2003	
	Actual	As Adjusted
	(in thousands of dollars)	
Cash and temporary cash investments, at cost	$ 4,190	$ 4,190
Short-term debt	$ 103,831	$ 53,207
Capitalization:		
Long-term debt:		
7.125% notes due 2008	$ 150,000	$ 150,000
6.49% notes due 2009	30,000	30,000
8.00% notes due 2010	30,652	30,652
7.75% notes due 2013	135,036	187,161
8.00% notes due 2016	59,748	59,748
6.50% medium-term notes due 2005	15,000	15,000
6.40% medium-term notes due 2008	5,000	5,000
7.03% medium-term notes due 2013	10,000	10,000
10.25% Trust preferred securities (a)	40,000	40,000
3.77% Trust preferred securities (a)	89	89
	$ 475,525	$ 527,650
Common shareholders' equity	$ 172,667	$ 172,667
Total capitalization	$ 648,192	$ 700,317

(a)
Prior to July 1, 2003, the trust preferred securities were reported as a separate line item between long-term debt and common shareholders' equity. For periods after July 1, 2003, the trust preferred securities are reflected in the long-term debt section in compliance with SFAS No. 150.

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary of selected consolidated financial information for the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and for the nine months ended September 30, 2002 and 2003 was derived from, and should be read in conjunction with, our audited financial statements and our unaudited financial statements and their respective related notes thereto included elsewhere in this prospectus. You should read the selected consolidated financial data below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the related notes thereto for and as of the years ended December 31, 1998, 1999, 2000, 2001 and 2002 and our unaudited consolidated financial statements and the related notes thereto for and as of the nine months ended September 30, 2002 and 2003, which are included elsewhere in this prospectus.

	Year ended December 31,					Nine Months ended September 30,	
	1998	1999	2000	2001	2002	2002	2003
	(in thousands of dollars, except per share amounts)						
Statement of Operations Data:							
Operating revenue	$ 596,548	$ 369,922	$ 410,325	$ 445,823	$ 480,965	$ 334,704	$ 379,863
Operating expenses:							
Cost of gas sold	109,388	117,789	161,945	184,973	220,422	139,367	213,873
Cost of gas marketed	386,691	95,632	—	—	—	—	—
Operations and maintenance	55,064	85,696	140,236	162,289	156,653	121,131	99,434
Depreciation and amortization	15,167	19,742	33,051	36,505	35,337	26,487	26,749
Property and other taxes	8,981	8,660	9,860	11,562	11,844	9,105	8,961
Goodwill impairment charge						—	17,649
Restructuring and asset impairment charges	—	—	—	6,103	—	—	2,825
Total operating expenses	575,291	327,519	345,092	401,432	424,256	296,090	369,491
Operating income	21,257	42,403	65,233	44,391	56,709	38,614	10,372
Other income (deductions)	(8,986)(1)	(16,750)	(32,077)	(29,449)	(29,030)	(21,374)	(51,178)(2)
Income (loss) before income taxes and minority interest	12,271	25,653	33,156	14,942	27,679	17,240	(40,806)
Income taxes	5,188	7,631	11,554	6,578	10,139	(6,428)	10,308
Minority interest—dividends on company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc., net of income taxes(6)	—	—	5,004	8,603	8,601	(6,451)	(4,300)
Income (loss) from continuing operations	7,083	18,022	16,598	(239)	8,939	4,361	(34,798)
Income (loss) from discontinued operations	2,957 (3)(4)	(363)	95	(6,122)	10	—	—
Net income (loss) available to common shareholders	10,040 (1)	17,659	16,693	(6,361)	8,949	4,361	(34,798)(2)
Common dividends	11,836	15,272	15,033	15,193	10,776	8,447	6,138
Earnings (deficit) reinvested in the business	$ (1,796)	$ 2,387	$ 1,660	$ (21,554)	$ (1,827)	$ (4,086)	$ (40,936)
Other Data:							
Income (loss) from continuing operations per common share	$ 0.45	$ 1.02	$ 0.89	$ (0.01)	$ 0.48	$ 0.24	$ (1.71)
Cash dividends declared per common share	$ 0.80	$ 0.87	$ 0.84	$ 0.84	$ 0.50	$ 0.25	$ 0.20

	As of December 31,				As of September 30,	
	1999	2000	2001	2002	2002	2003
	(in thousands of dollars)					
Balance Sheet Data:						
Total assets	$ 815,183	$ 851,223	$ 863,548	$ 876,514	$ 851,501	$ 914,832
Capitalization:						
Long-term debt(5)(6)	170,000	307,930	368,966	366,026	366,323	475,525
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries(6)	—	139,374	139,394	139,436	139,426	—
Common equity	142,340	135,472	113,810	110,022	112,476	172,667
Total capitalization(5)	$ 312,340	$ 582,776	$ 622,170	$ 615,484	$ 618,225	$ 648,192

(1)
Includes a gain of $1,708 (net of tax) or $.11 per share from the sale of the NOARK Investment.

(2)
Includes expense of $15.6 million (net of tax) or $0.77 per share for debt exchange and extinguishment costs.

(3)
Includes $499 (net of tax) or $.03 per share, attributable to extraordinary losses on the early extinguishment of debt.

(4)
Includes income at $1,784 (net of tax) or $.11 per share attributable to a change in accounting method.

(5)
Includes current maturities of long-term debt.

(6)
Prior to July 1, 2003, the trust preferred securities were reported as a separate line item between long-term debt and common shareholders' equity. For periods after July 1, 2003, the trust preferred securities are reflected in long-term debt and the related dividends are included in interest expenses in compliance with SFAS No. 150.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements and the related notes for and as of the years ended December 31, 2002, 2001 and 2000 and the unaudited consolidated financial statements and the related notes thereto for and as of the nine months ended September 30, 2002 and 2003, which are included elsewhere in this prospectus.

Overview

We are a diversified energy and infrastructure services company, headquartered in southeastern Michigan. Our two primary businesses are: (1) a regulated gas distribution business with operations in Michigan and Alaska; and (2) an unregulated diversified business group with operations in construction services; propane, pipelines and storage; and IT services. Our gas distribution operations in Michigan and Alaska operate as divisions of SEMCO Energy while our diversified business operations are organized as subsidiaries of SEMCO Energy which are listed below:

- Aretech Information Services, Inc., which provides IT services

- Hotflame Gas, Inc., which distributes propane

- EnStructure Corporation (formerly known as Sub-Surface Resources, Inc. and NATCOMM, Inc.) and its wholly-owned subsidiaries, which provide construction services

- SEMCO Energy Ventures, Inc. and its wholly-owned subsidiaries, which provide natural gas storage and pipeline services

We had total consolidated operating revenues, EBITDA (as defined in "Prospectus Summary—Summary Consolidated Financial Data") and operating income for the year ended December 31, 2002 of $481.0 million, $95.8 million and $56.7 million, respectively, and for the nine months ended September 30, 2003 of $379.9 million, $15.2 million and $10.4 million, respectively. Operating revenues, EBITDA and operating income, including intercompany transactions, from our gas distribution business for the year ended December 31, 2002 were $364.7 million, $85.0 million and $59.1 million, respectively, and for the nine months ended September 30, 2003 were $319.9 million, $56.9 million and $37.6 million, respectively. Operating revenues and operating income (loss), including intercompany transactions, from our diversified business group for the year ended December 31, 2002 were $135.9 million and $0.5 million, respectively, and for the nine months ended September 30, 2003 were $73.0 million and $(24.8) million, respectively. For the twelve months ended September 30, 2003, our EBITDA was $44.0 million.

Gas Distribution Business. We purchase, transport and distribute natural gas to approximately 385,000 residential, commercial and industrial customers in Michigan and Alaska.

SEMCO Gas provides natural gas and associated services and products to more than 272,000 combined residential, commercial and industrial customers in Michigan.

ENSTAR is the sole provider of natural gas distribution services to more than 111,000 customers in the Anchorage, Alaska metropolitan and adjoining areas.

Diversified Business Group. Our diversified business group includes: (1) construction services; (2) propane, pipelines and storage; and (3) IT services. All three of our unregulated business segments are complementary to our core gas distribution operations.

Rating. On March 18, 2003, Moody's downgraded our ratings and continued to review us for possible downgrade. Moody's downgraded the rating of our senior unsecured debt from Baa3 to Ba2 and our subordinated debt from Ba1 to Ba3. Moody's cited as reasons for our downgrade the following

factors: high leverage, weak capitalization, low profitability and cash flow relative to our debt and refinancing risk relating to the redemption of our 8.95% Remarketable or Redeemable Securities due 2008, or the ROARS, which were outstanding at the time of the Moody's downgrading but were subsequently retired in May 2003. Moody's indicated that further rating action would result if we were unsuccessful in refinancing the ROARS, if our construction services business fails to turn around or our credit measures continue to be weak. On May 23, 2003, Moody's confirmed our senior unsecured debt ratings at Ba2 with a stable outlook. On October 2, 2003, Moody's confirmed the credit rating on our senior unsecured debt at Ba2 and changed the outlook to negative. On June 20, 2003, S&P lowered our corporate credit rating from BBB- to BB and senior unsecured debt rating from BBB- to BB, with a negative outlook. S&P cited as reasons for our downgrade the continuance of unseasonably warm weather without weather normalization adjustments, the inability of the gas distribution business to produce sufficient cash flow from continuing operations, higher-risk, nonregulated operations that continue to fail to produce cash flow commensurate with their risk profiles, a highly leveraged balance sheet and limited room for additional reductions in capital expenditures, among others. See "Prospectus Summary—Recent Events and Other Matters" and "Risk Factors—Our credit rating has been recently lowered and any additional reductions in our credit rating may negatively affect our cost of, and possibly our access to, capital."

Consolidated Results of Operations

We had net losses of $24.8 million and $34.8 million for the three months and nine months ended September 30, 2003, respectively, compared to a net loss of $7.0 million and net income of $4.4 million for the three months and nine months ended September 30, 2002, respectively.

The most significant items contributing to the losses for both the three months and nine months ended September 30, 2003 were a $17.6 million charge ($15.6 million, net of taxes) for impairment of goodwill at our construction services business and a $2.8 million charge ($1.8 million, net of taxes) for the impairment of equipment. Refer to Note 1 of the Condensed Notes to the Unaudited Consolidated Financial Statements for further information. The results for the nine months ended September 30, 2003 also include an expense of $24.0 million ($15.6 million, net of taxes) incurred in the second quarter of 2003 for debt exchange and extinguishment costs. For further information on debt exchange and extinguishment costs, refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements. The other primary factors contributing to the decrease in earnings were an increase in operating losses (exclusive of the impairment charges discussed above) at our construction services business and an increase in interest expense, as discussed in greater detail on the following pages.

We had a net loss of $30.2 million for the twelve months ended September 30, 2003 compared to a net loss of $1.1 million for the twelve months ended September 30, 2002. The results for the twelve months ended September 30, 2003 include the impact of the goodwill impairment and asset impairment charges, the debt exchange and extinguishment costs, an increase in interest expense and an increase in operating loss from the construction services business, as discussed above. The results for the twelve months ended September 30, 2002 include several unusual items, which reduced net income by $10.8 million. The unusual items include losses from discontinued operations, restructuring charges, asset impairment charges and other unusual items, which were recorded in the fourth quarter of 2001. Refer to Note 14 of the Notes to our Consolidated Financial Statements for further information regarding these unusual items.

Our largest business segment, natural gas distribution, is seasonal in nature and depends on the winter months for the majority of its operating revenue. As a result, a substantial portion of our annual income is earned during the first and fourth quarters of the year. In addition, our construction services business segment is also seasonal in nature and earns most of its income during the summer and fall months and incurs losses during the winter and spring months. Therefore, our results of operations for

the three and nine months ended September 30, 2003 and 2002 are not necessarily indicative of results for a full year.

We had net income of $8.9 million for 2002, a net loss of $6.4 million for 2001 and net income of $16.7 million for 2000. The results for all three years include amounts associated with discontinued operations, and 2001 includes several other unusual items, such as restructuring charges and asset impairments. Income (loss) from continuing operations was $8.9 million, $(0.2) million and $16.6 million for 2002, 2001 and 2000, respectively. The business segment analyses and other discussions on the next several pages provide further information regarding the differences in operating results when comparing 2001 to 2002 and 2002 to 2003.

As discussed above, our operating results include unusual items, including losses associated with discontinued operations, restructuring charges and asset impairments. Operating results, net of income taxes, from the discontinued operations were $(1.1) million and $0.1 million for 2001 and 2000, respectively. In the fourth quarter of 2001, we also recorded a loss of $5.0 million, net of income taxes, for the estimated loss we expected to incur on the disposal of our engineering business segment, including estimated losses from operations during the phase-out period. In November 2002, we sold our engineering services business. There was a difference of $10,000 between the actual losses and the estimated losses, which is included in discontinued operations for 2002. For more information on the impact of discontinued operations on our results of operations, refer to Note 14 of the Notes to the Consolidated Financial Statements. Unusual charges, excluding amounts relating to discontinued operations, reduced net income by $5.1 million, or $0.28 per share, in 2001. The restructuring charges and asset impairments account for $4.0 million of the charges, net of income taxes, and include severance expense, costs associated with terminating leases, write-downs of certain construction operations and other related expenses associated with the redirection of our business strategy. Other unusual items account for $1.1 million of the charges, net of income taxes, and include the write-off of certain assets and an increase in reserves for certain contingencies.

The Impact of Weather

Our largest business segment is natural gas distribution and, as a result, temperature fluctuations have a significant impact on our operating results. We believe that information about normal temperatures is useful for fully understanding our gas distribution business. Our budgets, forecasts and business plans are prepared by management using expected gas consumption under normal weather conditions as a central assumption. The regulatory bodies which have jurisdiction over the rates charged by our gas distribution business use weather-normalized data to set customer rates and to establish authorized revenue levels.

Temperatures during the third quarter of 2003 were warmer than normal in both Alaska and Michigan. For the nine months ended September 30, 2003, temperatures were warmer than normal in Alaska and colder than normal in Michigan. We have estimated that the variations from normal temperatures in Alaska and Michigan combined, decreased net income by approximately $0.3 million during the third quarter of 2003 and $0.2 million during the nine months ended September 30, 2003.

By comparison, during the three and nine months ended September 30, 2002, temperatures were warmer than normal in both Alaska and Michigan. We have estimated that the variations from normal temperatures in Alaska and Michigan combined, decreased net income by approximately $0.6 million during the third quarter of 2002 and $2.2 million during the nine months ended September 30, 2002.

Weather was approximately 3%, 9% and 6% warmer than normal during 2002, 2001 and 2000, respectively. We have estimated that warmer than normal weather reduced the gas sales margin of our gas distribution business by approximately $5.9 million, $8.4 million and $6.5 million in 2002, 2001 and 2000, respectively. Adjusted for income taxes, the estimated impact would have been $3.6 million, $5.3 million and $3.9 million, respectively.

Summary of our Business Segments

We operate four reportable business segments:

- gas distribution;
- construction services;
- propane, pipelines and storage; and
- IT services.

Refer to Note 5 of the Condensed Notes to the Unaudited Consolidated Financial Statements and Note 11 of the Notes to the Consolidated Financial Statements for further information regarding each business segment and a summary of financial information by business segment.

Three Months, Nine Months and Twelve Months Ended September 30, 2003 Compared to Three Months, Nine Months and Twelve Months Ended September 30, 2002

Gas Distribution

The following table shows our results with respect to our gas distribution business and includes intercompany transactions.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
	(dollars in thousands)					
Gas sales revenues	$ 42,347	$ 34,616	$ 297,025	$ 220,708	$ 411,972	$ 313,689
Cost of gas sold	25,527	20,075	213,873	139,367	294,928	198,595
Gas sales margin	$ 16,820	$ 14,541	$ 83,152	$ 81,341	$ 117,044	$ 115,094
Gas transportation revenue	5,668	5,051	19,781	19,012	26,476	26,567
Other operating revenue	921	807	3,064	2,561	3,852	3,311
Gross margin	$ 23,409	$ 20,399	$ 105,997	$ 102,914	$ 147,372	$ 144,972
Restructuring charges	—	—	—	—	—	1,051
Other operating expenses	22,362	21,089	68,349	64,877	88,685	86,239
Operating income	$ 1,047	$ (690)	$ 37,648	$ 38,037	$ 58,687	$ 57,682
Volumes of gas sold (MMcf)	5,471	5,367	46,016	43,574	67,499	64,039
Volumes of gas transported (MMcf)	12,467	10,213	35,065	33,203	46,783	44,796
Number of customers at end of period	384,930	377,845	384,930	377,845	384,930	377,845
Degree Days						
Alaska	835	820	5,811	6,492	8,711	10,579
Michigan	178	97	4,825	4,140	7,353	6,112
Percent colder (warmer) than normal						
Alaska	(8.5)%	(11.1)%	(10.5)%	(.7)%	(14.1)%	3.3%
Michigan	(3.8)%	(44.6)%	10.0%	(5.4)%	9.2%	(9.7)%

Gas Sales Margin

During the three and nine months ended September 30, 2003, gas sales margin increased by approximately $2.3 million and $1.8 million when compared to the same periods in 2002. The increase during the third quarter of 2003, when compared to the third quarter of 2002 was due primarily to changes in customer rates and gas cost savings (described in more detail below), which increased gas sales margin by approximately $1.8 million. Approximately $0.2 million of the increase during the third

quarter was due to the addition of new customers and approximately $0.1 million was due to an increase in customer gas consumption (discussed in more detail below). The remainder of the increase was due to other miscellaneous factors.

The increase in gas sales margin for the nine months ended September 30, 2003, when compared to the nine months ended September 30, 2002, was due in part to the addition of new customers, which increased gas sales margin by approximately $1.5 million, and an increase in customer gas consumption, which increased gas sales margin by approximately $1.2 million. Approximately $0.3 million of the increase in nine-month results was due to the impact of all remaining customers switching from our aggregated transportation service, or ATS, program back to gas sales service (as more fully discussed below) when the ATS program ended in March 2002. These factors were partially offset by changes in customer rates and gas cost savings which decreased gas sales margin by approximately $1.1 million. The remainder of the change in gas sales margin between the nine-month periods was due to other miscellaneous factors.

During the twelve months ended September 30, 2003, gas sales margin increased by $1.9 million when compared to the same period in 2002. The addition of new customers, an increase in customer gas consumption and customers switching from the ATS program back to general gas service increased gas sales margin by $2.3 million, $1.0 million and $0.7 million, respectively. These items were partially offset by changes in customer rates and gas cost savings, which decreased gas sales margin by approximately $1.6 million. The remainder of the change in gas sales margin when comparing the twelve months ended September 30, 2003 to the twelve months ended September 30, 2002 was due to other miscellaneous factors.

Changes in customer gas rates and gas cost savings directly impact gas sales margin. A reduction in customer rates at ENSTAR was required by an order issued by the RCA. The RCA order was based on an RCA rate review. The rate reduction took effect in September 2002 and generally reduces gas sales margins at ENSTAR by approximately 3.6%. There was an increase in customer rates effective in May 2003, for customers located in our service areas regulated by the MPSC. The rate increase for MPSC customers was the result of a settlement agreement reached with the MPSC. The settlement took effect May 3, 2003 and generally increases annual gas sales margins generated from MPSC customers by approximately 4.8%.

Under the terms of a third-party natural gas supply and management agreement for our Michigan operations, certain gas cost savings were passed through to us. On March 31, 2002, this agreement expired and a new agreement covering our customers located in jurisdictions regulated by the MPSC was executed. This new agreement does not contain similar provisions for gas cost savings. As a result, 65% of the gas cost savings realized during the first three months of 2002 was non-recurring. A new agreement covering our customers located in the jurisdictions regulated by the CCBC includes similar provisions for gas cost savings and is effective from April 1, 2002 through March 31, 2005.

The ATS program for residential customers was effective from April 1, 1999 through March 31, 2002. A program similar to the ATS program, referred to as the Gas Customer Choice Program, was opened to customers on October 1, 2002. These programs provide Michigan residential customers the opportunity to purchase their gas from a third-party supplier, while allowing our gas distribution business to continue charging the existing distribution fees and customer fees. Distribution and customer fees associated with customers who switched to third-party gas suppliers were recorded in gas transportation revenue rather than gas sales revenue because we acted as a transporter for those customers. During 2001 and 2002, certain ATS customers switched back to our general gas sales service because the third-party suppliers they were utilizing stopped participating in the ATS program primarily due to significant fluctuations in the market price of natural gas. When the ATS program for residential customers ended on March 31, 2002, all remaining ATS customers became gas sales customers because they were turned back to us by their third-party gas suppliers. Currently, there are

no third-party gas suppliers providing service under this program in our customer service territories. If any third-party gas supplier in our service territories were to begin participating in the Gas Customer Choice program, we would record the distribution and customer fees associated with such customers as gas transportation revenue rather than gas sales revenue.

Changes in customer gas consumption from one period to the same period of a prior year is attributable primarily to the impact of changes in temperatures between the periods. However, other factors, including energy conservation by customers, the increasing use of more energy-efficient gas furnaces and appliances and the addition of new energy-efficient homes to our gas distribution system, also contribute to changes in customer gas consumption. The impact on gas margin of these additional factors is believed to be fairly small from one period to the next.

Gas Transportation Revenue

For the three and nine months ended September 30, 2003, gas transportation revenue increased by $0.6 million and $0.8 million, respectively, when compared to the same periods ended September 30, 2002. The primary reasons for these increases were due to an increase in standard transportation volumes partially offset by the rate reduction at ENSTAR and the impact of ATS customers switching from the ATS program back to gas sales service in Michigan in the first quarter of 2002. Standard transportation volumes and revenues relate to large volumetric customers that are billed using standard transportation tariffs instead of the monthly service fees used for the ATS program. As discussed above, under the ATS program, we charged ATS customers the same distribution fees and customer fees that were charged to gas sales service customers. Gas transportation revenue decreased by $0.1 million for the twelve months ended September 30, 2003, when compared to the same period ended September 30, 2002. The primary reasons for the decrease were the rate reduction at ENSTAR and the impact of ATS customers switching from the ATS program back to gas sales service in Michigan offset by the items discussed above that contributed to the increase in quarterly and year-to-date results.

Other Operating Revenue

Other operating revenue for the three, nine and twelve months ended September 30, 2003, was $0.9 million, $3.1 million and $3.9 million, respectively, compared to $0.8 million, $2.6 million and $3.3 million for the same periods ended September 30, 2002, respectively. The $0.1 million, $0.5 million and $0.5 million increases for the three, nine and twelve months ended September 30, 2003 were due primarily to an increase in miscellaneous services fees, offset partially by a reduction in ATS balancing fees as a result of remaining ATS customers switching back to gas sales service in the first quarter of 2002. Balancing fees are those fees associated with our cost for maintaining transportation and storage assets used for the daily balancing of supply on our Michigan distribution system. Balancing fees are charged to ATS customers at $0.25 per Mcf.

Operating Expenses

Operating expenses of the gas distribution business for the three months ended September 30, 2003 increased by $1.3 million when compared to the three months ended September 30, 2002. The increase was due to an increase in operating expenses of $1.2 million and an increase in general business taxes of $0.1 million. The increase in operating expenses is due primarily to higher employee benefit costs, including pension expense, health care costs and retiree medical costs, increased commercial insurance costs and uncollectible customer accounts. The increase in general business tax expense is due primarily to property taxes on additional property, plant and equipment placed in service.

During the nine months ended September 30, 2003, operating expenses increased by $3.5 million when compared to the nine months ended September 30, 2002. The increase is comprised of a $3.1 million increase in operating expenses, a $0.1 million increase in depreciation expense and a $0.3 million increase in general business taxes. The $3.1 million increase in operating expenses and $0.3 million increase in business taxes are due primarily to the same factors that caused the increase between the quarterly results. The increase in depreciation expense was due primarily to additional property, plant and equipment placed in service, offset partially by lower depreciation rates approved in the recent MPSC rate case.

Operating expenses for the twelve months ended September 30, 2003 increased by $1.4 million when compared to the twelve months ended September 30, 2002. Offsetting this increase is approximately $1.1 million of restructuring charges included in the results for the twelve months ended September 30, 2002. Excluding this offset, the increase of $2.5 million was due primarily to increases in operating expenses of $2.4 million, depreciation expense of $0.9 million and general business tax expenses of $0.2 million. These increases were offset partially by a decrease in goodwill amortization expense of $1.0 million. The increase in operating expenses, depreciation expense and general business tax expense are due primarily to the items discussed above that contributed to the increases in the three and nine months ended results. The decrease in goodwill amortization was due to its elimination effective January 1, 2002 as a result of the adoption of SFAS 142. For further information on SFAS 142 and its impact on goodwill, see Note 1 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

Construction Services

As discussed previously, in November 2003, our Board of Directors instructed management to pursue the sale of our construction services business.

The following table shows our results with respect to our construction services business and includes intercompany transactions.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Operating revenues	$ 25,860	$ 33,868	$ 60,836	$ 95,973	$ 84,117	$ 128,784
Restructuring & impairment charges	20,474	—	20,474	—	20,474	3,098
Other operating expenses	26,565	33,290	67,062	94,766	93,549	128,410
Operating income (loss)	$ (21,179)	$ 578	$ (26,700)	$ 1,207	$ (29,906)	$ (2,724)

Operating Revenue

The operating revenues of our construction services business for the three and nine months ended September 30, 2003 were $25.9 million and $60.8 million, respectively which represent a $8.0 million and $35.1 million decrease in comparison to the same periods ended September 30, 2002. These decreases are due primarily to a significant reduction in work levels when compared to last year. There has been a reduction of projects in the southern division of our construction services business and the cessation of construction operations in certain unprofitable regions of the mid-western division. During the first and second quarters of last year, the southern division of our construction services business experienced an acceleration of work on projects that had been scheduled for the last half of 2002, which caused a significant increase in revenues during the first and second quarters of 2002. Our construction services business also has bid on numerous projects in 2003 but has not experienced the expected level of success in being awarded these projects due to the intense competition in the industry. Furthermore, several of our construction services business' high-margin customers delayed

projects. In addition, lower work levels in the mid-western division due to cold weather also contributed to the decrease in nine-month revenues. The colder than normal temperatures in the mid-western regions of the United States kept frost levels deep during the entire first quarter of 2003, which inhibited construction activity and lowered productivity levels during that period.

The operating revenues of our construction services business for the twelve-month period ended September 30, 2003 and 2002 were $84.1 million and $128.8 million, respectively. The decrease of $44.7 million was due in part to customers in the mid-western and southern regions of the country delaying projects in the latter part of 2002 in light of the generally depressed economy and their own financial considerations. Contributing also to the decrease were the reasons previously discussed for the decrease in revenues during the year-to-date period ending September 30, 2003.

Operating Income

Our construction services business had an operating loss of $21.2 million and $26.7 million for the three and nine months ended September 30, 2003 compared to operating income of $0.6 million and $1.2 million for the same periods ended September 30, 2002. The results for the three and nine months ended September 30, 2003 include the $17.6 million goodwill impairment charge and the $2.8 million equipment impairment charge discussed previously and in Note 1 of the Condensed Notes to the Unaudited Consolidated Financial Statements. Exclusive of these charges, operating income decreased for the three and nine months ended September 30, 2003 when compared to the three and nine months ended September 30, 2002, by approximately $1.3 million and $7.4 million, respectively. These decreases were due primarily to the same items discussed above which caused the decrease in operating revenues during the three and nine months ended September 30, 2003. The southern division of our construction services business also experienced unprecedented rainfall during the second quarter of 2003, which interrupted work execution for extended periods of time and contributed to the decrease in operating results for the nine months ended September 30, 2003. Also contributing to the decreases were lower margin levels for the three and nine months ended September 30, 2003, due to the competition for the limited supply of available work, as further discussed below.

Our construction services business had an operating loss of $29.9 million for the twelve months ended September 30, 2003, compared to an operating loss of $2.7 million for the twelve months ended September 30, 2002. The decrease of $27.2 million is due primarily to the same items discussed above which caused the decrease in operating revenues for the twelve months ended September 30, 2003. In addition, we experienced lower than expected margins on some of the work performed and higher than anticipated costs on some projects during the twelve months ended September 30, 2003. We believe that the softening economy caused many customers to delay or cancel certain construction projects during 2002, which changed the mix of work available to our construction services business. The mix of work during the twelve months ended September 30, 2003 included more lower margin work at certain business units because of the competition for the limited supply of available work. In addition, the operating performance in certain regions of our construction services business was below our profitability expectations and, therefore, we ceased operations in several of these under performing regions in late 2002 and early 2003. These factors were partially offset by the non-recurrence during the twelve months ended September 30, 2002 of $3.3 million of restructuring charges, impairments and other unusual charges incurred in the fourth quarter of 2001.

Propane, Pipelines and Storage

The following table sets forth our results from our propane, pipelines and storage operations.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Operating revenues	$ 1,198	$ 1,097	$ 5,439	$ 4,751	$ 7,746	$ 6,787
Operating expenses	1,004	870	4,024	3,534	5,602	5,052
Operating income	$ 194	$ 227	$ 1,415	$ 1,217	$ 2,144	$ 1,735

Operating Revenue

The operating revenues of our propane, pipelines and storage business for the three, nine and twelve-month periods ended September 30, 2003 were $1.2 million, $5.4 million and $7.7 million, respectively, compared to $1.1 million, $4.8 million and $6.8 million, respectively, for the same periods ended September 30, 2002. The increases for the three, nine and twelve-month periods were due primarily to higher propane distribution revenues resulting from colder weather in our propane distribution service area, which increased propane sales, and an increase in the market price for propane.

Operating Income

Operating income from our propane, pipelines and storage business for the third quarter of 2003 was essentially unchanged when compared to the same period in 2002. Operating income for the nine and twelve month ended September 30, 2003, when compared to the same periods in 2002, increased by approximately $0.2 million and $0.4 million, respectively. These increases were due primarily to colder weather during the first quarter of 2003 and the fourth quarter of 2002, which increased propane sales and margins. Also contributing to the increase were lower operating expenses and business taxes in 2003, partially offset by an increase in depreciation expense.

Information Technology Services

The following table shows our results with respect to our IT services business and includes intercompany transactions.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Operating revenues	$ 2,253	$ 2,510	$ 6,675	$ 7,088	$ 9,205	$ 9,755
Restructuring charges	—	—	—	—	—	20
Other operating expenses	2,172	2,462	6,217	6,721	8,512	9,290
Operating income	$ 81	$ 48	$ 458	$ 367	$ 693	$ 445

Operating Revenue

Operating revenues for our IT services business for the three months ended September 30, 2003 were $2.3 million compared to $2.5 million for the three months ended September 30, 2002. Of these amounts, $1.7 million and $2.1 million for these same periods, respectively, represent sales to affiliates. Operating revenues for our IT services business for the nine months ended September 30, 2003 were $6.7 million compared to $7.1 million for the nine months ended September 30, 2002. Of these amounts, $5 million and $5.8 million for these same periods, respectively, represent sales to affiliates.

Operating revenues for the twelve months ended September 30, 2003 were $9.2 million, compared to $9.8 million for the twelve months ended September 30, 2002. Of these amounts, $6.8 million and $8.1 million for these same periods, respectively, represent sales to affiliates.

The decreases in operating revenues of $0.3 million, $0.4 million and $0.6 million for the three, nine and twelve months ended September 30, 2003, respectively, when compared to the same periods ended September 30, 2002, were due primarily to fewer special projects with affiliate customers offset partially by an increase in business with non-affiliate customers. We refer to projects that are in addition to a base service contract between Aretech Information Services and SEMCO as special projects.

Operating Income

Operating income for the three months ended September 30, 2003, when compared to the same period ending September 30, 2002, remained largely unchanged. Operating income for the nine months ended September 30, 2003, when compared to the same period ending September 30, 2002, increased by approximately $0.1 million. Operating income for the twelve months ended September 30, 2003 increased by approximately $0.2 million, compared to the same period ended September 30, 2002. The increases for the nine- and twelve-month periods ended September 30, 2003 were due primarily to an increase in business with non-affiliate customers and a decrease in business taxes, offset partially by an increase in depreciation and amortization expense.

Other Income and Deductions

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Other income	$ 835	$ 857	$ 3,002	$ 2,239	$ 3,738	$ 3,369
Interest expense	(12,291)	(7,951)	(29,300)	(23,102)	(37,466)	(31,076)
Debt exchange and extinguishment costs	—	—	(24,030)	—	(24,030)	—
Other deductions	(162)	(163)	(850)	(511)	(1,076)	(1,016)
Total other income (deductions)	$ (11,618)	$ (7,257)	$ (51,178)	$ (21,374)	$ (58,834)	$ (28,723)

Other Income

Other income for the third quarter of 2003 was essentially unchanged when compared to the same period in 2002. Other income for the nine and twelve months ended September 30, 2003 increased by approximately $0.8 million and $0.4 million, respectively, when compared to the same periods ended September 30, 2002. The increases for these periods were due primarily to higher equity earnings in the first half of 2003 and the last quarter of 2002 from an investment in a gas storage partnership and increases in other non-operating income, partially offset by income from an engineering project performed by the gas distribution business for a third-party in the third quarter of 2002 and lower interest income.

Interest Expense

Interest expense for the three, nine and twelve months ended September 30, 2003 increased by $4.3 million, $6.2 million and $6.4 million, respectively, when compared to the same periods ended September 30, 2002. Contributing to these increases is approximately $2.2 million of dividends on company-obligated mandatorily redeemable trust preferred securities recorded in the third quarter of 2003. In compliance with SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," dividends incurred on these securities in periods after July 1, 2003 are reflected in our Consolidated Statement of Operations as interest expense. For further information on SFAS 150 see Note 1 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

The remainder of the increases in interest expense were due primarily to higher long-term debt balances in the second and third quarters of 2003 as a result of the refinancing of the our long-term debt, as discussed below, an increase in bank fees relating to our short-term debt facilities and an increase in amortization expenses for debt issuance costs.

Debt Exchange And Extinguishment Costs

For the nine and twelve months ended September 30, 2003, our Consolidated Statements of Operations reflect $24.0 million of debt exchange and extinguishment costs. In the second quarter of 2003, we completed a refinancing of certain of its long-term debt through the issuance of new senior unsecured notes (which include the outstanding notes) and the exchange and repurchase of existing notes. In connection with the repurchase of existing notes, we paid approximately $24 million for make-whole premiums or similar amounts. For further information regarding the refinancing and the debt exchange and extinguishment costs refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

Other Deductions

Other deductions for the three and twelve months ended September 30, 2003 were essentially unchanged when compared to the same periods ended September 30, 2002. The $0.3 million increase for the nine months ended September 30, 2003, in comparison to the same period ended September 30, 2002, was due to various miscellaneous nonoperating expenses.

Year Ended December 31, 2002 Compared to Years Ended December 31, 2001 and 2000

Gas Distribution

The following table shows our results with respect to our gas distribution business and includes intercompany transactions.

	Year ended December 31,		
	2002	2001	2000
	(dollars in thousands)		
Gas sales revenue	$ 335,655	$ 295,397	$ 273,312
Cost of gas sold	220,422	184,973	161,945
Gas sales margin	115,233	110,424	111,367
Gas transportation revenue	25,707	25,888	30,783
Other operating revenue	3,349	3,080	3,756
Gross margin	144,289	139,392	145,906
Restructuring charges	—	1,051	—
Other operating expenses	85,213	88,004	83,030
Operating income	$ 59,076	$ 50,337	$ 62,876
Volumes of gas sold (MMcf)	65,057	63,127	61,054
Volumes of gas transported (MMcf)	44,921	42,992	48,706
Number of customers at year end	383,298	374,938	367,157
Average number of customers:			
Gas sales customers	375,996	364,442	353,168
Transportation and ATS customers	2,392	5,453	8,253
Total average number of customers	378,388	369,895	361,421
Degree days	7,394	7,038	7,293
Percent colder (warmer) than normal	(3.3)%	(8.6)%	(5.9)%

Gas Sales Margin

During 2002, gas sales margin increased by $4.8 million (or 4%) when compared to 2001. This increase was due primarily to the impact of colder weather in 2002, greater gas cost savings and the

addition of new customers and customers switching from our ATS program back to general gas sales service.

During 2001, gas sales margin decreased by $0.9 million (or 1%) when compared to 2000. This decrease was due primarily to the impact of warmer weather in 2001 and a reduction in gas cost savings, offset partially by the addition of new customers and customers switching from our ATS program back to general gas sales service.

The increase in gas cost savings during 2002, the majority of which occurred in the first quarter of 2002, was due in part to the effective management of our gas supply under certain of our third-party supply and management agreements. Partially offsetting this increase in gas costs savings was a decrease in gas cost savings after March 31, 2002 as a result of reinstating the gas cost recovery pricing mechanism, effective April 1, 2002, for customers subject to the jurisdiction of the MPSC. As a result of reinstating the gas cost recovery pricing mechanism, otherwise called the gas cost recovery, or GCR, pricing mechanism, we no longer retain the gas cost savings on sales to customers located in jurisdictions regulated by the MPSC. A significant portion of the gas cost savings realized during the first quarter of 2002 is non-recurring because it relates to MPSC customers.

Gas cost savings were lower in Michigan during 2001, when compared to 2000, primarily as a result of purchasing gas with higher thermal content during the first half of 2001. During the last half of 2001, the thermal content of purchased gas returned to 2000 levels. An increase in thermal content causes a decrease in gas sales because gas with a higher thermal content requires less volume to produce the same amount of heat. When the thermal content increases, we have to pay more for the gas we purchase but must still sell it based on volume. Other factors contributing to the increase in gas costs in 2001 were the reduction in the release of excess pipeline capacity that had occurred in 2000, which had reduced our 2000 gas costs, and an increase in unaccounted-for gas, which is a commonly used term in the gas distribution industry for gas lost due to leaks, meter problems, the temperature of the gas and a number of other causes.

Gas Transportation Revenue

In 2002, gas transportation revenue decreased by $0.2 million when compared to 2001. The primary factors contributing to this decrease were a decrease in transportation volumes for power companies in Alaska and the impact of ATS customers switching from the ATS program back to gas sales service in Michigan. These items were partially offset by an increase in industrial and commercial transportation volume when compared to 2001.

In 2001, gas transportation revenue decreased by $4.9 million when compared to 2000. This decrease was primarily the result of customers switching from the ATS program back to our general gas sales service and a decrease in standard transportation revenue. The decrease in standard transportation revenue was due to reduced consumption as a result of the softening economy and a few of our industrial and large commercial customers in Michigan switching to alternative fuels earlier in 2001 due to high natural gas prices. Standard transportation revenue is used in this context to distinguish such revenues from those received from customers whose gas is transported under the ATS program. Large volumetric customers are billed using standard transportation tariffs instead of a monthly service charge. Under the ATS program, customers are aggregated to make it advantageous for the supplier to sell gas to smaller volumetric customers when we only provide gas transportation services to such customers. The aggregated group is thus recorded under ATS revenues while stand-alone transportation customers are recorded under standard transportation revenues.

Other Operating Revenue

During 2002, other operating revenue increased by $0.3 million, when compared to 2001. This increase was due primarily to fees on new transmission pipelines in service in Michigan, offset partially by a reduction in ATS balancing fees as a result of ATS customers switching back to general gas sales service. During 2001, other operating revenue decreased by $0.7 million, when compared to 2000. This

decrease was due primarily to a reduction in ATS balancing fees as a result of ATS customers switching back to general gas sales service.

Operating Expenses

During 2002, operating expenses of the gas distribution business decreased by $3.8 million (or 4%) when compared to 2001. A restructuring charge recorded in December 2001, most of which was made up of employee severance expense associated with workforce reductions, accounted for $1.1 million of the decrease for 2002. Amortization expense in 2002 decreased by $3.6 million when compared to 2001. This decrease was due to the elimination of goodwill amortization as a result of the adoption of SFAS 142. Operation and maintenance expense decreased by $1.2 million for the same period due primarily to general cost cutting measures, the decreased workforce and other cost reductions related to our redirected business strategy, offset partially by higher employee benefit costs, including pension expense, health care costs and retiree medical costs, and increased maintenance costs. Property and other taxes increased by $0.3 million in 2002 compared to 2001, due primarily to property taxes on additional property, plant and equipment placed in service. Depreciation expense increased by $1.7 million for the same period, also due to additional property, plant and equipment placed in service.

During 2001, operating expenses of the gas distribution business increased by $6.0 million (or 7%) when compared to 2000. The restructuring charge, discussed above, accounted for $1.1 million of the increase. The 2001 increase also included a $0.9 million increase in depreciation and amortization expense due primarily to additional property, plant and equipment placed in service and a $2.8 million increase in operation and maintenance expenses. The increase in operation and maintenance expenses was due primarily to increased employee-related costs such as health care costs, retiree medical costs and pension expense and increased maintenance costs.

In addition, there was a $1.2 million increase in 2001 compared to 2000 in general business tax expense. This increase was due primarily to property tax reductions recorded in 2000 and higher property taxes in 2001 because of additional property in service. The property tax reductions of $2.1 million in 2000 were based on pending appeals for personal property tax assessments for 1997 through 1999 in Michigan and new property valuation tables approved by the State of Michigan in 1999. We filed the appeals over the past several years on the basis that our Michigan utility property was over-assessed. The new property tax tables approved by the State of Michigan are consistent with our claim regarding our utility property assessments and thus significantly increase the likelihood of recovering the overpaid property taxes. See Note 13 of the Notes to the Consolidated Financial Statements for further information regarding the prior year tax appeals and recoverability of overpaid property taxes.

Construction Services

The following table shows our results with respect to our construction services business for 2002, 2001 and 2000, and includes intercompany transactions.

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Operating revenue	$ 119,254	$ 126,205	$ 105,231
Restructuring and impairment charges	—	3,098	—
Other operating expenses	121,253	124,481	101,555
Operating income (loss)	$ (1,999)	$ (1,374)	$ 3,676
Feet of pipe installed	5,198	7,320	7,969

Operating Revenue

During 2002, our construction services business revenue decreased by $7.0 million (or 6%) when compared to 2001. The decrease during 2002 was due in part to customers in the midwestern region of the United States delaying projects in 2002 in light of the generally depressed economy and their own financial considerations. The decrease was offset by the fact that operating revenue in the southern region of the United States was up significantly during the first half of 2002, due to several large projects in that region. However, during the second half of 2002, customers in the southern region also delayed a number of these projects for the same reasons as their midwestern counterparts.

During 2001, our construction services business operating revenue increased by $21.0 million (or 20%) when compared to 2000. The increase during 2001 was due primarily to several large construction projects in the southeastern region of the United States, as well as increased construction services business revenue in other regions of the country.

Operating Income

The 2001 operating loss of $1.4 million includes $3.3 million of restructuring charges, asset impairments and other unusual charges, including the write-down of goodwill and fixed assets of certain construction operations, severance expense and other related charges.

The decrease in 2002 when compared to 2001, is due primarily to reduced construction activity during all of 2002 in the midwestern region of the United States and during the last half of 2002 in the southern region of the United States. In addition, we experienced lower than expected margins on some of the work performed and higher than anticipated costs on some projects. Management believes that the softening economy had caused many customers to delay or cancel certain construction projects, which changed the mix of work available to us to include more lower-margin work due to competition. Reduced construction activity also eroded margins because of the time lag required to reduce staffing levels and other fixed costs. Certain fixed costs were not eliminated for a number of reasons, including our expectation that work would resume on many of the projects. In addition, the operating performance in certain regions of our construction services business area has been below our profitability expectations. These factors were offset partially by operating income generated from the increase in construction projects in the southern and southeastern regions of the United States during the first half of 2002 and the non-recurrence during 2002 of $3.3 million of restructuring charges, impairments and other unusual charges incurred in 2001.

The $5.1 million decrease in 2001 operating income when compared to 2000 operating income was due primarily to the restructuring charges, impairments and other unusual charges, the mix of available work and the softening economy, as discussed above. In addition, the softening economy reduced new housing starts during 2001 in the regions where our construction services business operates, which caused a decrease in the number of new gas service lines available for installation as compared to 2000. The factors causing the decrease in 2001 operating income were offset partially by profits on the large projects in the southeastern region of the United States during the last half of 2001.

Propane, Pipelines and Storage

The following table sets forth our results from our propane, pipelines and storage operations for 2002, 2001 and 2000. Amounts in the table do not include the equity income from a 50% ownership interest in a gas storage partnership which amounted to $1.37 million, $1.19 million and $1.19 million

in 2002, 2001 and 2000, respectively. The equity income from the joint venture is reflected in other income and deductions.

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Operating revenue	$ 7,058	$ 7,443	$ 6,949
Operating expenses	5,112	5,572	5,419
Operating income	$ 1,946	$ 1,871	$ 1,530

Operating Revenue

The $0.4 million decrease in revenue in 2002 when compared to 2001 was due primarily to lower propane distribution revenue resulting from a reduction in the market price for propane. The $0.5 million increase in revenue in 2001 when compared to 2000 was due primarily to higher propane distribution revenue resulting from an increase in the market price of propane.

Operating Income

The increase in 2001 when compared to 2000 was due primarily to lower operating expenses and higher propane margins. Weather in Hotflame's market area was warmer than normal in 2002, 2001 and 2000. The impact of weather on the operating income of the propane, pipelines and storage segment relates only to the propane business.

Information Technology Services

The following table shows our results with respect to our IT services business for 2002, 2001 and 2000, and includes intercompany transactions.

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Operating revenue	$ 9,618	$ 10,275	$ 5,184
Restructuring charges	—	20	—
Other operating expenses	9,016	9,824	4,703
Operating income	$ 602	$ 431	$ 481

Operating Revenue

Of the operating revenue amounts set forth above, $7.6 million, $9.3 million and $5.0 million for 2002, 2001 and 2000, respectively, represent sales to affiliates. The decrease in revenue in 2002 when compared to 2001 was due primarily to fewer special projects with affiliate customers, offset partially by an increase in business with non-affiliates. The increase in revenue in 2001 when compared to 2000 was due primarily to providing IT services for all of our affiliates and the addition of non-affiliate customers. During the first several months of its operation in 2000, the IT services business was primarily providing services to the Michigan gas distribution business and our corporate office. Non-affiliate operating revenue was $2.0 million, $1.0 million and $0.2 million in 2002, 2001 and 2000, respectively.

Operating Income

The increase in 2002 when compared to 2001 is due primarily to an increase in business with non-affiliate customers and a decrease in indirect operating expenses, particularly advertising costs. The decrease in 2001 when compared to 2000 was due primarily to more special project services performed during 2000 than in 2001, which typically is higher margin work.

Other Income and Deductions

	Year ended December 31,		
	2002	2001	2000
	(in thousands)		
Interest expense	$ (31,268)	$ (31,784)	$ (34,905)
Other income	2,238	2,335	2,828
Total other income (deductions)	$ (29,030)	$ (29,449)	$ (32,077)

Interest Expense

Our interest expense decreased by $0.5 million (or 2%) in 2002 when compared to 2001. This decrease is due primarily to lower short-term interest rates and a reduction in interest expense as a result of an interest rate swap agreement which we entered into in August 2001 and terminated in August 2002. However, these items contributing to the decrease in interest expense were offset partially by incremental interest on additional debt issued in 2001. We entered into the interest rate swap in order to hedge our $55.0 million of 2004 Senior Notes. During the period prior to terminating the swap, the floating interest rate under the terms of the swap agreement steadily declined, which reduced our interest expense. We received $2.2 million in proceeds when the interest rate swap was terminated in August 2002, which is being recognized pro-rata, as a reduction to interest expense, over the remaining term of the 2004 Senior Notes. At the time the 2004 Senior Notes are redeemed, the unrecognized or unamortized portion of the swap proceeds will be netted against any loss incurred on the redemption of the 2004 Senior Notes and recognized in our statements of income.

Interest expense decreased by $3.1 million (or 8.9%) in 2001 when compared to 2000. This decrease is due primarily to lower debt levels as a result of refinancing the $290.0 million short-term bridge loan, which was utilized to finance the November 1, 1999 acquisition of ENSTAR, with various securities offerings during the second and third quarters of 2000. The bridge loan was outstanding during the first half of 2000. During the last half of 2000 and all of 2001, we had an equivalent amount of long-term debt and trust preferred securities outstanding. As a result, interest expense was less in 2001 primarily because the dividends on the trust preferred securities are reported separately from interest expense. Lower short-term interest rates during 2001 also contributed to the overall decrease in interest expense. However, these factors were partially offset by $2.1 million of non-recurring income from terminated interest rate swaps, reflected in the 2000 interest expense, and interest on additional debt incurred in 2001 to finance our capital expenditure programs.

Other Income

In 2002 other income decreased by $0.1 million when compared to 2001. A decrease in allowance for funds used during construction and interest income reduced other income during 2002. Partially offsetting these factors was the write-off of certain assets in 2001, which did not recur in 2002, income earned in 2002 on a special engineering project completed by SEMCO Gas for a third party and an increase in equity income from an investment in a gas storage facility.

During 2001, other income decreased by $0.5 million when compared to 2000. This decrease was due primarily to the write-off of certain assets in 2001 and gains on property sales in 2000. These factors were partially offset by an increase in allowance for funds used during construction and an increase in interest income. The increase in interest income was the result of interest received on a supplier refund in 2001.

Income Taxes

Income tax expense for the three, nine and twelve-month periods ended September 30, 2003 decreased by $4.9 million, $16.7 million and $15.8 million, respectively, when compared to the same periods ended September 30, 2002. Income taxes for 2002, 2001 and 2000 were $10.1 million, $6.6 million and $11.6 million, respectively. The change in income taxes, when comparing one period to another, was due primarily to changes in earnings before income taxes and minority interest. Refer to Note 3 of the Notes to the Consolidated Financial Statements for information on current and deferred income tax expense, deferred tax assets and liabilities and recent net operating losses for tax purposes.

For the three, nine and twelve months ended September 30, 2003, there was no tax benefit recorded on approximately $11.7 million of the $17.6 million charge for goodwill impairment. A tax benefit was not recorded because the $11.7 million charge is not deductible for tax purposes.

Minority Interest—Dividends on Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiaries Holding Solely Debt Securities of SEMCO Energy, Inc.

We issued trust preferred securities and FELINE PRIDES during the second quarter of 2000. See Note 4 of the Notes to the Consolidated Financial Statements and "Description of Other Indebtedness—Trust Preferred Securities and Related Debt Securities—Trust II Preferred Securities; FELINE PRIDES" for more information on these securities. Dividends on trust preferred securities, net of income taxes, for the three, nine and twelve-month periods ended September 30, 2003 decreased by $2.2 million when compared to the same periods ended September 30, 2002. These decreases are the result of reflecting dividends on trust preferred securities incurred after July 1, 2003 in interest expense, as discussed previously. In addition, the retirement of approximately $101 million of trust preferred securities in August 2003, as part of a mandatory common stock purchase obligation specified under our FELINE PRIDES securities, also decreased dividends on trust preferred securities when compared to the same period ended September 30, 2002. Dividends on these securities, net of income tax, were $8.6 million during each of 2002 and 2001 and $5.0 million in 2000. The $3.6 million increase in dividends in 2001, when compared to 2000, was the result of a full year of dividends during 2001, in comparison to a half-year of dividends during 2000.

Liquidity and Capital Resources

Cash Flows Used for Investing

Our single largest use of cash is capital investments. The following table identifies investments for the nine months and twelve months ended September 30, 2003 the past three fiscal years and includes the net amounts paid for business acquisitions, including non-cash amounts such as deferred payments and value, at the time of issuance of our stock issued as part of the acquisitions.

	Year ended December 31,			Nine Months ended September 30,		Twelve Months ended September 30,	
	2002	2001	2000	2003	2002	2003	2002
				(in thousands)			
Capital investments:							
Property additions—gas distribution	$ 29,972	$ 34,074	$ 47,466	$ 19,844	$ 21,766	$ 28,050	$ 27,020
Property additions—diversified businesses and other	5,005	21,370	19,170	1,689	4,557	2,137	10,699
Business acquisitions	—	—	1,784	—	—	—	—
Total capital investments	$ 34,977	$ 55,444	$ 68,420	$ 21,533	$ 26,323	$ 30,187	$ 37,719

Our expenditures for property additions were approximately $21.5 million for the first nine months of 2003. Expenditures for property additions during the remainder of 2003 are anticipated to be approximately $11 million.

Property additions for the gas distribution business represent primarily gas service lines for new customers and, to a lesser extent, gas main and service line replacements. In addition, we invested $0.6 million, $5.9 million and $11.9 million in technology in 2002, 2001 and 2000, respectively. This technology consists of automated meter reading, measurement systems and other computer system and infrastructure improvements that have increased customer service and administrative and operational efficiency. In 2000, we acquired a business for $1.8 million. There were no acquisitions in 2001 and 2002.

During 2002, we received $4.5 million in proceeds from property sales, net of costs. This was a significant increase over prior years. The primary reason for the increase was the sale of two buildings and vacant land. The two buildings housed a large portion of the operations and administrative personnel of SEMCO Gas. We now lease these facilities.

Cash Flows Provided by Operations

Our net cash provided by operating activities for the nine and twelve months ended September 30, 2003, when compared to the same periods of the prior year, decreased by $19.9 million and $26.6 million, respectively. Our net cash provided by operating activities totaled $24.9 million in 2002, $36.7 million in 2001 and $49.0 million in 2000. The change in operating cash flows is influenced significantly by changes in the level and cost of gas in underground storage, changes in accounts receivable and accrued revenue and other working capital changes. The changes in accounts receivable, accrued revenue and other working capital are largely the result of how we manage the timing of cash receipts and payments. The change in cash provided by operating activities is also impacted by changes in the operating results of our businesses. As discussed in previous sections, the operating results of our construction services business have decreased significantly over the past year, which has contributed to the decrease in cash provided by operating activities. However, this has been mitigated somewhat by a decrease in capital expenditures for equipment at our construction services business, which has caused a decrease in cash flow used for investing activities.

During the third quarter of 2003, we recorded goodwill impairment and equipment impairment charges totaling $20.5 million. These charges were non-cash and therefore did not impact cash flows from operations. For further information on these charges, see Note 1 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

We use significant amounts of short-term borrowings to finance natural gas purchases for storage during the non-heating season. We own and lease natural gas storage facilities in Michigan with available capacity approximating 30% to 35% of our average annual Michigan gas sales. Generally, gas is injected into storage during the months of April through October and withdrawn for sale from November through March.

Cash Flows Provided by Financing

	Year ended December 31,			Nine Months ended September 30,		Twelve Months ended September 30,	
	2002	2001	2000	2003	2002	2003	2002
	(in thousands)						
Cash provided by (used for) financing activities:							
Issuance of common stock, net of repurchases	$ 3,642	$ 2,436	$ 865	$ 2,721	$ 2,796	$ 3,567	$ 3,917
Issuance of trust preferred securities	—	—	134,885	—	—	—	—
Issuance of long-term debt, net of redemptions	(1,135)	58,286	136,569	197,503	29,043	197,450	29,043
Net cash change in notes payable	13,878	(26,185)	(243,708)	(18,004)	6,458	(10,584)	17,964
Repayment of long-term debt	—	—	—	(138,162)	(30,060)	(138,227)	(30,060)
Debt exchange and extinguishment costs	—	—	—	(24,030)	—	(24,030)	—
Payment of dividends	(10,776)	(15,193)	(15,033)	(6,138)	(8,447)	(8,467)	(12,260)
Total cash provided by (used for) financing activities	$ 5,609	$ 19,344	$ 13,578	$ 13,890	$ (210)	$ 19,709	$ 8,604

On October 16, 2003, our Board of Directors declared a quarterly cash dividend of $0.075 per share on our common stock. The dividend is payable on November 15, 2003 to shareholders of record at the close of business on October 31, 2003.

In the second quarter of 2003, we completed an offering of an aggregate of $300 million of senior unsecured notes, including the outstanding notes. We used approximately $92.3 million of the new notes in an exchange for our other outstanding debt. The debt exchange was a non-cash financing activity and therefore is not reflected in cash flows provided by financing activities. Refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements for further information regarding the debt exchange and the use of the remaining proceeds from the $300 million offering.

In August 2003, we issued approximately 8.74 million shares of common stock for $101 million through the mandatory purchase obligation specified under the terms of stock purchase contracts, which are a component of the FELINE PRIDES. Related to this issuance, we retired approximately $101 million of 9% trust preferred securities. The retirement of the trust preferred securities in order to fulfill the FELINE PRIDES holder's stock purchase obligations was a non-cash financing activity and therefore both the issuance of the $101 million of common stock and the retirement of the $101 million of trust preferred securities is not reflected in cash flows provided by financing activities. Refer to Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements for further information regarding the issuance of 8.74 million shares of common stock and the related retirement of 9% trust preferred securities.

During 2002, we issued $30.0 million of long-term debt and used the proceeds to repay $30.0 million of debt which matured in October 2002. During 2001, we issued $60.0 million of long-term debt and used the proceeds to repay a portion of our short-term lines of credit with banks. On November 1, 1999, we financed the acquisition of ENSTAR with a $290.0 million unsecured bridge loan. In 2000, we utilized the proceeds of several securities offerings and our short-term bank lines of credit to repay the bridge loan. The net change in notes payable for 2000 includes the combined cash borrowed or paid on our short-term lines of credit with banks and the ENSTAR bridge loan. During 2000, we issued 83,000 shares of our common stock to the shareholders of a business we acquired during 2000. The issuance of the 83,000 shares was a non-cash financing activity.

We redeemed certain of our securities and issued various debt and equity securities during the past three years. Refer to Note 4 of the Notes to the Consolidated Financial Statements for information regarding these redemptions and issues.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing arrangements.

Guarantees

We do not have any material guarantees that are required to be disclosed under the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others."

Contractual Obligations and Commercial Commitments

Summarized below are our annual contractual obligations and other commercial commitments as of September 30, 2003. Refer to Note 13 of the Notes to the Consolidated Financial Statements for information about other commitments and contingencies. Certain of these obligations are subject to remarketing and could become due or cancelled before their maturity under specific circumstances. The following table does not give effect to the Offering or the application of the proceeds therefrom.

	Payments Due by Year ended December 31,						
	Total	2004	2005	2006	2007	2008	2009 and beyond
Contractual obligations							
Long-term debt, including trust preferred securities	$ 489.7	$ —	$ 15.1	$ —	$ —	$ 155.0	$ 319.6
Unconditional gas purchase and gas transportation obligations	180.4	53.6	46.6	39.8	17.4	14.3	8.7
Operating leases	10.8	1.6	1.2	1.0	1.0	1.0	5.0
Miscellaneous notes payable	0.2	0.2	—	—	—	—	—
Total contractual cash obligations	$ 681.1	$ 55.4	$ 62.9	$ 40.8	$ 18.4	$ 170.3	$ 333.3

	Amount of Commitment Expiration per Year ended December 31,						
	Total	2004	2005	2006	2007	2008	2007 and beyond
Commercial commitments							
Credit facility	$ 155.0	$ 69.5	$ 85.5	$ —	$ —	$ —	$ —

General Financing Matters

In general, we fund our capital expenditure program and dividend payments with operating cash flows and the utilization of short-term credit facilities. When appropriate, we will refinance our short-term debt with long-term debt, common stock or other long-term financing instruments. During the second quarter of 2003, we amended our bank credit facility to permit the issuance of additional debt securities, to increase the facility from $145 million to $155 million and to extend the maturity date of the 364-day component of the facility to May 20, 2004. The $155 million bank credit facility consists of an $85.5 million multi-year revolver, which expires in June 2005, and a $69.5 million 364-day facility, with a one-year term loan option. In October 2003, we amended the terms of our credit agreement to exclude from the financial covenants contained therein, all non-cash goodwill and asset impairment charges that may be taken by our construction services business. On September 30, 2003, $46.6 million of our bank credit facility was available for borrowing. See "Prospectus Summary—Recent Events and Other Matters." Refer to Note 2 of the Condensed Notes to the Unaudited Consolidated

Financial Statements and "Description of Other Indebtedness—Credit Agreement" for additional information regarding the bank credit facility.

Covenants contained in our credit facility, as amended, require maintenance of a minimum net worth of $215.0 million, a fixed-charge coverage ratio of at least 1.33 until March 31, 2004 and 1.5 thereafter, and a debt-to-capitalization ratio of 0.72 or less through March 31, 2004, so long as the sale of Alaska Pipeline Company has not been consummated, and 0.65 or less thereafter. As of September 30, 2003, we were in compliance with all debt covenants. Failure to comply with such covenants may result in a default with respect to the related debt and could lead to the acceleration of such debt or any instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness.

In March 2000, a registration statement on Form S-3 filed with the SEC by us and SEMCO Capital Trust I, SEMCO Capital Trust II and SEMCO Capital Trust III became effective. On September 30, 2003, there was $33 million available under our registration statement for any future issuances of common stock, preferred stock, trust preferred securities and/or long-term debt.

Our ratio of earnings to fixed charges, as defined under Item 503 of SEC Regulation S-K, was less than a one to one coverage for the twelve months ended September 30, 2003 and 1.3, 1.0 and 1.6 for the years ended December 31, 2002, 2001 and 2000, respectively. The deficient amount of earnings that would be required to attain a ratio of one-to-one for the twelve months ended September 30, 2003, is approximately $40.3 million. This ratio is more strictly defined than the fixed charges coverage ratio used to determine compliance with our previously discussed debt covenants.

"Earnings," as defined by Item 503 of SEC Regulation S-K, represents income (loss) before income taxes, interest expense and minority interest. "Fixed charges" represents interest expense and preferred securities dividend requirements of consolidated subsidiaries. We have such dividend requirements under our trust preferred securities and include them in the calculation of fixed charges for purposes of calculating the ratio required under Regulation S-K.

The fixed charged coverage ratio, as defined by our credit facility, as amended, represents a ratio of earnings to fixed charges. Under the bank credit agreement, "earnings" represents income (loss) before income taxes, interest expense, dividends on trust preferred securities, discontinued operations and extraordinary items. Also excluded from earnings are the recently incurred debt exchange and extinguishments costs and all non-cash goodwill and asset impairment charges that were taken by our construction services business. "Fixed charges" represents interest expense.

Other Matters

In September 2003, we entered into a definitive agreement to sell our wholly-owned subsidiary, Alaska Pipeline Company to Atlas Pipeline Partners, L.P. for $95 million. Proceeds of the sale will be used to reduce our outstanding debt obligations. In November 2003, we announced that our Board of Directors instructed management to pursue the sale of our construction services business. We anticipate that the proceeds of a sale will be used to strengthen our financial position and support the growth of the gas distribution business. Refer to Note 7 of the Condensed Notes to the Unaudited Consolidated Financial Statements for further information.

Market Risk Information

Our primary market risk arises from fluctuations in commodity prices and interest rates. Our exposure to commodity price risk arises from changes in natural gas and propane prices throughout the United States and in eastern Canada, where we conduct sales and purchase transactions. We do not currently use financial derivative instruments (such as swaps, collars or futures) to manage our exposure to commodity price risk.

A significant portion of the natural gas requirements of our Michigan gas distribution business are covered under third-party supply arrangements and an MPSC-approved mechanism that passes commodity costs through to our customers. ENSTAR's natural gas requirements are primarily covered by a number of long-term supply arrangements and an RCA-approved mechanism that passes commodity costs through to our customers. At December 31, 2002, the exposure to commodity price risk for our gas distribution business was not material as a result of the long-term gas supply contracts and the regulator-approved mechanisms to pass commodity costs through to our customers. For further information on how these agreements reduce our exposure to commodity price risk, see the Cost of Gas section in Note 1 of the Notes to the Consolidated Financial Statements.

We are also subject to interest rate risk in connection with the issuance of variable and fixed-rate debt. In order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed and variable-rate interest payment obligations over the life of the agreements, without exchange of the underlying principal amounts. See Note 7 of the Notes to the Consolidated Financial Statements for additional information on the fair value of interest rate swap agreements at December 31, 2002, and how we account for our risk management activities.

The following table, which does not give effect to the Offering or the application of the proceeds therefrom, provides information about our debt obligations that are sensitive to interest rate changes:

	Principal Payments and Interest Rate Detail by Expected Maturity Date						
As of September 30, 2003	**2004**	**2005**	**2006**	**2007**	**2008**	**2009 and beyond**	**Total**
				(in millions)			
Long-term debt, including trust preferred securities							
Fixed rate	$ —	$ 15.1	$ —	$ —	$ 155.0	$ 319.6	$ 489.7
Average interest rate		6.48%			7.10%	7.99%	7.66%
Bank credit facility							
Variable rate(a)	$ 69.5	$ 85.5	—	—	—	—	$ 155.0
Average interest rate(b)	2.97%	2.97%					2.97%

(a)
Amounts represent total credit available to us at September 30, 2003 rather than the actual amount outstanding at September 30, 2003.

(b)
The average interest rate reported for the variable rate bank credit facility is the average rate during the nine months ended September 30, 2003.

Impact of Inflation

Inflation is not, and has not been in the past three years, a material factor for our gas distribution business because our gas costs are generally recovered in our rates through the pricing mechanisms. The cost of gas sold in Alaska is recovered from our gas distribution business customers on a current basis through its gas cost adjustment, or GCA, clause. The cost of gas sold in the geographic regions of Michigan subject to the jurisdiction of the MPSC is recovered from gas distribution business customers on a current basis through its GCR clause. The GCA and GCR mechanisms allow for the adjustment of rates charged to customers in response to increases and decreases in the cost of gas purchased. We applied for and received approval from the CCBC to extend the fixed gas charge program until March 31, 2005 for customers located in the City of Battle Creek, Michigan and surrounding communities. See the Cost of Gas section in Note 1 of the Notes to the Consolidated Financial Statements for more information.

Increases in other utility operating costs are recovered through the regulatory process of a rate case and, therefore, may adversely affect the results of operations in inflationary periods due to the time lag involved in this process. We attempt to minimize the impact of inflation by controlling costs,

increasing productivity and filing rate cases on a timely basis. See "Business—Regulatory Matters" for a general discussion of rate determinations.

In our construction services business, we have customer contracts that extend over multiple years. These contracts often contain annual increases in rates charged for services in order to minimize the impact of inflation. If cost were to increase significantly, we would attempt to renegotiate our contracts and ask customers for increased rates to mitigate the increases. Inflation has not been a material factor for our diversified business group in the last three years.

Critical Accounting Policies

We have prepared our consolidated financial statements in conformity with generally accepted accounting principles in the United States. The preparation of these financial statements 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The following is a summary of our most critical accounting policies, which are defined as those policies whereby judgments or uncertainties could affect the application of those policies and materially different amounts could be reported under different conditions or using different assumptions. For a complete discussion of our significant accounting policies, refer to Note 1 of the Notes to the Consolidated Financial Statements.

Rate Regulation

The gas distribution business is subject to regulation. The regulatory matters associated with gas distribution business customers located in the City of Battle Creek, Michigan and surrounding communities are subject to the jurisdiction of the CCBC. The MPSC has jurisdiction over the regulatory matters related to our remaining Michigan customers. Regulatory matters for gas distribution business customers in Alaska are subject to the jurisdiction of the RCA. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. See "Business—Regulatory Matters" for more information.

Our gas distribution business has accounting policies which conform to SFAS No. 71, "Accounting for the Effect of Certain Types of Regulation" and which are in accordance with the accounting requirements and ratemaking practices of the regulatory authorities to which it is subject. The application of these accounting policies allows us to defer expenses and income as regulatory assets and liabilities in the consolidated statements of financial position when it is probable that those expenses and income will be allowed in the rate-setting process in a period different from the period in which they would have been reflected in the consolidated statements of operations by an unregulated company. These deferred regulatory assets and liabilities are then included in the consolidated statements of operations in the periods in which the same amounts are reflected in rates. Management's assessment of the probability of recovery or pass through of regulatory assets and liabilities requires judgment and interpretation of laws and regulatory commission orders. If, for any reason, we cease to meet the criteria for application of regulatory accounting treatment for all or part of our operations, the regulatory assets and liabilities related to those portions ceasing to meet such criteria would be eliminated from the consolidated statements of financial position and included in the consolidated statements of operations for the period in which the discontinuance of regulatory accounting treatment occurs. Such amounts would be classified as an extraordinary item.

Goodwill

We evaluate our goodwill for impairment in accordance with SFAS 142 which requires that we perform impairment tests on our goodwill balance annually or at any time when events occur which could impact the value of our business segments. Our determination of whether an impairment has occurred is based on an estimate of discounted cash flows attributable to our reporting units that have goodwill, as compared to the carrying value of those reporting units' net assets. We must make long-term forecasts of future revenue, expenses and capital expenditures related to the relevant reporting unit in order to make the estimate of discounted cash flows. These forecasts require assumptions about future demand, future market conditions, regulatory developments and other factors. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period. If an impairment test of goodwill shows that the carrying amount of the goodwill is in excess of the fair value, a corresponding impairment loss would be recorded in the consolidated statements of operations. We performed the 2002 annual impairment tests for our business segments which indicated that there was no impairment of goodwill.

Pensions and Other Postretirement Benefits

We account for pension costs and other postretirement benefit costs in accordance with the SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These statements require liabilities to be recorded in the consolidated statements of financial position at the present value of these future obligations to employees net of any plan assets. The calculation of these liabilities and associated expenses require the expertise of actuaries and are subject to many assumptions including life expectancies, present value discount rates, expected long-term rate of return on plan assets, rate of compensation increases and anticipated health care costs. Any change in these assumptions can significantly change the liability and associated expenses recognized in any given year. For example, a one percentage point increase in anticipated health care costs each year would increase the accumulated retiree medical obligation as of December 31, 2002 by $4.4 million and the aggregate of the service and interest cost components of net periodic retiree medical costs for 2002 by $0.4 million.

New Accounting Standards

On January 1, 2003, we adopted FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 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.

We adopted SFAS 143 on January 1, 2003 and determined that we do not have any asset retirement obligations (ARO) that are to be recorded in accordance with SFAS 143. However, we do have non-ARO negative salvage value that had been recorded in the accumulated depreciation of our gas distribution business. As of September 30, 2003, the non-ARO negative salvage was approximately $51 million and is reported as a "Regulatory Liability" in the Consolidated Statement of Financial Position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 eliminates SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and thus allows for only those gains or losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS 145 also amends SFAS No. 13, "Accounting for Leases" to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to

sale-leaseback transactions. The provisions of this statement relating to the rescission of SFAS 4 are effective for fiscal years beginning after May 15, 2002. The provisions of this statement relating to the amendment of SFAS 13 are effective for transactions occurring after May 15, 2002. All other provisions of this statement are effective for financial statements issued on or after May 15, 2002. In accordance with the provisions of SFAS 145, we reported debt extinguishment costs incurred during the second quarter of 2003 as a separate line item within the continuing operations section of the Consolidated Statements of Operations. Under previous FASB guidance these costs would have been reported as an extraordinary charge. For further information on the debt extinguishments costs see Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements. The remaining provisions of SFAS 145 have not had a material impact on our consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 did not have a material impact on our financial statements.

In November 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123." SFAS 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. We continue to account for all stock options under the provisions and related interpretations of Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" and report the disclosure of stock options in accordance with the provisions of SFAS 148. The adoption of the disclosure provisions of SFAS 148 did not have a material impact on our consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," or FIN 45. FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees and standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions of FIN 45 related to recognizing a liability at inception of the guarantee do not apply to product warranties or guarantees accounted for as derivatives. The initial recognition and initial measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions were effective for financial statements for periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of FIN 45 did not have a material impact on our financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 addresses conditions for consolidating an entity based on variable interests (as defined in the standard) rather than voting interests. FIN 46 clarifies that variable interest entities that do not disperse risks among the parties involved should be consolidated by the entity that is determined to be the primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003. For variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003, FIN 46 originally had to be adopted no later than the first fiscal year or interim period beginning after June 15, 2003. However,

in October 2003, the FASB issued FASB Staff Position 46-e, "Effective Date of Interpretation 46." This new staff position defers the effective date for applying the provisions of FIN 46, for interests held by public entities in variable interest entities created before February 1, 2003, until the end of the first interim or annual period ending after December 15, 2003. We are evaluating our consolidated capital trusts to determine whether they are variable interest entities under FIN 46. The trusts, "SEMCO Capital Trust I" and "SEMCO Capital Trust II," have $40.0 million and $0.1 million, respectively, of outstanding company-obligated mandatorily redeemable trust preferred securities as of September 30, 2003. The trusts are consolidated as of September 30, 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component. SFAS 149 also amends the definition of an underlying to conform it to language used in FIN 45 and certain other existing pronouncements. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. In addition, all provisions of SFAS 149 will be applied prospectively except that: a) the provisions of SFAS 149 that relate to SFAS 133 implementation issues that have been effective for fiscal quarters that began prior to June 30, 2003, should continue to be applied in accordance with their respective effective dates and b) provisions related to forward purchases or sales of when-issued securities or securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS 149 did not have a material impact on our financial condition and results of operation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. For financial instruments created before the issuance date of SFAS 150, SFAS 150 is effective at the interim period beginning July 1, 2003. Transition shall be achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instrument at fair value or other measurement attribute required by SFAS 150.

We have company-obligated mandatorily redeemable trust preferred securities of our subsidiaries that were in existence prior to the issuance of SFAS 150. These securities have characteristics of both liabilities and equity and for periods prior to July 1, 2003, they are reported in the Consolidated Statements of Financial Position as a separate line item between long-term debt and common shareholders' equity. For periods after July 1, 2003, the trust preferred securities are reflected in the long-term debt section in compliance with the provisions of SFAS 150. Prior to July 1, 2003, the dividends on these trust preferred securities were reflected in the Consolidated Statements of Operations as "Minority interest—dividends on trust preferred securities." In accordance with the provisions of SFAS 150, the dividends on these securities recorded after July 1, 2003 are reflected in "Interest expense." The adoption of SFAS 150 did not have a material impact on our net income (loss) available to common shareholders.

Overview

We are a diversified energy and infrastructure services company, headquartered in southeastern Michigan. We were founded in 1950 as Southeastern Michigan Gas Company. In 1977, Southeastern Michigan Gas Enterprises, Inc. was formed as a holding company, into which Southeastern Michigan Gas Company was transferred. On April 24, 1997, Southeastern Michigan Gas Enterprise's name was changed to SEMCO Energy, Inc. Our two primary businesses are: (1) a regulated gas distribution business with operations in Michigan and Alaska; and (2) an unregulated diversified business group with operations in construction services; propane, pipelines and storage; and IT services. Our gas distribution operations in Michigan and Alaska operate as divisions of SEMCO Energy while our diversified business operations are organized as subsidiaries of SEMCO Energy.

Business Strategy

Our business strategy has two key elements: (1) a continued strong focus on our core competencies in our gas distribution business and (2) opportunistic and prudent growth of our diversified business group. In our gas distribution business, we seek opportunities to expand our distribution system in an economical manner through the attachment of potential customers located on or near our existing distribution system. In our diversified business group, we intend to continue to exercise financial discipline in evaluating any new business opportunities with a principal focus on expanding our business primarily through internal growth rather than through acquisitions. The principal elements of our business strategy are described below.

Focus on our Core Competence. Growth of our customer base in our gas distribution business and attention to improving the operational efficiencies in our businesses are the key focal points of our business strategy. In addition to seeking growth within our existing service territories for our gas distribution business, we may selectively analyze acquisitions that provide attractive, complementary service territories and additional economies of scale. Over the past several years, a large number of diversified energy companies have elected to aggressively pursue unregulated business opportunities in the merchant power, telephony and internet infrastructure, and commodity trading businesses. As a result of these expansions, the lack of financial discipline and an unforeseen decline in the general economic environment, many of these companies that expanded aggressively in the recent past now find themselves in difficult financial positions with high levels of debt and unsustainable business models. In contrast, we continue to remain focused on our core business of gas distribution.

Maintain Regulatory Relationships. In our regulated gas distribution business, it is important that we maintain positive relationships with the regulatory bodies under whom we have the authority to provide gas distribution. Because our focus is and has been on our core gas distribution business, we have not been distracted from our efforts to maintain good relationships with the regulatory authorities that regulate our gas distribution business. See "—Regulatory Matters" for a description of such regulatory authorities.

Focus on Continued Business Optimization. We intend to continue to operate and only enter new diversified businesses that are complementary to our core gas distribution business. The diversified businesses in which we currently operate benefit from the managerial expertise we have gained from the operation of our gas distribution business. We plan to grow these diversified businesses only where we can do so profitably and within our capital expenditure budgets. As part of our strategy, we have eliminated unprofitable or marginal performers within our diversified business group in the recent past including the discontinuance of our engineering business and the announcement of our intent to pursue a sale of the construction services business. To maintain our objective of prudent and opportunistic growth in our diversified business group, we will continue to focus on expanding our business primarily

through internal growth rather than through acquisitions. Although our focus is not on expansion through acquisition, we may consider opportunistic acquisition proposals in our propane, pipelines and storage business.

Competitive Strengths

Barriers to Entry. Our gas distribution business is regulated by state and local governmental authorities, and we are required to obtain franchise and certificate authority to engage in the delivery of gas. We believe that the capital necessary to build, maintain and expand a gas distribution system discourages new competitors from entering into our service territories. As of December 31, 2002, we had 160 miles and 396 miles of gas transmission pipeline and 5,423 miles and 2,421 miles of gas distribution pipelines in SEMCO Gas and ENSTAR, respectively. Given our expertise in each of our service territories and our success in providing good service at a price that the regulatory bodies deem appropriate, we do not believe it is likely that the regulatory bodies would grant another natural gas distribution franchise in our service territories.

Attractive Service Territories. ENSTAR is the only natural gas distribution company in Anchorage, Alaska in a service territory that has one of the highest gas consumption per residential customer in the United States. Our gas distribution business in our service territories in Alaska and Michigan has grown well above the national average for customer growth rates in the United States gas distribution industry over the recent past. Our service territories provide ready access to natural gas supplies due to their proximity to supply sources and through our supply contracts. We also benefit from our positive relationships with the regulatory authorities in each service territory.

Strong Supply and Storage Networks with Long-term Fuel Supply. We have sufficient long-term gas supply contracts, storage and pipeline access for our gas distribution business. In Michigan at SEMCO Gas, there are two years remaining on our contracts with BP Canada to provide gas and transportation and storage asset management services to all of the customers in our service territory. In addition to our agreements with BP Canada, SEMCO Gas has access to natural gas supplies throughout the United States and Canada via major interstate pipelines that run through Michigan. SEMCO Gas has pipeline capacity contracts with ANR Pipeline Company, Great Lakes Gas Transmission Limited Partnership, Northern Natural Gas Company and Panhandle Eastern Pipe Line Company. SEMCO Gas also owns or leases underground storage facilities in Michigan with a working capacity of approximately 15.3 billion cubic feet, or Bcf. Our owned and leased storage capacity equals approximately 36% of our 2002 annual gas sales volumes in Michigan. In Alaska at ENSTAR, we have gas supply contracts of varying terms with Marathon Oil Company, Chevron U.S.A. Inc., ConocoPhillips Alaska, Inc., Anchorage Municipal Light and Power, Aurora Gas Company and Unocal. Collectively, the gas suppliers are obligated to supply all of ENSTAR's gas requirements through 2005. There are no minimum purchase requirements under our gas purchase contracts which are material in relation to the total requirements of either SEMCO Gas or ENSTAR.

Highly Experienced Management Team. Our senior management team is comprised of an experienced group of industry veterans with an average tenure in the utility business of more than 20 years with experience in a wide variety of management functions.

Infrastructure Investments. Over the last few years, we have made material investments in our infrastructure. We have improved technology in our gas distribution business and upgraded equipment used in our construction services business. These investments have resulted in increased customer service and administrative and operational efficiencies in our businesses. Due to these recent investments, we expect to reduce our capital expenditures in 2003 to approximately $32 million.

Gas Distribution Business

Our gas distribution business segment consists of operations in Michigan and Alaska. We refer to our Michigan operations as SEMCO Gas and our Alaskan operations as ENSTAR. Additionally, APC operates as a subsidiary of SEMCO Energy and as part of the ENSTAR operations. Our gas distribution business distributes and transports natural gas to residential, commercial and industrial customers and is our largest business segment.

Set forth in the table below is gas sales and transportation information for the nine months ended September 30, 2003 and 2002 and the past three fiscal years:

	Year ended December 31,			Nine Months ended September 30,	
	2002	2001	2000	2003	2002
Gas sales revenue (in thousands):					
Residential	$ 227,086	$ 201,754	$ 190,221	$ 201,380	$ 149,669
Commercial	84,480	73,831	62,354	83,616	54,520
Industrial/Other	24,089	19,812	18,412	12,029	16,519
Total gas sales revenue(1)	$ 335,655	$ 295,397	$ 270,987	$ 297,025	$ 220,708
Gas transportation revenue (in thousands)	$ 25,707	$ 25,888	$ 30,783	$ 19,781	$ 19,012
Volumes of gas sold (MMcf):					
Residential	42,671	41,529	41,397	30,799	28,512
Commercial	16,970	16,032	14,591	13,687	11,311
Industrial	5,416	5,556	5,066	1,530	3,751
Total volumes of gas sold(1)	65,057	63,127	61,054	46,016	43,574
Volumes of gas transported (MMcf)	44,921	42,992	48,706	35,065	33,203
Total volumes delivered(1)	109,978	106,119	109,760	81,081	76,777

(1)
Does not include the sale of excess inventory gas to a third party in 2000.

All revenue generated by the gas distribution business for the years ended December 31, 2002, 2001 and 2000 is from non-affiliate customers. For information on operating income and total assets of the gas distribution segment for the years ended December 31, 2002, 2001 and 2000, refer to Note 11 of the Notes to the Consolidated Financial Statements. For information on intercompany operating revenues and total operating income for the nine months ended September 30, 2003 and 2002, refer to Note 5 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

Gas Sales

Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. These customers use natural gas mainly for space heating purposes. Consequently, weather has a significant impact on sales. Given the impact of weather on this business segment, most of our gas sales revenue is earned in the first and fourth quarters of the calendar year. Revenue from gas sales accounted for 70%, 66% and 67% of our consolidated operating revenue in 2002, 2001 and 2000, respectively, and 78% and 66% of our consolidated operating revenue in the nine months ended September 30, 2003 and 2002, respectively.

Our ATS program, which was effective April 1, 1998 through March 31, 2002, provided all Michigan customers the opportunity to purchase their gas from a third-party supplier, while allowing our gas distribution business to continue charging the existing distribution fees and customer fees plus a

gas load balancing fee. The ATS program was further expanded and opened to additional customers on October 1, 2002, as the Gas Customer Choice Program. These programs provide all Michigan residential customers the opportunity to purchase their gas from a third-party supplier, while allowing us to continue charging the existing distribution fees and customer fees with respect to such customers. Distribution and customer fees associated with customers who switched to third-party gas suppliers were recorded in gas transportation revenue rather than gas sales revenue because we acted as a transporter for those customers. During 2001 and 2002, certain ATS customers switched back to our general gas sales service because the third-party suppliers they were utilizing stopped participating in the ATS program, primarily due to significant fluctuations in the market price of natural gas. In addition, when the ATS program for residential customers ended on March 31, 2002, all remaining ATS customers became our general gas sales customers because they were turned back to us by their third-party gas suppliers. As customers switch back to general gas sales service, gas sales revenue and gas sales margin increase, but there is a corresponding decrease in gas transportation revenue. Currently, there are no third-party gas suppliers providing service under this program in our customer service territories.

Transportation

Our gas distribution business provides intrastate transportation services to our large-volume commercial and industrial customers. This service offers those customers the option of purchasing natural gas directly from producers or marketing companies and utilizing our gas distribution business' distribution network to transport the gas to their facilities.

APC owns and operates the only natural gas transmission lines serving the Anchorage, Alaska metropolitan area. APC's transmission system delivers natural gas from fields in southcentral Alaska to ENSTAR's Anchorage-based gas distribution system. APC's only customer is ENSTAR Natural Gas Company. See "Prospectus Summary—Recent Events and Other Matters." Customers in ENSTAR's service territory are currently precluded from bypassing ENSTAR's transportation and distribution system due to the limited availability of gas transmission systems and the large distances between producing fields and the locations of current customers.

Customer Base

At September 30, 2003, SEMCO Gas had approximately 271,000 customers. The largest concentration of customers, approximately 112,000, is located in southeastern Michigan. The Michigan customer base is diverse and includes residential, commercial and industrial customers. The largest customers include power plants, food production companies, paper processing plants, furniture manufacturers and others in a variety of other industries.

At September 30, 2003, ENSTAR had approximately 114,000 customers. ENSTAR is the sole distributor of natural gas to the Anchorage metropolitan and adjoining areas, and its service area encompasses approximately 50% of the population of Alaska. ENSTAR has two types of customers: gas sales and transportation. Gas sales customers are primarily residential and commercial. ENSTAR provides transportation service on behalf of gas producers and gas marketers to power plant sites, an ammonia plant and hundreds of commercial locations. The average number of customers at ENSTAR has increased by an average of approximately 2.8% annually during 1999 through 2001.

During 2002, the average number of gas sales customers for our gas distribution business, as a whole, increased by 11,554. Approximately 3,200 of this increase was caused by customers switching from the ATS program in Michigan back to general gas sales service. The remaining increase of approximately 8,400 represents the average number of new gas sales customers added to our distribution system in 2002. During 2001, our average number of gas sales customers increased by 11,274. Approximately 2,800 of the increase was caused by customers switching from the ATS program

in Michigan back to general gas sales service. The remaining increase of approximately 8,500 represents the average number of new gas sales customers added to our distribution system in 2001.

Gas Supply Agreements

Michigan

SEMCO Gas entered into new gas supply agreements with BP Canada effective April 1, 2002. We have separate agreements with BP Canada relating to customers in our service area regulated by the MPSC and customers in our service area regulated by the CCBC. Under the agreements related to our CCBC customers, BP Canada provides all of the natural gas supply requirements for our CCBC customers as well as transportation and storage asset management services. Under the terms of these agreements, the price we pay to purchase natural gas for our CCBC customers is fixed for the three-year period covered by the agreements, which is from April 1, 2002 through March 31, 2005.

Under the BP Canada agreements covering our MPSC customers, BP Canada provides gas supply portfolio management services as well as transportation and storage asset management services. We no longer purchase gas for our MPSC customers at a fixed cost over a number of years. In keeping with our switch back to the GCR pricing mechanism for our MPSC customers, we are required to solicit bids for all supplies with term lengths longer than three days, which constitutes more than 99% of our sales. Supplies with term lengths of three days or less are purchased from BP Canada.

In addition to its agreements with BP Canada, SEMCO Gas has access to natural gas supplies throughout the United States and Canada via major interstate pipelines that run through Michigan. SEMCO Gas has pipeline capacity contracts with ANR Pipeline Company, Great Lakes Gas Transmission Limited Partnership, Northern Natural Gas Company and Panhandle Eastern Pipe Line Company. SEMCO Gas also owns underground storage facilities in Michigan with a working capacity of 5 billion cubic feet, or Bcf. In addition, SEMCO Gas leases 6.5 Bcf of storage from Eaton Rapids Gas Storage System and 3.8 Bcf from non-affiliates in Michigan. SEMCO Gas Storage Company, our subsidiary, is a 50% owner of Eaton Rapids Gas Storage System. Our owned and leased storage capacity equals approximately 36% of our 2002 annual gas sales volumes in Michigan.

Alaska

ENSTAR receives all of its natural gas from the Cook Inlet Basin through the APC system, the sole source of natural gas for home and business heating throughout south central Alaska. Annual gas production in the Cook Inlet has historically been between 200 and 225 Bcf.

APC transported and ENSTAR delivered approximately 22 Bcf to its residential and commercial customers in 2002. Additionally, APC transported 25 Bcf in 2002 for ENSTAR's power plant, military and industrial customers.

Natural gas is supplied to ENSTAR through the APC system from two major contracts. One is with Marathon Oil Company and the other is the "Beluga" contract, which sources gas from ConocoPhillips, Chevron and Anchorage Municipal Light and Power. In addition, ENSTAR has contracts with Unocal and Aurora Gas Company and has various other contracts that provide back-up supply by re-routing gas from other Cook Inlet users to ENSTAR on peak days. There are no minimum purchase requirements under our gas purchase contracts which are material in relation to the total requirements of ENSTAR.

As of January 1, 2002, the Cook Inlet had approximately 2.2 trillion cubic feet, or Tcf, of total proved gas reserves according to the Alaska Department of Natural Resources Division of Oil and Gas 2002 Annual Report. Based on the Department's estimated 2002 net production of 221 Bcf, this implies a reserve life of approximately ten years. There is ongoing exploration for gas in Cook Inlet.

According to*A Review of Cook Inlet Natural Gas Supply and Demand Prepared for the Anchorage Economic Development Corporation*, Northern Economics Inc., March 2001, the Cook Inlet gas producers may encounter difficulty meeting peak demand for a few days each winter in the middle of this decade unless additional gas reserves are found or other measures such as gas storage reservoirs to meet peak demand requirements are developed. With the exception of a small Unocal project recently authorized by the Alaska Oil and Gas Conservation Commission, conventional gas storage facilities that provide gas for peak times do not exist in the Cook Inlet, although some of the infrastructure for storage does exist. Depleted reservoirs, pipelines and the ConocoPhillips LNG plant could be developed or modified to provide storage. The market for storage service could include the power plant customers, and retail gas marketers, in addition to ENSTAR.

Outlook for Gas Distribution

Our strategy for the gas distribution business is to expand our distribution system in an economical manner through attachment of on-main and near-main potential customers. We will also seek ways to capitalize on other market opportunities, including new power generation projects that may become available. The average number of customers served by SEMCO Gas and ENSTAR, combined, increased by approximately 2.3% during both 2002 and 2001. By comparison, recent surveys by the American Gas Association indicate that the customer growth rate for the U.S. gas distribution industry has averaged approximately 1.3% annually during 1999 through 2001. However, average annual gas consumption per customer has been decreasing slightly because new homes and appliances are more energy efficient.

We have offered early retirement programs to our employees during the past few years to help reduce costs. The increased use of technology has also created operating efficiencies. In addition, during 2001, we eliminated our unprofitable heating, ventilation and air conditioning department, which was part of our Michigan gas distribution business, and also eliminated other employee positions as part of our restructuring plan. We will continue our efforts to control operating expenses relating to our gas distribution business.

SEMCO Gas competes with suppliers of alternative energy sources such as coal and #6 and #2 fuel oil to meet the energy requirements of our industrial customers. Natural gas has typically been less expensive than these alternative energy sources. However, during a short period of time in late 2000 and early 2001, natural gas prices increased significantly, making some of these alternative energy sources more economical than natural gas. During this period, a few of our large Michigan industrial customers switched to alternative energy sources. This competition did not have a material impact on our financial results in 2001. Prior to 2000, the market price of natural gas had been fairly stable. However, we cannot predict the future stability of natural gas prices. To lessen the possibility of fuel switching by industrial customers, we offer flexible contract terms and additional services, such as gas storage and balancing, in addition to a more environmentally friendly fuel. ENSTAR supplies natural gas in our service territory at prices that currently preclude substitution of alternative energy sources. At present, the residential energy cost of natural gas in Alaska is less than half the cost of fuel oil, the next most economical energy choice.

General economic conditions also have an impact on the volume of gas sold or transported to our commercial and industrial customers. During economic downturns, these customers may see a decrease in demand for their product, which in turn may lead to a decrease in the amount of natural gas they require for production. However, under normal weather conditions, we generate approximately 68% of our gas sales revenue from residential customers, which is generally not impacted materially by downturns in the economy. Temperatures, however, do have a material impact on the amount of gas sold for heating purposes.

Consistent with other gas distribution utilities, there is a potential risk that industrial and electric generating plants on our gas distribution system, and also located in close proximity to interstate natural gas pipelines, will bypass our system and connect directly to such pipelines. However, management is currently unaware of any significant bypass efforts by our customers. We have addressed, and will continue to address, any such efforts by offering special services and rate arrangements designed to retain these customers on our system.

Diversified Businesses

The following table shows operating revenue for each of the diversified businesses, including intercompany revenue, for the nine months ended September 30, 2003 and 2002 and for 2000 through 2002:

	Year ended December 31,			Nine Months ended September 30,	
	2002	2001	2000	2003	2002
			(in thousands)		
Operating revenue:					
Construction services	$ 119,254	$ 126,205	$ 105,231	$ 60,836	$ 95,973
Information technology services	9,618	10,275	5,184	6,675	7,088
Propane, pipelines and storage	7,058	7,443	6,949	5,439	4,751

For information on intercompany operating revenues, total operating income and total assets of the above diversified segments for the years ended December 31, 2002, 2001 and 2000, refer to Note 11 of the Notes to the Consolidated Financial Statements. For information on intercompany operating revenues and total operating income for the nine months ended September 30, 2003 and 2002, refer to Note 5 of the Condensed Notes to the Unaudited Consolidated Financial Statements.

As previously discussed, we have accounted for our engineering services segment as a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in our consolidated statements of operations.

Construction Services

Our construction services business operates in the midwestern, southern and southeastern regions of the United States and has offices in Georgia, Illinois, Iowa, Michigan and Texas. Its primary service is the installation and upgrade of compressor stations and underground natural gas mains and service lines.

Most of the profits from this segment are made during the summer and fall months. Our construction services business generally incurs losses during the winter months when underground construction is inhibited by weather.

Operating revenue from construction services accounted for 22%, 26% and 23% of consolidated operating revenue in 2002, 2001 and 2000, respectively, and 16% and 29% of consolidated operating revenue in the nine months ended September 30, 2003 and 2002, respectively.

Decision To Pursue Sale Of Construction Services Business

In November 2003, we announced that our Board of Directors instructed management to pursue the sale of our construction services business. We anticipate that the proceeds of a sale will be used to strengthen our financial position by supporting the growth of our gas distribution business through the funding of its capital expenditures, or by paying down indebtedness. As of September 30, 2003, after recording the impairment charges, the book value of the construction services business's assets was approximately $40 million.

Propane, Pipelines and Storage

Our natural gas pipelines and storage operations consist of several gas transmission pipelines and an ownership interest in a gas storage facility, all of which are located in Michigan. We also own a propane distribution business known as Hotflame that supplies more than four million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin. Because propane is used principally for heating, most of the operating income for the propane business is generated in the first and fourth quarters of the calendar year.

Propane is transported easily in pressurized containers and is generally the fuel used in rural areas where natural gas pipelines and distribution systems do not exist or are not economical to build. We purchase the majority of our propane from BP Canada. The propane operation competes with other energy sources such as natural gas, fuel oil, electricity and other regional and national propane providers. The basis of the competition is generally price and service.

Outlook for Propane, Pipelines and Storage

Management believes that the natural gas pipelines and storage operations could experience opportunities for growth with the increasing demand for natural gas. As gas markets expand, management believes that the quantity of gas moving through the Great Lakes region will increase, which could create additional pipeline and storage opportunities.

Information Technology Services

Our IT services business, under the name Aretech, began operations in April 2000 and provides IT infrastructure outsourcing services and other IT services with a focus on mid-range computers. Our other business segments accounted for approximately 79% of Aretech's revenue during 2002. Aretech competes with businesses that range from small to mid-sized companies, as well as the in-house IT departments of potential customers.

Outlook for IT Services

Aretech's business strategy is focused on IT infrastructure outsourcing services. Our goal is to capitalize on our internal expertise in this area and position us to take advantage of these trends. Management believes there is a growing trend by small to mid-sized companies to outsource certain IT functions. We believe the trend towards outsourcing large mainframe-computing services is now moving to include mid-range computers.

Regulatory Matters

Rates and Regulation Relating to Gas Distribution Business

The gas distribution business is subject to government regulation on various levels. The regulatory matters associated with gas distribution business customers located in the City of Battle Creek, Michigan and surrounding communities are subject to the jurisdiction of the CCBC. The MPSC has jurisdiction over the regulatory matters related to our remaining Michigan customers. Regulatory matters for gas distribution business customers in Alaska are subject to the jurisdiction of the RCA. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. Since our gas distribution business operations are wholly intrastate, they are not subject to regulation by the Federal Energy Regulatory Commission.

Alaska

The RCA consists of five members who serve staggered six year terms. They are appointed by the governor of the State of Alaska and confirmed by the Alaska state legislature. The RCA has

jurisdiction as to rates and charges for gas sales, construction of new facilities, extensions and abandonments of service and certain other matters. Rates generally permit the recovery of the cost of providing service, including purchased gas costs, and a return on investment. APC and ENSTAR are regulated by the RCA as a single entity. No consent, approval or withholding of objection by the RCA is required for the issuance or sale of long-term debt by a public utility under its jurisdiction.

ENSTAR may apply to the RCA for rate increases if higher costs or other factors warrant. Revised rates typically go into effect, subject to refund and pending final RCA determination, 45 days after they are filed unless suspended for further investigation by the RCA. The RCA normally suspends general rate increases filed to recover costs, other than purchased gas costs, for at least a six-month period. ENSTAR recovers its gas purchase costs through a separate rate element, on a direct pass-through basis.

ENSTAR has an RCA-approved GCA pricing mechanism which allows for the adjustment of rates charged to customers in Alaska for increases and decreases in the cost of gas purchased. Under the GCA pricing mechanism, the gas charge portion of customers' gas rates is adjusted annually to reflect the estimated cost of gas purchased for the upcoming 12-month period. Any difference between the actual cost of gas purchased and the estimate is deferred as a current asset or current liability and included in the next annual adjustment to the gas charge portion of rates. The GCA may be adjusted quarterly if there are significant variances from the estimates.

ENSTAR has RCA approved gas purchase contracts with several entities. The base price of gas purchased under these contracts can be adjusted annually based on factors such as the price of certain traded oil futures, certain natural gas futures and other inflationary measures. Gas costs from new gas supply contracts may be recovered only upon approval of the RCA.

Since 2000, ENSTAR has been undergoing a rate review at the RCA. It received an RCA order, dated August 8, 2002, establishing a revenue requirement of $107.6 million and a return on equity of 12.55% based on normalized data for the year 2000. The RCA order reduced the revenue requirement by approximately $2 million, which represented approximately 1.84% of ENSTAR's revenue in the normalized 2000 test year. ENSTAR has implemented the rate reduction and filed a cost-of-service study and rate design as required by the RCA order. ENSTAR has reached an agreement with all parties to settle all contested issues on the cost-of-service study and the rate design. A written stipulation has been submitted to the RCA for approval. If accepted, the stipulation will approve ENSTAR's cost-of-service study as filed and adopt increased monthly customer charges and flat volumetric rates for retail gas customers. Power plant and most industrial rates would be adopted as originally filed by ENSTAR, which are of similar design to currently effective rates. The RCA held a hearing on May 15, 2002 with respect to the rate design settlement. An order was issued dated May 21, 2003 accepting the settlement in its entirety, and making the new rates effective for billings issued on or after May 31, 2003. The stipulation accepted ENSTAR's cost-of-service study which provided for decreases to the residential, power plant and industrial customers, and increases to commercial customers. In addition, the adopted rate design recovers more of the revenue through increased monthly customer charges.

Since the inception of service in 1961, ENSTAR has had only four formal rate proceedings, including the one currently in process (1975, 1981 and 1984).

Michigan

The MPSC regulates retail gas sales and distribution and intrastate transportation of natural gas. Specifically, the MPSC establishes our base rates for the sale, distribution and transportation of natural gas which are designed to allow for the opportunity to recover reasonably and prudently incurred costs and earn a regulated equity return. Pursuant to its ratemaking authority, the MPSC has access to our books and records and the books and records of each of our subsidiaries, affiliates and our joint

ventures. The MPSC also establishes accounting methodologies, record-keeping procedures and report filings requirements. Additionally, our billing, metering and extension practices and consumer shut-off procedures are defined by the MPSC. Further, the MPSC has established our transportation standards of conduct and has approved our customer choice program which allows residential, industrial and commercial customers to select an alternative gas supplier. Under the terms of this program, we are the supplier of last resort. As the supplier of last resort we are required to hold contracts for adequate quantities of underground storage and pipeline transportation for the delivery of supply to all of our residential and commercial customers as protection against the failure of a third party marketer to deliver supply to our Michigan distribution system. The MPSC establishes and enforces gas safety standards and regulates the construction and operation of intrastate transmission pipelines and lines. The MPSC is required to investigate any written complaint alleging that our rates, classifications, regulations or practices are unjust, inaccurate or improper. The MPSC also establishes separate charges for the recovery of reasonably and prudently incurred booked costs of gas sold by us and fixes our depreciation rates. Special contracts for the sale and/or transportation of natural gas at non-tariff rates and/or services must be approved by the MPSC. No consent, approval or withholding of objection by the MPSC is required for the issuance or sale of long-term debt by a public utility under its jurisdiction.

Our rates, practices and services for the sale, distribution and transportation of natural gas within the City of Battle Creek and its immediate vicinity are regulated by the City pursuant to the terms of a franchise. Within the jurisdiction of the CCBC, all non-gas rate changes and revisions in the conditions of service may be implemented by us after written notification to the City's manager. However, all gas rate changes must be put on the meeting agenda of the City Commission. If no request for hearing is made by the CCBC, the rate change will automatically go into effect without further action on our part. If the CCBC requests a hearing, a public hearing must be concluded within 90 days of such request. The final decision of the CCBC is determined on the basis of a majority vote of the CCBC members. There are nine publicly elected City Commissioners who serve 2 year terms.

Finally, in our various service territories, we operate subject to the terms and conditions of applicable franchise agreements with municipalities. These franchise agreements authorize us to use the public rights-of-way for the construction of our facilities and to transact a local business. Construction is usually subject to restoration conditions such as vegetation and road surface restoration and indemnity provisions such as indemnification of the municipality for any property damage caused by our facilities.

Prior to April 1, 1999, our Michigan-based gas distribution business had a regulator-approved GCR pricing mechanism for the geographic regions subject to the regulatory jurisdiction of the MPSC and CCBC. The GCR pricing mechanism works similarly to the GCA pricing mechanism. During the three-year period from April 1, 1999 to March 31, 2002, the MPSC and CCBC authorized us to suspend our GCR clause and freeze in our customer base rate at a fixed gas charge of $3.24 per thousand cubic feet, or Mcf. The MPSC order was applicable only in the geographic regions subject to the regulatory jurisdiction of the MPSC, and, therefore, did not govern rates regulated by the CCBC. However, we voluntarily requested, and the CCBC approved, a similar freeze in the gas charge at $3.24 for customers subject to the jurisdiction of the CCBC. The CCBC also approved a suspension of the GCR clause. We were able to offer this Michigan GCR suspension and rate freeze mainly as a result of agreements reached with TransCanada Gas Services, Inc. During 2001, TransCanada sold its gas marketing business and assigned the agreements to BP Canada. Under the agreements, TransCanada or BP Canada provided a significant portion of our natural gas requirements and managed our natural gas supply and the supply aspects of transportation and storage operations in Michigan for the three-year period, at a cost that was, in most instances, below the $3.24 price charged to customers. As a result, during the three-year period from April 1, 1999 through March 31, 2002, the Michigan gas distribution

business retained any gas costs savings that resulted when the cost of purchased natural gas was below the $3.24 fixed price charged to customers, subject to a customer profit sharing mechanism.

When the GCR suspension period and rate freeze expired on March 31, 2002, we reinstated our GCR pricing mechanism for customers subject to the jurisdiction of the MPSC. Consequently, effective April 1, 2002, we could no longer earn any income on the gas charge portion of the MPSC customers' rates. We received approval from the CCBC to extend the GCR suspension period and the fixed gas charge program with a new fixed gas charge until March 31, 2005 for CCBC customers. We also received approval during 2001 from the CCBC to start charging CCBC customers on a thermal basis rather than a volumetric basis. We buy all of our natural gas by the dekatherm and now also sell it to our CCBC customers by the dekatherm.

Beginning in 2002, the profit incentive and sharing mechanism discussed previously is no longer in effect for MPSC customers. Instead, the profit incentive and sharing mechanism in effect for the calendar year 1998 was reinstated for 2002. Under this mechanism, referred to as a "reverse taper incentive," if the return on equity for the division of our Michigan-based natural gas distribution business that serves our MPSC customers exceeds 10.75%, certain portions of the excess return between 10.75% and 16.0% would be credited to customers. For purposes of this mechanism, if the return on equity exceeds 16.0%, we are required to file a general rate case with the MPSC. The return on equity did not exceed 10.75% for 2002.

On November 21, 2002, our division regulated by the MPSC filed an application for a general rate increase. On May 2, 2003, the MPSC approved a settlement agreement, effective May 3, 2003, which provides for:

- a revenue requirement of $71.9 million based on a 2003 projected test year;

- an increase of return on common equity from 10.75% to 11.40%;

- the elimination of the reverse taper incentive mechanism so that we are no longer required to refund revenues to customers above the return on common equity;

- no potential refund to customers for property tax expense based on the lower state property tax tables; and

- an increase in the monthly service charge (from $7.00 to $9.50 per month for residential customers).

As a result of this settlement agreement, we expect a general rate increase of $3.4 million annually and a reduction of depreciation expense of $1.4 million annually.

In October 2003 the MPSC approved our 2003-2004 GCR plan authorizing us to charge up to $6.79 per Mcf through March 31, 2004.

Safety Regulations

Our operations are subject to regulation by the United States Department of Transportation under Chapter 601 of Title 49 of the United States Code, as amended, and its implementing regulations, relating to minimum safety standards that may apply to the design, installation, inspection, emergency plans and procedures, testing, construction, extension, operation, replacement and maintenance of our pipeline facilities. Chapter 601 requires any entity that owns or operates certain pipeline facilities to comply with applicable safety standards, to establish and maintain inspection and maintenance plans and to comply with such plans. The Pipeline Safety Improvement Act of 2002 makes numerous changes to Chapter 601, including the requirement that operators of pipeline facilities adopt and implement written integrity management programs, which must include a baseline integrity assessment of each of an operator's transmission facilities. Operators of pipeline facilities have certain incremental obligations

under the pipeline integrity laws and regulations, including both immediate as well as future obligations. We anticipate that compliance with the Pipeline Safety Improvement Act and emerging regulations will impose increased costs associated with pipeline inspection and pipeline integrity program requirements, but based on current information we do not expect these costs to have a material adverse effect upon our earnings.

Environmental Matters

Our operations, like those of other companies in similar industries, are subject to federal, state and local environmental and health and safety laws and regulations including those that impose workplace standards and regulate the discharge of pollutants into the environment and establish standards for the handling, generation, emission, release, discharge, treatment, storage and disposal of materials and substances including solid and hazardous wastes. The failure to comply with these regulations can lead, among other things, to civil and criminal penalties and, in some circumstances, the temporary or permanent curtailment of operations. We believe that we are in material compliance with such laws and regulations. We do not anticipate having to make, and historically have not made, material capital expenditures in order to comply with applicable environmental laws and regulations. However, due to the nature of our operations and the frequently changing nature of environmental compliance standards and technology, we cannot predict with any certainty what capital expenditures or operating costs will be required in the future. Depending upon the nature of such future requirements, the cost of maintaining compliance may have a material adverse effect on our business, financial condition and results of operations.

In addition to operational standards, environmental laws also impose obligations to clean up contaminated properties or to pay for the cost of such remediation, often upon parties that did not actually cause the contamination. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property or related to other property to which we have sent waste. Given the nature of the past operations conducted by us and others at these properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where an environmental site assessment has been conducted.

While we are not aware of significant contamination-related liabilities associated with our present operations, our gas distribution business currently owns seven Michigan sites which formerly housed manufactured gas plants, or MGPs, and related facilities. In the early part of the 20th century, gas was manufactured from processes using coal, coke or oil. By-products of these processes have left some contamination at these sites. We expect that we will ultimately incur investigation and remedial action costs at some of these sites. Future accidental spills or discharges may also occur and lead to additional remediation liability. For the sites that we own, our gas distribution business is in material compliance with State of Michigan rules which require companies to take "due care" steps to insure that the sites are safe and, on some of these sites, to diligently pursue investigation and cleanup. The State has allowed utility companies to prioritize their sites and address the most serious sites first. We have completed preliminary evaluations at each of our sites and identified the sites that should be addressed first. Because we have determined that four of the MGP sites ceased operations prior to our acquisition of the properties, we have taken the position that the prior owner is solely responsible for their remediation under State law and have not included them in our priority site list. Consistent with our approved priority list, our gas distribution business has closed a site related to the disposal of waste from a manufactured gas plant in Battle Creek with the approval of the Michigan Department of Environmental Quality, or MDEQ, and has developed plans and conducted preliminary field investigations at two other sites. Because the extent of the contamination at these sites has not been fully delineated, we cannot reasonably estimate the potential costs and liabilities associated with the

remediation of these sites and have not established financial reserves to account for such potential expenses. Although our total remediation costs may ultimately be material, we note that, absent a change in regulatory policy by MDEQ, any remediation costs will be incurred over time as the individual sites are reviewed in accordance with MDEQ's site remediation policies. In addition, where possible, the company is seeking to ensure that the costs of remediation are paid by or shared with other responsible parties or insurance carriers. In accordance with an MPSC accounting order, any environmental investigation and remedial action costs will be deferred and amortized over ten years (although rate recognition of the related amortization expense will not begin until after a prudence review in a general rate case).

Properties

Gas Distribution

The gas delivery system of SEMCO Gas included approximately 160 miles of gas transmission pipelines and 5,423 miles of gas distribution pipelines at December 31, 2002. The pipelines are located throughout the southern half of Michigan's lower peninsula (centered in and around the cities of Port Huron, Albion, Battle Creek, Three Rivers, Niles and Holland) and also in the central and western regions of Michigan's upper peninsula. At December 31, 2002, ENSTAR's gas delivery system included approximately 396 miles of gas transmission pipelines and 2,421 miles of gas distribution pipelines. ENSTAR's pipelines are located in Anchorage and other communities around the Cook Inlet region of Alaska.

Our gas distribution business owns underground gas storage facilities in eight depleted salt caverns and three depleted gas fields, together with measuring, compressor and transmission facilities. The storage facilities are all located in Michigan. The aggregate working capacity of the storage system is approximately 5 Bcf.

Construction Services

The tangible properties of our construction services business include equipment required for the installation, repair or replacement of compressor stations and underground natural gas mains and service lines. This includes primarily equipment necessary for excavation such as backhoes, trenchers, directional drills and dump trucks. This equipment can be driven or carried on trailers from one worksite to another. The largest concentrations of our construction services business' equipment at September 30, 2003 was located in Georgia, Illinois, Iowa, Michigan and Texas.

Propane, Pipelines and Storage

The principal properties of this business segment include interests and operations in propane distribution, natural gas transmission and an underground gas storage system.

We own a 50% equity interest in the Eaton Rapids Gas Storage System. Our equity investment in the Eaton Rapids Gas Storage System totaled $5.4 million at September 30, 2003. This system, located near Eaton Rapids, Michigan, became operational in March 1990 and consists of approximately 12.8 Bcf of underground storage capacity. Our gas distribution business leases 6.5 Bcf of the capacity.

The property of the propane distribution operation consists primarily of pressurized propane storage tanks used by customers to store propane purchased from us and trucks for transporting propane. We also own large propane storage tanks that allow us to store up to 258,000 gallons of propane inventory. The propane distribution property is all located in Michigan's upper peninsula and northeast Wisconsin.

The Litchfield lateral is a 31-mile pipeline located in southwest Michigan. The line, which is leased entirely to ANR Pipeline Company, links the Eaton Rapids Gas Storage System with interstate pipeline supplies.

The Greenwood pipeline, an 18.5-mile pipeline constructed in 1991, connects an interstate pipeline with the Detroit Edison Greenwood power plant located near Port Huron, Michigan. The pipeline provides transportation services to the Greenwood power plant and to our gas distribution business' service area north of Port Huron.

The Eaton Rapids pipeline is a 37-mile pipeline that provides direct delivery of gas from the Eaton Rapids Gas Storage System to our gas distribution business' systems in Battle Creek and Albion, Michigan.

Information Technology Services

The properties of this business segment consist of leasehold improvements, office equipment, telecommunications equipment and computer equipment. These properties are located in a building located in Marysville, Michigan and an office leased in Port Huron, Michigan.

Employees

At December 5, 2003, we had approximately 1,535 full-time employees. Within SEMCO Gas, ENSTAR and Hotflame, 276 employees are represented by unions as follows:

	No. of Employees	Exp. Date
Steelworkers, Local #3135	18	6/24/04
Steelworkers, Local #16201	43	6/30/04
Utility Workers, Local #445	33	9/09/05
Utility Workers, Local #473	41	12/07/07
Teamsters (Hotflame)	14	1/31/04
Pipefitters, Local #367	127	4/01/04

In January 2004, a new contract with Pipefitters, Local #367 was ratified that will go into effect on April 1, 2004 and expire on March 31, 2009.

The majority of EnStructure Corporation employees are seasonal, a portion of whom are represented by unions through a multi-employer association format. We believe that our employee relations are good.

Legal Proceedings

In the normal course of business, we may be a party to lawsuits and administrative proceedings before various courts and government agencies. These lawsuits and proceedings may involve personal injury, property damage, contractual issues and other matters. Management cannot predict the ultimate outcome of any pending or threatened litigation or of actual or possible claims. However, management believes resulting liabilities, if any, will not have a material adverse impact upon our financial position or results of operations. Notwithstanding the above statement, in late March 2003 we were served a complaint in a putative class-action lawsuit alleging that the approximately 30 defendants, including SEMCO Energy and SEMCO Energy Ventures, Inc., engaged in practices that violated the Sherman Anti-Trust Act and tortuously interfered with the business of the plaintiffs. In October 2003, the plaintiff voluntarily dismissed this action in the jurisdiction in which the action was originally filed and gave us notice that it would refile the complaint in a different jurisdiction. In November 2003, the plaintiff filed a separate but similar lawsuit against SEMCO Energy Services, Inc. We are considering potential legal and factual defenses to these claims and intend to vigorously defend ourself in this action. Although we cannot make any assurances, management currently believes that this suit will not have a material adverse effect on our business or results of operations.

MANAGEMENT

The following table sets forth information about our directors and executive officers as of the date of this prospectus.

Name	Age	Title
Eugene N. Dubay	54	President and Chief Executive Officer on an interim basis, and SEMCO Gas Division Senior Vice President and Chief Operating Officer
John E. Schneider	55	Senior Vice President, Treasurer and Chief Financial Officer
Gary J. Valentz	47	Vice President and Chief Information Officer
Mark T. Prendeville	53	Vice President and General Counsel
Steven W. Warsinske	48	Vice President and Controller
John M. Albertine	59	Director
Edward J. Curtis	61	Director
John T. Ferris	53	Director
Michael O. Frazer	64	Director
John R. Hinton	58	Chairman of the Board on an interim basis
Harvey I. Klein	64	Director
Frederick S. Moore	65	Director
Thomas W. Sherman	63	Director
Edith A. Stotler	57	Director
Donald W. Thomason	59	Director

Each director's principal employment is and has been with a company not affiliated with SEMCO Energy.

Eugene N. Dubay has served as our President and Chief Executive Officer on an interim basis since December 2, 2003 and has served as Senior Vice President and Chief Operating Officer of SEMCO Gas since October 2002. Prior to his positions at SEMCO Energy, Mr. Dubay served as President of Kansas Gas Service Division of ONEOK, Inc. from 1997 to October 2002.

John E. Schneider has been our Senior Vice President, Treasurer and Chief Financial Officer since January 2002. Mr. Schneider also served as our Vice President from April 2001 to January 2002; SEMCO Gas Division Executive Vice President and Chief Operating Officer from March 2001 to January 2002; Senior Vice President of Corporate Development from September 1999 to March 2001; and Senior Vice President and Chief Operating Officer of SEMCO Energy Ventures, Inc., our subsidiary, from May 1998 to September 1999. Prior to joining us, he was self-employed as a management and business consultant from 1994 to May 1998.

Gary J. Valentz has been our Vice President and Chief Information Officer since April 28, 2003. Prior to joining SEMCO Energy, Mr. Valentz was Chief Information Officer/Director Business Services for MSX International since January 2001. Previously he was Chief Information Officer Coastal Natural Gas Group—ANR Pipeline and Vice President Information Technology—Coastal Corporation from January, 1999 to January, 2001. He was director of Business Information Systems—Great Lakes Chemical Corporation from 1997 through 1998.

Mark T. Prendeville has been appointed our Vice President and General Counsel, effective May 1, 2003. Mr. Prendeville joined SEMCO Energy in February 2000 as Manager of Labor and Employee Relations for SEMCO Gas and became our Labor and Employment Counsel in March of 2001. Prior to joining SEMCO Energy, he was General Counsel for a privately held automotive supplier from 1990 to 2000.

Steven W. Warsinske has been our Vice President and Controller since April 2000. He served as SEMCO Gas Division Vice President and Chief Accounting Officer from February 1998 to April 2000.

He was the SEMCO Gas Division Vice President of Accounting and Controller from 1996 to February 1998.

John M. Albertine has been Chairman and Chief Executive Officer of Albertine Enterprises, Inc., an economic forecasting, public policy and full-service mergers and acquisitions firm based in Washington, D.C. since 1990. He also serves as Chief Executive Officer of Jam Shoe Concepts, Inc. which owns 100% of the assets of a retail family shoe chain with 46 stores in the Midwest. Mr. Albertine holds a Ph.D. in economics from the University of Virginia. Mr. Albertine is also a Director of Intermagnetics General Corporation and Kadant Inc. He has been a director of SEMCO Energy since 2000.

Edward J. Curtis is President of E.J. Curtis Associates, Inc., a professional management consulting firm founded in 1972 with concentration in the natural gas and electric utility industries. Mr. Curtis is a member of the Society of Gas Lighting, the Guild of Gas Managers, the American Gas Association, the American Institute of Chemical Engineers, the Association of Energy Engineers and the International Association for Energy Economics. He has been a director of SEMCO Energy since 1995.

John T. Ferris has been the Senior Partner in the law firm of Ferris & Schwedler, P.C. in Bad Axe, Michigan since 1990. Mr. Ferris has been a director of SEMCO Energy since 1994.

Michael O. Frazer has been in private practice as an attorney since 1966. Mr. Frazer has been a director of SEMCO Energy since 1986.

John R. Hinton was the Executive Vice President Administration—Chief Financial Officer of the Kellogg Company from 1996 until his retirement in 1999. Mr. Hinton has been a director of SEMCO Energy since 2002 and has served as lead director of SEMCO Energy since April 2003 and Chairman of the Board on an interim basis since December 2, 2003.

Harvey I. Klein has been President of Global Strategies Group L.C., a private consulting firm, since 1995. Mr. Klein has been a director of SEMCO Energy since 1993.

Frederick S. Moore is Chairman and President of DSLT Inc., a company engaging in the real estate development business. Since 1999, he has been Chairman of Mardale Specialty Foods, LLC., a producer of individual portion control jams, jellies, condiments and salt and pepper packets. Mr. Moore also served as Chairman of Diamond Crystal Specialty Foods, Inc. (Diamond Crystal), which was a subsidiary of DSLT Inc. until Diamond Crystal's sale in November 1998. He has been a director of SEMCO Energy since 1995.

Thomas W. Sherman served as a director of Bay State Gas Company, a wholly-owned subsidiary of NiSource, Inc., from 1975 through 2002. NiSource, Inc., an Indiana corporation providing gas distribution services in nine states, acquired Bay State Gas Company in 1999. Mr. Sherman also acted as a consultant to NiSource, Inc., from June 2000 to June 2001 and served as an Executive Vice President and Chief Financial Officer of Bay State Gas Company from 1975 to June 2000. He has been a director of SEMCO Energy since 2002.

Edith A. Stotler is a personal family financial manager. Ms. Stotler was a Partner of Stotler Grain Company from 1990 until the partnership was dissolved in December 2001 and President of S&I Grain Company (formerly Homer Grain Company) from 1990 until the assets of S&I Grain Company were sold in July 2000. She has been a director of SEMCO Energy since 1987.

Donald W. Thomason was an Executive Vice President of Corporate Services/Technology for the Kellogg Company from 1978 until his retirement in 1999. Mr. Thomason served as lead director of SEMCO Energy from November 1998 to April 2003 and has been a director since 1995.

DESCRIPTION OF OTHER INDEBTEDNESS

The following is a summary of our material indebtedness in addition to the notes. We urge you to read the documents summarized below because they, and not these descriptions, define the rights of the holders of such indebtedness. We will make copies of any such documents available to you upon request.

Debt Securities

7.125% Senior Notes Due 2008

Concurrently with the May issuance of the 7.75% Senior Notes due 2013, we issued 7.125% Senior Notes due 2008 pursuant to an indenture dated as of May 21, 2003 between us and Fifth Third Bank, a Michigan banking corporation, as trustee, for an aggregate principal amount of $150.0 million, of which $150.0 million was outstanding as of September 30, 2003. Interest on the 2008 Senior Notes is payable semi-annually. The 2008 Senior Notes will mature on May 15, 2008. The 2008 Senior Notes are redeemable by us at any time upon not less than 30 nor more than 60 days prior notice at a redemption price equal to 100% of the principal amount of the 2008 Senior Notes plus the applicable premium as of, and accrued and unpaid interest and additional interest, if any, to the date of redemption. Other than as set forth above, the terms of the 2008 Senior Notes are similar in all material respects to the notes being offered hereby as described in the "Description of Notes."

8.00% Senior Notes Due 2010, 8% Senior Notes Due 2016 and 6.49% Senior Notes Due 2009

We have issued a series of debt securities under an indenture dated as of October 23, 1998, as supplemented from time-to-time, between us and Bank One Trust Company, National Association, successor to NBD Bank, as trustee, referred to as the 1998 Indenture.

We issued $30.0 million of 8% Senior Notes due 2010 pursuant to the 1998 Indenture, of which $29.9 million was outstanding as of September 30, 2003. Interest on the 2010 Senior Notes is payable semi-annually. The 2010 Senior Notes will mature on April 30, 2010. We have the right to redeem the 2010 Senior Notes, in whole or in part, at our option at any time on or after April 30, 2003 at a redemption price equal to (1) 101% of the principal amount redeemed for redemptions occurring during the 12-month period ending on April 29, 2004 and (2) 100% of the principal amount redeemed for redemptions occurring on or after April 30, 2004, plus, in each case, any accrued and unpaid interest to the date of redemption. The 2010 Senior Notes also contain provisions that give the estates or heirs of deceased 2010 Senior Note holders the right to request that we redeem their 2010 Senior Notes. During 2002, 2001 and 2000, we redeemed $15,000, $10,000 and $50,000, respectively, of the 2010 Senior Notes in accordance with these provisions.

We issued $60.0 million of 8% Senior Notes due 2016 pursuant to a third supplemental indenture dated as of June 15, 2001, of which $59.7 million was outstanding as of September 30, 2003. Interest on the 2016 Senior Notes is payable quarterly. The 2016 Senior Notes will mature on June 30, 2016. We can redeem all or a part of the 2016 Senior Notes on or after June 30, 2006 at 100% of the principal amount, plus any accrued and unpaid interest to the date of redemption. The 2016 Senior Notes also contain provisions that give the estates or heirs of deceased 2016 Senior Note holders the right to request that we redeem their 2016 Senior Notes. During 2002, we redeemed $110,000 of 2016 Senior Notes in accordance with these provisions.

We issued $30.0 million of 6.49% Senior Notes due 2009 pursuant to a fourth supplemental indenture dated as of September 19, 2002, of which $30.0 million was outstanding as of September 30, 2003. Interest on the 2009 Senior Notes is payable semi-annually. The 2009 Senior Notes will mature and become due and payable on October 1, 2009, together with any accrued and unpaid interest. The 2009 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

The 2010 Senior Notes, 2016 Senior Notes and 2009 Senior Notes are unsecured debt securities that rank equally with all of our other unsecured and unsubordinated obligations. None of these notes are subject to any sinking fund. The 1998 Indenture under which the 2010 Senior Notes, 2016 Senior Notes and the 2009 Senior Notes have been issued contains no limit on the amount of additional debt that may be issued by us, but the indenture contains restrictions that may limit our ability to provide security for such additional debt and to enter into sale and lease-back transactions. The 1998 Indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Medium Term Notes

6.50% Medium Term Notes Due 2005, 6.40% Medium Term Notes Due 2008 and 7.03% Medium Term Notes Due 2013

In November 1998, we issued 6.50% Senior Notes due 2005 pursuant to the 1998 Indenture for an aggregate principal amount of $15.0 million, of which $15.0 million was outstanding as of September 30, 2003. Interest on the 2005 Senior Notes is payable semi-annually. The 2005 Senior Notes will mature on November 25, 2005, together with any accrued and unpaid interest. The 2005 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

We issued 6.40% Senior Notes due 2008 in November 1998 pursuant to the 1998 Indenture for an aggregate principal amount of $5.0 million, of which $5.0 million was outstanding as of September 30, 2003. Interest on the 2008 Senior Notes is payable semi-annually. The 2008 Senior Notes will mature on November 25, 2008, together with any accrued and unpaid interest. The 2008 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

We also issued 7.03% Senior Notes due 2013 in November 1998 pursuant to the 1998 Indenture for an aggregate principal amount of $10.0 million, of which $10.0 million was outstanding as of September 30, 2003. Interest on the 2013 Senior Notes is payable semi-annually. The 2013 Senior Notes will mature on November 25, 2013, together with any accrued and unpaid interest. The 2013 Senior Notes are not redeemable by us or at the option of the holders thereof prior to maturity.

The 2005 Senior Notes, 2008 Senior Notes and 2013 Senior Notes are unsecured debt securities that rank equally with all of our other unsecured and unsubordinated obligations. None of these notes are subject to any sinking fund. The 1998 Indenture, under which these securities have been issued, contains no limit on the amount of additional debt that may be issued by us, but the 1998 Indenture contains restrictions that may limit our ability to provide security for such additional debt and to enter into sale and lease-back transactions. The 1998 Indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Trust Preferred Securities and Related Debt Securities

We established two new wholly-owned subsidiaries as capital trusts for the sole purpose of issuing trust preferred securities and lending the gross proceeds back to us. The sole assets of the capital trusts are our debt securities with terms similar to the terms of the related trust preferred securities.

Trust I Preferred Securities

In April 2000, SEMCO Capital Trust I issued 1.6 million shares of 10.25% cumulative trust preferred securities at a price of $25 per security. SEMCO Capital Trust I used the $40.0 million in proceeds from the issuance of the 10.25% trust preferred securities to invest in our Series A 10.25% Subordinated Debentures due June 30, 2040. The 10.25% trust preferred securities are subject to mandatory redemption upon repayment of the Series A Debentures at maturity or their earlier

redemption. We used the net proceeds from the sale of the Series A Debentures to repay a portion of the bridge loan we utilized in our 1999 acquisition of ENSTAR.

Related Series A 10.25% Subordinated Debentures Due 2040

In connection with the 10.25% trust preferred securities, we issued Series A 10.25% Subordinated Debentures due June 30, 2040 under an indenture, as supplemented by the first supplemental indenture, each dated as of April 19, 2000, for an aggregate principal amount of $41.2 million, of which $40.0 million was outstanding as of September 30, 2003. Interest is payable quarterly. The Series A Debentures mature on June 30, 2040, but may be redeemed by us at any time after April 19, 2005, or at any time within 90 days following the occurrence of certain specified events at a redemption price equal to 100% of the principal amount, plus any accrued and unpaid interest to the date of redemption. The Series A Debentures represent intercompany debt and therefore are not reflected in our consolidated financial statements.

The Series A Debentures are subordinate and junior in right of payment to the prior payment in full of all of our senior indebtedness and rank*pari passu* in right of payment with each other series of securities issued under the indenture. The Series A Debentures do not have a sinking fund. The indenture under which the Series A Debentures have been issued contains no limit on the amount of additional debt that may be issued by us, but the indenture contains restrictions that may limit our ability to provide security for such additional debt; enter into sale and lease-back transactions; pay dividends or make distributions on account of our equity interests, repurchase equity and make certain other restricted payments; and make payments of interest, principal or premium or redeem any debt securities issued by us which rank *pari passu* with or junior to the Series A Debentures. The indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Trust II Preferred Securities; FELINE PRIDES

Also during 2000, we issued 10.1 million shares of FELINE PRIDES at a price of $10 per security. Each FELINE PRIDES consists of a stock purchase contract and a 9% trust preferred security of SEMCO Capital Trust II due 2005 with a stated face value per security of $10. SEMCO Capital Trust II used the $101.0 million in proceeds to invest in our 9% Senior Deferrable Notes due 2005.

Under the terms of each stock purchase contract (which was a component of a FELINE PRIDES unit), the FELINE PRIDES holder was obligated to purchase, and we were obligated to sell, between 0.7794 and 0.8651 shares of our common stock to the FELINE PRIDES holder in August 2003. The actual number of shares of common stock to be sold depended on the average market value of a share of common stock in August 2003. In addition to payments on the 9% trust preferred securities, we were also obligated to pay the FELINE PRIDES holders a quarterly contract adjustment payment on each stock purchase contract at an annual rate of 2% of $10 until August 16, 2003.

The FELINE PRIDES holders were able to settle their obligation to purchase our common stock by paying cash or by having their 9% trust preferred securities remarketed in August 2003. Approximately all of the FELINE PRIDES holders elected to have their trust preferred securities remarketed to raise the cash needed to fulfill their obligations under the terms of the stock purchase contracts, which were a component of the FELINE PRIDES. The remarketing was not successful and we took possession of those trust preferred securities and retired them in order to satisfy the FELINE PRIDES holders' obligations to purchase 8.74 million shares of our common stock. The distribution rate on the 9% trust preferred securities was also reset in August 2003 to 3.77%. At September 30, 2003, there was $89,000 of 3.77% trust preferred securities outstanding.

Related 9% Senior Deferrable Notes Due 2005

In connection with the FELINE PRIDES, we issued our 9% Senior Deferrable Notes due 2005 pursuant to the 1998 Indenture, as supplemented by a first supplemental indenture dated as of June 16, 2000, for an aggregate principal amount of $104.1 million. Each Senior Deferrable Note bore interest at the rate of 9% per year until August 16, 2003, and at such time the rate was reset to 3.77% by the reset agent as described above with respect to the then remaining Senior Deferrable Notes. As of September 30, 2003, an aggregate principal amount of $91,750 of Senior Deferrable Notes remained outstanding. We have the right to defer interest payments on the Senior Deferrable Notes by extending the interest payment period. The Senior Deferrable Notes will mature on August 16, 2005, but we may redeem the Senior Deferrable Notes upon the occurrence of certain specified events. The Senior Deferrable Notes represent intercompany debt and therefore are not reflected in our consolidated financial statements.

The Senior Deferrable Notes are unsecured debt securities that rank equally with all of our other unsecured and unsubordinated obligations. These notes are not subject to any sinking fund. The indenture under which the Senior Deferrable Notes have been issued contains no limit on the amount of additional debt that may be issued by us, but the indenture contains restrictions that may limit our ability to provide security for such additional debt and to enter into sale and lease-back transactions. The indenture contains customary events of default for securities of this type, including a default under, and acceleration of, other debt in an aggregate principal amount in excess of $5.0 million.

Credit Agreement

In June 2002, we entered into a $145.0 million credit agreement with a syndicate of financial institutions. This facility includes $80.0 million in lending commitments for the issuance of revolving loans until the facility matures on June 25, 2005. Borrowings bear interest at variable rates, which do not exceed the banks' prime lending rates. The facility is unsecured. The credit agreement contains financial maintenance covenants requiring us to maintain a specified ratio of consolidated debt to consolidated total capitalization, a specified fixed charge coverage ratio and a specified consolidated total capital. The credit agreement also contains other restrictive covenants, that, among other things, impose limitations on our ability to create liens on our assets, merge, or consolidate with, or transfer (or permit any of our subsidiaries to transfer) assets, enter into transactions with affiliates, pay cash dividends or make distributions on account of our equity interests, repurchase equity and make certain other restricted payments. The credit agreement contains events of default that are customary for a transaction of this type, including a failure to pay, or acceleration of, other debt in an aggregate outstanding amount in excess of $10.0 million.

In May 2003, we amended our credit facility to permit the May offering of the 2008 Senior Notes and the 2013 Senior Notes, to increase the facility to $155 million, as well as to provide an extension of the maturity date of the 364-day component of the facility to May 20, 2004. As of September 30, 2003, we had $103.6 million of borrowings outstanding under our $155.0 million credit facility and $4.8 million of outstanding letters of credit. The amended facility:

- increased the maximum debt to total capitalization covenant, which requires us to maintain on the last day of each fiscal quarter a ratio of funded debt, defined as all debt having a final maturity of more than one year from the date of origin of such debt, all rentals due under all capitalized leases under which we are the lessee and off-balance sheet liabilities as defined in the credit agreement, plus an amount equal to the lowest 30-day average of short-term debt less $10 million, to a measure of total capitalization that is the sum of the aggregate principal amount of such debt then outstanding and consolidated net worth, from 65% to 70% through the earlier of (1) March 31, 2004 or (2) the sale of APC and the application of 50% of the

portion of the proceeds of such sale that exceed $30,000,000 to indebtedness outstanding under the credit facility;•
temporarily decreased the minimum fixed charge coverage ratio, as defined in our credit facility, from 1.5x to 1.2x for the first two quarters following the date of the May offering and to 1.33x for the successive two quarters following the May offering; and

•
provided other covenant relief, such as allowing us to incur additional debt in the form of the notes and to make payments with respect to financing costs and other premiums in connection with the Refinancing, to permit the May offering and allow additional financial flexibility.

In September 2003, we amended the credit facility to adjust a component used to calculate the minimum fixed charge coverage ratio under the facility. In October 2003, we amended the terms of our credit agreement to exclude from the financial covenants contained therein, all non-cash goodwill and asset impairment charges that may be taken by our construction services business. Under our amended credit agreement, the net book value of the assets of any proposed sale cannot exceed 5% of the net book value of the assets of our company on a consolidated basis. As of September 30, 2003, the net book value of the construction services business was under 5% of the net book value of the assets of our company on a consolidated basis.

In December 2003, we amended the credit facility to:

•
permit the Offering;

•
reduce aggregate commitments under the credit facility by $30.0 million to $125.0 million;

•
modify the debt-to-capitalization ratio covenant described above to 72% or less through March 31, 2004, so long as the sale of APC has not been consummated, and 65% or less thereafter; and

•
require that 50% of the portion of the proceeds from the sale of APC in excess of $90.0 million be used to repay indebtedness under the credit facility and permanently reduce commitments under the credit facility.

DESCRIPTION OF NOTES

The terms of the new notes and the outstanding notes are identical in all material respects, except the new notes:

- will have been registered under the Securities Act;

- will not bear the restrictive legends restricting their transfer under the Securities Act; and

- will not contain the registration rights and additional interest provisions contained in the outstanding notes.

You can find the definitions of certain terms used in this description under the subheading "Certain Definitions." In this description, the word "SEMCO Energy" refers only to SEMCO Energy, Inc. and not to any of its subsidiaries.

SEMCO Energy issued the notes under an indenture dated as of May 15, 2003 among itself and Fifth Third Bank, as trustee, in a private transaction that is not subject to the registration requirements of the Securities Act. See "Transfer Restrictions." The notes are an additional issuance of 7 3/4 % Senior Notes due 2013 under the May 15, 2003 indenture, under which $150,000,000 in aggregate principal amount of SEMCO Energy's 7 3/4 % Senior Notes due 2013 were issued on May 15, 2003 (the "May-Issued 7 3/4 % Notes). The notes issued pursuant to the Offering and the May-Issued 7 3/4 % Notes will be treated as a single class of notes under the indenture, and the notes issued pursuant to the Offering, upon their exchange for the new notes, will trade as a single class of notes with the May-Issued 7 3/4 % Notes. When we refer to the notes herein, we are referring to the notes issued pursuant to the Offering and the May Issued 7 3/4 % Notes, unless the context requires otherwise. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the indenture (unless otherwise noted) and the registration rights agreement. We urge you to read the indenture and the registration rights agreement because they, and not this description, define your rights as holders of the notes. Copies of the indenture and the registration rights agreement are available as set forth below under "—Additional Information." Certain defined terms used in this description but not defined below under "—Certain Definitions" have the meanings assigned to them in the indenture.

The registered Holder of a note will be treated as the owner of it for all purposes. Only registered Holders will have rights under the indenture.

Brief Description of the Notes

The notes:

- are general unsecured obligations of SEMCO Energy;

- are*pari passu* in right of payment with all existing and future unsecured senior indebtedness of SEMCO Energy, including indebtedness under our credit facility; and

- are senior in right of payment to all existing and future subordinated indebtedness of SEMCO Energy.

Initially, none of our subsidiaries will guarantee the notes. Under the terms of the indenture, none of our subsidiaries will be required to guarantee the notes in the future unless they guarantee certain other debt of SEMCO Energy or incur certain debt of their own, as described under "—Certain Covenants—Future Subsidiary Guarantees." In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, our subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to us. Our subsidiaries generated 17.8% of our

consolidated revenues for the nine months ended September 30, 2003 and held 19.3% of our consolidated total assets as of September 30, 2003. As of September 30, 2003, there was no debt other than trade payables at our subsidiaries. Total trade payables as of September 30, 2003 were $5.6 million. In addition, our ability to access the cash flow of our subsidiaries is subject to certain restrictions, as described under "—Certain Covenants—Restricted Payment." See "Risk Factors—The notes are structurally subordinated to all existing and future liabilities of our subsidairies."

As of the date of the indenture, all of our subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under the subheading "—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries," we will be permitted to designate certain of our subsidiaries as "Unrestricted Subsidiaries." Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indenture.

Principal, Maturity and Interest

SEMCO Energy originally issued the outstanding notes and will issue the new notes in an aggregate principal amount of $50.0 million. SEMCO Energy may issue additional notes, not limited in aggregate principal amount, from time to time after this exchange offer. Any offering of additional notes is subject to the covenant described below under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock." The notes and any additional notes subsequently issued under the indenture will be treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. SEMCO Energy will issue notes in denominations of $1,000 and integral multiples of $1,000. The notes will mature on May 15, 2013.

Interest on the notes will accrue at the rate of 7¾% per annum and will be payable semi-annually in arrears on May 15 and November 15. SEMCO Energy will make each interest payment to the Holders of record on the immediately preceding May 1 and November 1.

Interest on the notes will accrue from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of Receiving Payments on the Notes

If a Holder has given wire transfer instructions to SEMCO Energy, SEMCO Energy will pay all principal, interest and premium and Additional Interest, if any, on that Holder's notes in accordance with those instructions. All other payments on notes will be made at the office or agency of the paying agent and registrar within the City and State of New York unless SEMCO Energy elects to make interest payments by check mailed to the Holders at their address set forth in the register of Holders.

Paying Agents and Registrars for the Notes

The trustee will initially act as paying agent and registrar. SEMCO Energy may change the paying agent or registrar without prior notice to the Holders of the notes, and SEMCO Energy or any of its Subsidiaries may act as paying agent or registrar.

Transfer and Exchange

A Holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. SEMCO Energy is not required to transfer or exchange any note

selected for redemption. Also, SEMCO Energy is not required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Optional Redemption

At any time prior to May 15, 2006, SEMCO Energy may on any one or more occasions redeem up to 35% of the aggregate principal amount of the notes issued under the indenture at a redemption price of 107.750% of the principal amount, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date, with the net cash proceeds of one or more public or private offerings of its Equity Interests (other than Disqualified Stock); *provided* that:*(1)*
at least 65% of the aggregate principal amount of the notes issued under the indenture remains outstanding immediately after the occurrence of such redemption (excluding the notes held by SEMCO Energy and its Subsidiaries); and

(2)
the redemption occurs within 60 days of the date of the closing of such offering.

Except pursuant to the preceding paragraph, the notes will not be redeemable at SEMCO Energy's option prior to May 15, 2008.

On or after May 15, 2008, SEMCO Energy may redeem all or a part of the notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Interest, if any, on the notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on May 15 of the years indicated below:

Year	Percentage
2008	103.875%
2009	102.583%
2010	101.292%
2011 and thereafter	100.000%

If less than all of the outstanding notes are to be redeemed, the trustee shall select the notes for redemption as follows: (i) if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed or (ii) if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee shall deem fair and appropriate.

Mandatory Redemption

SEMCO Energy is not required to make mandatory redemption or sinking fund payments with respect to the notes.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each Holder of the notes will have the right to require SEMCO Energy to repurchase all or any part (equal to $1,000 or an integral multiple of $1,000) of that Holder's notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, SEMCO Energy will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest and Additional Interest, if any, on the notes repurchased, to the date of purchase. Within ten business days following any Change of Control, SEMCO Energy will mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of

Control Payment Date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. SEMCO Energy will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, SEMCO Energy will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such conflict.

On the Change of Control Payment Date, SEMCO Energy will, to the extent lawful:*(1)*
accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2)
deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3)
deliver or cause to be delivered to the trustee the notes properly accepted together with an officers' certificate stating the aggregate principal amount of notes or portions of notes being purchased by SEMCO Energy.

Each paying agent will promptly mail to each Holder of the notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that each new note will be in a principal amount of $1,000 or an integral multiple of $1,000.

SEMCO Energy will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require SEMCO Energy to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable to the transaction giving rise to such requirement. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the Holders of the notes to require that SEMCO Energy repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

SEMCO Energy will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture, as generally described above, applicable to a Change of Control Offer made by SEMCO Energy and purchases all notes properly tendered and not withdrawn under the Change of Control Offer. There are no other or differing requirements applicable to a third party.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of SEMCO Energy and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of notes to require SEMCO Energy to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of SEMCO Energy and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Asset Sales

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:*(1)*
SEMCO Energy (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of;

(2)
the fair market value is determined by SEMCO Energy's Board of Directors and evidenced by a resolution of the Board of Directors set forth in an officers' certificate delivered to the trustee; and

(3)
except in the case of a Construction Business Disposition, at least 75% of the consideration received in the Asset Sale by SEMCO Energy or such Restricted Subsidiary is in the form of cash. For purposes of this provision, each of the following will be deemed to be cash:

(a)
any liabilities, as shown on SEMCO Energy's most recent consolidated balance sheet, of SEMCO Energy or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Guarantees of the notes) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases SEMCO Energy or such Restricted Subsidiary from further liability;

(b)
any securities, notes or other obligations received by SEMCO Energy or any such Restricted Subsidiary from such transferee that are contemporaneously, subject to ordinary settlement periods, converted by SEMCO Energy or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion; and

(c)
property or assets received as consideration for such Asset Sale that would otherwise constitute a permitted application of Net Proceeds under clauses (2), (3) or (4) under the next succeeding paragraph below.

Within 360 days after the receipt of any Net Proceeds from an Asset Sale, SEMCO Energy or any such Restricted Subsidiary may apply (or enter into a definitive agreement for such application within such 360-day period; *provided* that such capital expenditure or acquisition is closed within 90 days after the end of such 360-day period) those Net Proceeds as follows:*(1)*
in the case of APCO Sale Proceeds only, to repay Indebtedness of SEMCO Energy that is*pari passu* with the notes;

(2)
in the case of Net Proceeds from the sale of assets financed with Permitted Debt of the kind permitted by clause (4) of the definition of Permitted Debt, to repay such Permitted Debt;

(3)
in the case of all Net Proceeds, to repay Indebtedness and other Obligations under a Credit Facility and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto;

(4)
in the case of all Net Proceeds, to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Permitted Business;

(5)
in the case of all Net Proceeds, to make a capital expenditure; or

(6)
in the case of all Net Proceeds, to acquire other long-term assets that are used or useful in a Permitted Business.

Pending the final application of any Net Proceeds, SEMCO Energy may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph, including, without limitation, any Net Proceeds from a Construction Business Disposition, will constitute "Excess Proceeds." When the aggregate amount of Excess Proceeds exceeds $15.0 million, SEMCO Energy will make an Asset Sale Offer to all Holders of notes and all holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and unpaid interest and Additional Interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, SEMCO Energy may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

SEMCO Energy will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, SEMCO Energy will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such conflict.

The agreements governing SEMCO Energy's other Indebtedness contain prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale. In addition, the exercise by the Holders of notes of their right to require SEMCO Energy to repurchase the notes upon a Change of Control or an Asset Sale could cause a default under these other agreements, even if the Change of Control or Asset Sale itself does not, due to the financial effect of such repurchases on SEMCO Energy. Finally, SEMCO Energy's ability to pay cash to the Holders of notes upon a repurchase may be limited by SEMCO Energy's then existing financial resources. See "Risk Factors—We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture governing the notes."

Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption as follows:*(1)*
if the notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the notes are listed; or

(2)
if the notes are not listed on any national securities exchange, on a pro rata basis, by lot or by such method as the trustee deems fair and appropriate.

No notes of $1,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each Holder of the notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the Holder of the notes upon cancellation of the original note. The notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on the notes or portions of them called for redemption.

Certain Covenants

Changes in Covenants when Notes Rated Investment Grade

If on any date following the date of the indenture:*(1)*
the notes are rated Baa3 or better by Moody's and BBB- or better by S&P (or, if either such entity ceases to rate such notes for reasons outside of the control of SEMCO Energy, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by SEMCO Energy as a replacement agency); and

(2)
no Default or Event of Default shall have occurred and be continuing under the indenture,

then, beginning on that day and continuing at all times thereafter regardless of any subsequent changes in the ratings of the notes, the covenants specifically listed under the following captions in this prospectus will no longer be applicable to the notes:*(1)*
"—Repurchase at the Option of Holders—Asset Sales;"

(2)
"—Restricted Payments;"

(3)
"—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(4)
"—Dividend and Other Payment Restrictions Affecting Subsidiaries;"

(5)
"—Future Subsidiary Guarantees;"

(6)
"—Designation of Restricted and Unrestricted Subsidiaries;"

(7)
"—Transactions with Affiliates;"

(8)
"—Business Activities;"

(9)
clause (4) of the covenant listed under "—Merger, Consolidation or Sale of Assets;" and

(10)
clauses (1)(a) and (3) of the covenant listed under "—Sale and Leaseback Transactions."

There can be no assurance that the notes will ever achieve an investment grade rating or that any such rating will be maintained.

Restricted Payments

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:*(1)*
declare or pay any dividend or make any other payment or distribution on account of SEMCO Energy's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving SEMCO Energy or any of its Restricted Subsidiaries) or to the direct or indirect holders of SEMCO Energy's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of SEMCO Energy or to SEMCO Energy or a Restricted Subsidiary of SEMCO Energy);

(2)
purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving SEMCO Energy) any Equity Interests of SEMCO Energy or any direct or indirect parent of SEMCO Energy;

(3)
make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries that is by

its terms subordinated to the notes or any Guarantees of the notes, except a payment of interest or principal at the Stated Maturity thereof; or*(4)*
make any Restricted Investment (all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as " *Restricted Payments* "),

unless, at the time of and after giving effect to such Restricted Payment:*(1)*
no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2)
SEMCO Energy would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness (other than Permitted Debt) pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock;" and

(3)
such Restricted Payment, together with the aggregate amount of all other Restricted Payments declared or made after the date of the indenture shall not exceed, at the date of determination, the sum, without duplication, of:

(a)
an amount equal to SEMCO Energy's Consolidated Cash Flow from the beginning of the first fiscal quarter commencing after the date of the indenture to the end of SEMCO Energy's most recently ended full fiscal quarter for which internal financial statements are available, taken as a single accounting period, less the product of 1.75 times SEMCO Energy's Consolidated Interest Expense from the beginning of the first fiscal quarter commencing after the date of the indenture to the end of SEMCO Energy's most recently ended full fiscal quarter for which internal financial statements are available, taken as a single accounting period, *plus*

(b)
an amount equal to the net cash proceeds received by SEMCO Energy from the sale of Equity Interests since the date of the indenture (other than (i) sales of Disqualified Stock, and (ii) Equity Interests sold to any of SEMCO Energy's Subsidiaries) or from the sale since the date of the indenture of convertible or exchangeable Disqualified Stock of SEMCO Energy or debt securities of SEMCO Energy, in either case, that have been converted into or exchanged for such Equity Interests, *plus*

(c)
to the extent that any Restricted Investment that was made after the date of the indenture is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (ii) the initial amount of such Restricted Investment, *plus*

(d)
to the extent that any Unrestricted Subsidiary of SEMCO Energy is redesignated as a Restricted Subsidiary after the date of the indenture, the lesser of (i) the fair market value of SEMCO Energy's Investment in such Subsidiary as of the date of such redesignation or (ii) such fair market value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary, *plus*

(e)
an amount equal to any dividends received by SEMCO Energy or any of its Restricted Subsidiaries since the date of the indenture from an Unrestricted Subsidiary to the extent that such dividends were not otherwise included in SEMCO Energy's Consolidated Net Income.

The preceding provisions will not prohibit:*(1)*
the payment of any dividend within 60 days after the date of declaration of the dividend, if at the date of declaration the dividend payment would have complied with the provisions of the indenture;

(2)
so long as no Default has occurred and is continuing or would be caused thereby, the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries or of any Equity Interests of SEMCO Energy in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of SEMCO Energy) of, Equity Interests of SEMCO Energy (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (3) (b) of the preceding paragraph;

(3)
so long as no Default has occurred and is continuing or would be caused thereby, the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness;

(4)
the payment of any dividend or distribution by a Restricted Subsidiary of SEMCO Energy to the holders of its Equity Interests on a pro rata basis;

(5)
so long as no Default has occurred and is continuing or would be caused thereby, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of SEMCO Energy or any Restricted Subsidiary of SEMCO Energy held by any member of SEMCO Energy's (or any of its Restricted Subsidiaries') management pursuant to any management equity subscription agreement, stock option agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed $1.0 million in any twelve-month period;

(6)
so long as no Default has occurred and is continuing or would be caused thereby, the payment of regular quarterly dividends on Capital Stock of SEMCO Energy in an aggregate amount not to exceed $13.5 million in any twelve-month period; and

(7)
so long as no Default has occurred and is continuing or would be caused thereby, the payment of other Restricted Payments in an aggregate amount since the date of the indenture not to exceed $15.0 million.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by SEMCO Energy or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined, in the case of amounts under $5.0 million, by an officer of SEMCO Energy and, in the case of amounts $5.0 million or more, by the Board of Directors whose resolution with respect thereto will be delivered to the trustee.

Incurrence of Indebtedness and Issuance of Preferred Stock

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, " *incur* ") any Indebtedness (including Acquired Debt), and SEMCO Energy will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however,* that SEMCO Energy may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and any Guarantor may

incur Indebtedness (including Acquired Debt) or issue preferred stock, if the Fixed Charge Coverage Ratio for SEMCO Energy's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such Indebtedness is incurred or such Disqualified Stock is issued would have been at least 2.0 to 1, determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "*Permitted Debt*"):*(1)* the incurrence by SEMCO Energy or any Guarantor of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1)(with letters of credit being deemed to have a principal amount equal to the maximum potential liability of SEMCO Energy and its Restricted Subsidiaries thereunder) not to exceed $155.0 million *less* the aggregate amount of all Net Proceeds of Asset Sales applied by SEMCO Energy or any of its Restricted Subsidiaries since the date of the indenture to repay any term Indebtedness under a Credit Facility or to repay any revolving credit Indebtedness under a Credit Facility and effect a corresponding commitment reduction thereunder pursuant to the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales" (except that APCO Sale Proceeds may be applied to repay Indebtedness under a Credit Facility without reducing the amount available under this clause (1) for borrowing thereafter);

(2)
the incurrence by SEMCO Energy or any of its Restricted Subsidiaries of the Existing Indebtedness;

(3)
the incurrence by SEMCO Energy of Indebtedness represented by the notes issued on the date of the indenture and the exchange notes to be issued pursuant to the registration rights agreement dated the date of the indenture and the incurrence by any Guarantor of the Guarantee of any such notes;

(4)
the incurrence by SEMCO Energy or any Guarantor of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations and/or Attributable Debt, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of property, plant or equipment used in the business of SEMCO Energy or any Guarantor, in an aggregate principal amount (or notional principal amount, in the case of Attributable Debt), including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (4), not to exceed $10.0 million at any time outstanding;

(5)
the incurrence by SEMCO Energy or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5), or (9) of this paragraph;

(6)
the incurrence by SEMCO Energy or any Restricted Subsidiary of intercompany Indebtedness between or among SEMCO Energy and any of its Restricted Subsidiaries; *provided, however* , that:

(a)
if SEMCO Energy is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the notes; and

(b)
(i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than SEMCO Energy or a Restricted Subsidiary of

SEMCO Energy and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either SEMCO Energy or a Restricted Subsidiary of SEMCO Energy; will be deemed, in each case, to constitute an incurrence of such Indebtedness by SEMCO Energy or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);*(7)*
the incurrence by SEMCO Energy or any Guarantor of Hedging Obligations that are incurred in the ordinary course of business and not for speculative purposes;

(8)
the accrual of interest, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Stock in the form of additional shares of the same class of Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Stock for purposes of this covenant; *provided* , in each such case, that the amount thereof is included in Consolidated Interest Expense of SEMCO Energy as accrued;

(9)
the incurrence by SEMCO Energy or any of its Restricted Subsidiaries of Indebtedness in respect of bankers acceptances and bid, performance or surety bonds issued for the account of SEMCO Energy in the ordinary course of business (in each case other than for an obligation for money borrowed); and

(10)
the incurrence by SEMCO Energy or any Guarantor of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (10), not to exceed $15.0 million.

Neither SEMCO Energy nor any Guarantor will incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of SEMCO Energy or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the notes and any Guarantee of the notes on substantially identical terms; *provided, however* , that no Indebtedness of SEMCO Energy or any Guarantor will be deemed to be contractually subordinated in right of payment to any other Indebtedness of SEMCO Energy or such Guarantor solely by virtue of being unsecured.

For purposes of determining compliance with this "Incurrence of Indebtedness and Issuance of Preferred Stock" covenant, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (10) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, SEMCO Energy will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. Indebtedness under Credit Facilities outstanding on the date on which the notes are first issued and authenticated under the indenture will be deemed to have been incurred on such date in reliance on the exception provided by clause (1) of the definition of Permitted Debt.

Liens

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) on any of their property or assets, now owned or hereafter acquired, unless all payments due under the indenture and the notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

Sale and Leaseback Transaction

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction;*provided* that SEMCO Energy may enter into a sale and leaseback transaction if:*(1)*
SEMCO Energy could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the Fixed Charge Coverage Ratio test in the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock" or pursuant to clause (4) of the definition of Permitted Debt and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption "—Liens;"

(2)
the gross cash proceeds of that sale and leaseback transaction are at least equal to the fair market value, as determined in good faith by the Board of Directors and set forth in an officers' certificate delivered to the trustee, of the property that is the subject of that sale and leaseback transaction; and

(3)
the transfer of assets in that sale and leaseback transaction is permitted by, and SEMCO Energy applies the proceeds of such transaction in compliance with, the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales."

Dividend and Other Payment Restrictions Affecting Subsidiaries

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:*(1)*
pay dividends or make any other distributions on its Capital Stock to SEMCO Energy or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to SEMCO Energy or any of its Restricted Subsidiaries;

(2)
make loans or advances to SEMCO Energy or any of its Restricted Subsidiaries; or

(3)
transfer any of its properties or assets to SEMCO Energy or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:*(1)*
the indenture, the notes and any Guarantees of the notes and other agreements existing on the date of the indenture;

(2)
applicable law;

(3)
customary non-assignment provisions in leases entered into in the ordinary course of business and consistent with past practices;

(4)
any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(5)
Liens securing Indebtedness otherwise permitted to be incurred under the provisions of the covenant described above under the caption "—Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

(6)
provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business;

(7)
restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(8)
any restriction applicable to a Restricted Subsidiary of SEMCO Energy created to issue trust preferred securities;*provided* that such Restricted Subsidiary does not own or operate all or any portion of SEMCO Energy's businesses; and

(9)
Permitted Refinancing Indebtedness;*provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive in any material respect, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced.

Merger, Consolidation or Sale of Assets

SEMCO Energy may not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not SEMCO Energy is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of SEMCO Energy and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person; unless:*(1)*
either: (a) SEMCO Energy is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than SEMCO Energy) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia;

(2)
the Person formed by or surviving any such consolidation or merger (if other than SEMCO Energy) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of SEMCO Energy under the notes, the indenture and the registration rights agreement pursuant to agreements reasonably satisfactory to the trustee;

(3)
immediately after such transaction, no Default or Event of Default exists; and

(4)
SEMCO Energy or the Person formed by or surviving any such consolidation or merger (if other than SEMCO Energy), or to which such sale, assignment, transfer, conveyance or other disposition has been made will, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "—Incurrence of Indebtedness and Issuance of Preferred Stock."

In addition, SEMCO Energy may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person. This "Merger, Consolidation or Sale of Assets" covenant will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among SEMCO Energy and any of its Restricted Subsidiaries.

Future Subsidiary Guarantees

If any Restricted Subsidiary of SEMCO Energy incurs any Indebtedness (other than intercompany Indebtedness), guarantees any Indebtedness of SEMCO Energy, pledges any of its assets to secure any Indebtedness of SEMCO Energy or otherwise provides direct credit support for any Indebtedness of SEMCO Energy, then, in each case, such Restricted Subsidiary will become a Guarantor of the notes and execute a supplemental indenture and deliver an opinion of counsel satisfactory to the trustee within 10 Business Days of the date on which such Restricted Subsidiary so incurs Indebtedness, guarantees, pledges its assets or otherwise provides direct credit support; *provided, however,* a Restricted

Subsidiary of SEMCO Energy will not be required to become a Guarantor of the notes solely by reason of incurring Indebtedness under clauses (2) or (9) of the definition of Permitted Debt or by incurring Liens under clauses (2), (4), (5), (6), (7), (8), (9), (11) or (13) of the definition of Permitted Liens. In addition, SEMCO Energy may elect that any Subsidiary of SEMCO Energy become a Guarantor.

The Guarantee of the notes of a Guarantor will be released:*(1)*
in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (including by way of merger or consolidation) to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of SEMCO Energy, if the sale or other disposition complies with the "Asset Sale" provisions of the indenture;

(2)
in connection with any sale of all of the Capital Stock of a Guarantor to a Person that is not (either before or after giving effect to such transaction) a Subsidiary of SEMCO Energy; *provided* that such sale shall be subject to the "Asset Sale" provisions of the indenture; or

(3)
if SEMCO Energy properly designates any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary of SEMCO Energy in accordance with the provisions of the indenture.

See "—Repurchase at the Option of Holders—Asset Sales."

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default; *provided* that in no event may any of SEMCO Energy's regulated utility businesses, now or hereafter operating, be transferred to or held by an Unrestricted Subsidiary. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by SEMCO Energy and its Restricted Subsidiaries in the Subsidiary properly designated will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the first paragraph of the covenant described above under the caption "—Restricted Payments" or Permitted Investments, as determined by SEMCO Energy. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default. Upon any such redesignation or other designation as a Restricted Subsidiary, such Subsidiary will become a Guarantor and execute supplemental indentures if so required under the covenant described above under the caption "—Future Subsidiary Guarantees."

Transactions with Affiliates

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an " *Affiliate Transaction* "), unless:*(1)*
the Affiliate Transaction is on terms that are no less favorable to SEMCO Energy or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by SEMCO Energy or such Restricted Subsidiary with an unrelated Person; and

(2)
SEMCO Energy delivers to the trustee:

(a)
with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $2.5 million, a resolution of the Board of Directors set forth in an officers' certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b)
with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $7.5 million, an opinion as to the fairness to SEMCO Energy of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:*(1)*
any employment agreement entered into by SEMCO Energy or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of SEMCO Energy or such Restricted Subsidiary;

(2)
transactions between or among SEMCO Energy and/or its Restricted Subsidiaries;

(3)
transactions with a Person that is an Affiliate of SEMCO Energy solely because SEMCO Energy owns an Equity Interest in, or controls, such Person;

(4)
payment of reasonable directors fees and provision to directors, officers and employees of customary indemnities and customary benefits pursuant to employee benefits plans and similar arrangements;

(5)
sales of Equity Interests (other than Disqualified Stock) to Affiliates of SEMCO Energy; and

(6)
Restricted Payments that are permitted by the provisions of the indenture described above under the caption "—Restricted Payments."

Business Activities

SEMCO Energy will not, and will not permit any Subsidiary to, engage in any business other than Permitted Businesses, except to such extent as would not be material to SEMCO Energy and its Subsidiaries taken as a whole.

Payments for Consent

SEMCO Energy will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of the notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the indenture or such notes unless such consideration is offered to be paid and is paid to all Holders of such notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Reports

Whether or not required by the SEC's rules and regulations, so long as any notes are outstanding, SEMCO Energy will furnish to the Holders of such notes, within the time periods specified in the SEC's rules and regulations:*(1)*
all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K if SEMCO Energy were required to file such reports; and

(2)
all current reports that would be required to be filed with the SEC on Form 8-K if SEMCO Energy were required to file such reports.

All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports. Each annual report on Form 10-K will include a report on SEMCO Energy's consolidated financial statements by SEMCO Energy's certified independent accountants. In addition, SEMCO Energy will file a copy of each of the reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the rules and regulations applicable to such reports (unless the SEC will not accept such a filing) and make such information available to securities analysts and prospective investors upon request.

If, at any time, SEMCO Energy is no longer subject to the periodic reporting requirements of the Exchange Act for any reason, SEMCO Energy will nevertheless continue filing the reports specified in the preceding paragraph with the SEC within the time periods specified above unless the SEC will not accept such a filing. SEMCO Energy agrees that it will not take any action for the purpose of causing the SEC not to accept any such filings. If, notwithstanding the foregoing, the SEC will not accept SEMCO Energy's filings for any reason, SEMCO Energy will post the reports referred to in the preceding paragraph on its website within the time periods that would apply if SEMCO Energy were required to file those reports with the SEC.

In addition, SEMCO Energy agrees that, for so long as any notes remain outstanding, at any time it is not required to file the reports required by the preceding paragraphs with the SEC, it will furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Events of Default and Remedies

With respect to the notes, each of the following is an Event of Default:*(1)*
default for 30 days in the payment when due of interest on, or Additional Interest with respect to, such notes;

(2)
default in payment when due of the principal of, or premium, if any, on such notes,

(3)
failure by SEMCO Energy or any of its Subsidiaries for 30 days after notice to SEMCO Energy from the trustee or the holders of at least 25% of the outstanding principal amount of such notes to comply with the provisions described under the captions "—Repurchase at the Option of Holders—Change of Control," "—Repurchase at the Option of Holders—Asset Sales," "—Certain Covenants—Merger, Consolidation or Sale of Assets," "—Certain Covenants—Restricted Payments" or "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(4)
failure by SEMCO Energy or any of its Subsidiaries for 60 days after notice to SEMCO Energy from the trustee or the holders of at least 25% of the outstanding principal amount of the notes to comply with any of the other agreements in the indenture;

(5)
default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by SEMCO Energy or any of its Restricted Subsidiaries (or the payment of which is guaranteed by SEMCO Energy or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of the indenture, if that default:

(a)
is caused by a failure to pay principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a " *Payment Default* "); or

(b)
results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $10.0 million or more;*(6)*
failure by SEMCO Energy or any of its Restricted Subsidiaries to pay final judgments aggregating in excess of $10.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;

(7)
except as permitted by the indenture, any Guarantee relating to such notes shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor, or any Person acting on behalf of any Guarantor, shall deny or disaffirm its obligations under its Guarantee; and

(8)
certain events of bankruptcy or insolvency described in the indenture with respect to SEMCO Energy or any of its Restricted Subsidiaries.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to SEMCO Energy, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the Holders of at least 25% in principal amount of the then outstanding notes may declare all of the notes to be due and payable immediately.

Holders of the notes may not enforce the indenture or such notes except as provided in the indenture. Subject to certain limitations, with respect to the notes, Holders of a majority in principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from Holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notes is in their interest, except a Default or Event of Default relating to the payment of principal or interest or Additional Interest.

With respect to the notes, the Holders of a majority in aggregate principal amount of the notes then outstanding by notice to the trustee may on behalf of the Holders of all of the notes waive any existing Default or Event of Default and its consequences under the indenture except a continuing Default or Event of Default in the payment of interest or Additional Interest on, or the principal of, the notes.

In the case of any Event of Default occurring by reason of any willful action or inaction taken or not taken by or on behalf of SEMCO Energy with the intention of avoiding payment of the premium that SEMCO Energy would have had to pay if SEMCO Energy then had elected to redeem the notes pursuant to the optional redemption provisions of the indenture, an equivalent premium will also become and be immediately due and payable to the extent permitted by law upon the acceleration of the notes. If an Event of Default occurs prior to May 15, 2008, by reason of any willful action (or inaction) taken (or not taken) by or on behalf of SEMCO Energy with the intention of avoiding the prohibition on redemption of the notes prior to May 15, 2008, then the premium specified in the indenture will also become immediately due and payable to the extent permitted by law upon the acceleration of the notes.

SEMCO Energy is required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, SEMCO Energy is required to deliver to the trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of SEMCO Energy or any Guarantor, as such, will have any liability for any obligations of SEMCO Energy or any Guarantors under the notes, the indenture, any Guarantees of the notes or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

SEMCO Energy may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding notes and all obligations of any Guarantors discharged with respect to their respective Guarantees of such notes (" *Legal Defeasance* ") except for:*(1)*
the rights of Holders of outstanding notes to receive payments in respect of the principal of, or interest or premium and Additional Interest, if any, on such notes when such payments are due from the trust referred to below;

(2)
SEMCO Energy's obligations with respect to such notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3)
the rights, powers, trusts, duties and immunities of the trustee, and SEMCO Energy's and any Guarantor's obligations in connection therewith; and

(4)
the Legal Defeasance provisions of the indenture.

In addition, SEMCO Energy may, at its option and at any time, elect to have the obligations of SEMCO Energy and any Guarantor released with respect to certain covenants that are described in the indenture (" *Covenant Defeasance* ") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "—Events of Default and Remedies" will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:*(1)*
SEMCO Energy must irrevocably deposit with the trustee, in trust, for the benefit of the Holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium and Additional Interest, if any, on the outstanding notes on the Stated Maturity or on the redemption date, as the case may be, and SEMCO Energy must specify whether such notes are being defeased to maturity or to a particular redemption date;

(2)
in the case of Legal Defeasance, SEMCO Energy has delivered to the trustee an opinion of counsel reasonably acceptable to such trustee confirming that (a) SEMCO Energy has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the date of the indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3)
in the case of Covenant Defeasance, SEMCO Energy has delivered to the trustee an opinion of counsel reasonably acceptable to such trustee confirming that the Holders of the outstanding notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4)
no Default or Event of Default has occurred and is continuing on the date of such deposit under the indenture (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit);

(5)
such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the indenture) to which SEMCO Energy or any of its Subsidiaries is a party or by which SEMCO Energy or any of its Subsidiaries is bound;

(6)
SEMCO Energy must deliver to the trustee an officers' certificate stating that the deposit was not made by SEMCO Energy with the intent of preferring the Holders of the notes over the other creditors of SEMCO Energy with the intent of defeating, hindering, delaying or defrauding creditors of SEMCO Energy or others; and

(7)
SEMCO Energy must deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the notes, any Guarantee of the notes and the indenture may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the notes), and any existing default or compliance with any provision of the notes, any Guarantee of the notes and the indenture may be waived with the consent of the Holders of a majority in principal amount of the then outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the notes).

With respect to the notes, without the consent of each Holder affected, an amendment or waiver may not (with respect to any such notes held by a non-consenting Holder):*(1)*
reduce the principal amount of such notes whose Holders must consent to an amendment, supplement or waiver;

(2)
reduce the principal of or change the fixed maturity of any such note or alter the provisions with respect to the redemption of such notes (other than provisions relating to the covenants described above under the caption "—Repurchase at the Option of Holders");

(3)
reduce the rate of or change the time for payment of interest on any such note;

(4)
waive a Default or Event of Default in the payment of principal of, or interest or premium, or Additional Interest, if any, on such notes (except a rescission of acceleration of such notes by the Holders of at least a majority in aggregate principal amount of such notes and a waiver of the payment default that resulted from such acceleration);

(5)
make any note payable in money other than that stated in such notes;

(6)
make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of Holders of such notes to receive payments of principal of, or interest or premium or Additional Interest, if any, on such notes;

(7)
waive a redemption payment with respect to any such note (other than a payment required by one of the covenants described above under the caption "—Repurchase at the Option of Holders");

(8)
release any Guarantor from any of its obligations under its Guarantee of such notes or the indenture, except in accordance with the terms of such indenture;

(9)
make any change in the preceding amendment and waiver provisions.

With respect to the notes, notwithstanding the preceding, without the consent of any Holder of notes, SEMCO Energy, the Guarantors and the trustee may amend or supplement the indenture, such notes or such related Guarantees of the notes:*(1)*
to cure any ambiguity, defect or inconsistency;

(2)
to provide for uncertificated notes in addition to or in place of certificated such notes;

(3)
to provide for the assumption of SEMCO Energy's obligations to Holders of such notes in the case of a merger or consolidation or sale of all or substantially all of SEMCO Energy's assets;

(4)
to make any change that would provide any additional rights or benefits to the Holders of such notes or that does not adversely affect the legal rights under the indenture of any such Holder;

(5)
to comply with requirements of the SEC under the Securities Act or the Exchange Act or in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;

(6)
to provide for the issuance of additional notes in accordance with the limitations set forth in the indenture;

(7)
to allow any Guarantor to execute a supplemental indenture and/or a Guarantee with respect to such notes; or

(8)
to conform the text of the indenture, the notes or the Guarantees with respect to such notes to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the indenture, the notes or the Guarantees with respect to such notes.

Satisfaction and Discharge

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:*(1)*
either:

(a)
all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and the notes for whose payment money has been deposited in trust and thereafter repaid to SEMCO Energy, have been delivered to the trustee for cancellation; or

(b)
all notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and SEMCO Energy or any Guarantor has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on

the notes not delivered to the trustee for cancellation for principal, premium and Additional Interest, if any, and accrued interest to the date of maturity or redemption;*(2)*
no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit) and the deposit will not result in a breach or violation of, or constitute a default under, any other material instrument to which SEMCO Energy or any Guarantor is a party or by which SEMCO Energy or any Guarantor is bound;

(3)
SEMCO Energy or any Guarantor has paid or caused to be paid all sums payable by it under the indenture; and

(4)
SEMCO Energy has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or the redemption date, as the case may be.

In addition, SEMCO Energy must deliver an officers' certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the Trustee

If the trustee becomes a creditor of SEMCO Energy or any Guarantor, the indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue or resign.

The Holders of a majority in principal amount of the then outstanding notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default occurs and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any Holder of the notes unless such Holder has offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Additional Information

Anyone who receives this prospectus may obtain a copy of the indenture and registration rights agreement without charge by writing to SEMCO Energy, Inc., 28470 13 Mile Road, Suite 300, Farmington Hills, Michigan 48334, Attention: Corporate Secretary.

Book-Entry, Delivery and Form

Except as set forth below, the notes will initially be issued in the form of one more Global Notes (the "Global Notes") in minimum denominations of $1,000 and integral multiples of $1,000 in excess of $1,000.

The Global Notes will be deposited upon issuance with the applicable trustee as custodian for DTC in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC, such indirect participants being Euroclear System (" *Euroclear* ") and Clearstream Banking, S.A. (" *Clearstream* ").

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for notes in certificated form except in the limited circumstances

described below. See "—Exchange of Global Notes for Certificated Notes." Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of the notes in certificated form.

Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. SEMCO Energy takes no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised SEMCO Energy that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the " *Participants* ") and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the " *Indirect Participants* "). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised SEMCO Energy that, pursuant to procedures established by it:*(1)*
upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the trustee with portions of the principal amount of the Global Notes; and

(2)
ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interest in the Global Notes will not have the notes registered in their names, will not receive physical delivery of the notes in certificated form and will not be considered the registered owners or "Holders" thereof under the indenture for any purpose.

Payments in respect of the principal of, and interest and premium, if any, and Additional Interest, if any, on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered Holder under the indenture. Under the terms of the indenture, SEMCO Energy and the trustee will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, neither SEMCO Energy, the trustee nor any of SEMCO Energy's or the trustee's agents has or will have any responsibility or liability for:*(1)* any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or

(2)
any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised SEMCO Energy that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of the notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or SEMCO Energy. Neither SEMCO Energy nor the trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and SEMCO Energy and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Transfers between the Participants will be effected in accordance with DTC's procedures and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes, cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositaries; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised SEMCO Energy that it will take any action permitted to be taken by a Holder of the notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to the Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither SEMCO Energy nor the trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for definitive notes in registered certificated form ("*Certificated Notes*") if:*(1)*
DTC (a) notifies SEMCO Energy that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, SEMCO Energy fails to appoint a successor depositary;

(2)
SEMCO Energy, at its option, notifies the trustee in writing that it elects to cause the issuance of the Certificated Notes; or

(3)
there has occurred and is continuing a Default or Event of Default with respect to the notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures).

Exchange of Certificated Notes for Global Notes

Certificated Notes may be exchanged for beneficial interests in any Global Note as provided in the indenture.

Same Day Settlement and Payment

SEMCO Energy will make payments in respect of the notes represented by the Global Notes (including principal, premium, if any, interest and Additional Interest, if any) by wire transfer of immediately available funds to the accounts specified by the Holders of the Global Notes. SEMCO Energy will make all payments of principal, interest and premium, if any, and Additional Interest, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the Holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such Holder's registered address. The notes represented by the Global Notes are expected to be eligible to trade in the PORTAL market and to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. SEMCO Energy expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised SEMCO Energy that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be

available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Registration Rights; Additional Interest

The following description is a summary of the material provisions of the registration rights agreement. We urge you to read the registration rights agreement in its entirety because it, and not this description, defines your registration rights as Holders of these notes. See "—Additional Information."

SEMCO Energy, the Guarantors, if any, and the Initial Purchaser entered into the registration rights agreement on December 17, 2003. Pursuant to the registration rights agreement, SEMCO Energy and the Guarantors, if any, agreed to file with the SEC the Exchange Offer Registration Statement (as defined in the registration rights agreement) on the appropriate form under the Securities Act with respect to the exchange notes. Upon the effectiveness of the Exchange Offer Registration Statement, SEMCO Energy and the Guarantors, if any, will offer to the Holders of Transfer Restricted Securities pursuant to the Exchange Offer (as defined in the registration rights agreement) who are able to make certain representations the opportunity to exchange their Transfer Restricted Securities for the exchange notes.

Under existing interpretations of the Securities Act by the staff of the SEC contained in several no-action letters to third parties, and subject to the immediately following sentence, we believe that the exchange notes would generally be freely tradeable by Holders after the Exchange Offer without further registration under the Securities Act, if the Holder of the exchange notes represents, among other things, that at the time of the consummation of the Exchange Offer: it is not an affiliate of ours, it is not engaged in, and does not intend to engage in, and has no arrangements or understanding with any Person to participate in, a distribution of the exchange notes that are issued in the Exchange Offer, and it is acquiring the exchange notes in the Exchange Offer in its ordinary course of business.

If:*(1)*
SEMCO Energy and the Guarantors, if any, are not

(a)
required to file the Exchange Offer Registration Statement; or

(b)
permitted to consummate the Exchange Offer because the Exchange Offer is not permitted by applicable law or SEC policy; or

(2)
any Holder of Transfer Restricted Securities notifies SEMCO Energy prior to the 20th day following consummation of the Exchange Offer that:

(a)
it is prohibited by law or SEC policy from participating in the Exchange Offer; or

(b)
it may not resell the exchange notes acquired by it in the Exchange Offer to the public without delivering a prospectus and the prospectus contained in the Exchange Offer Registration Statement is not appropriate or available for such resales by it; or

(c)
it is a broker-dealer and owns notes acquired directly from SEMCO Energy or an affiliate of SEMCO Energy,

SEMCO Energy and the Guarantors, if any, will file with the SEC a Shelf Registration Statement (as defined in the registration rights agreement) to cover resales of the Transfer Restricted Securities by the Holders of the Transfer Restricted Securities who satisfy certain conditions relating to the provision of information in connection with the Shelf Registration Statement.

For purposes of the preceding, "*Transfer Restricted Securities*" means each note until the earliest of:*(1)*
the date on which such note has been exchanged by a Person other than a broker-dealer for an exchange note in the Exchange Offer;

(2)
following the exchange by a broker-dealer in the Exchange Offer of a note for an exchange note, the date on which such exchange note is sold to a purchaser who receives from such broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the Exchange Offer Registration Statement;

(3)
the date on which such note has been effectively registered under the Securities Act and disposed of in accordance with the Shelf Registration Statement; or

(4)
the date on which such note is distributed to the public pursuant to Rule 144 under the Securities Act or is saleable pursuant to Rule 144(k) under the Securities Act.

The registration rights agreement provides that:*(1)*
SEMCO Energy and the Guarantors, if any, will file an Exchange Offer Registration Statement with the SEC on or prior to 90 days after the closing of this offering;

(2)
SEMCO Energy and the Guarantors, if any, will use their respective reasonable best efforts to have the Exchange Offer Registration Statement declared effective by the SEC on or prior to 180 days after the closing of this offering;

(3)
unless the Exchange Offer would not be permitted by applicable law or SEC policy, SEMCO Energy and the Guarantors, if any, will

(a)
commence the Exchange Offer; and

(b)
use their respective reasonable best efforts to issue on or prior to 30 business days, or longer, if required by the federal securities laws, after the date on which the Exchange Offer Registration Statement was declared effective by the SEC, exchange notes in exchange for all notes tendered prior thereto in the Exchange Offer; and

(4)
if obligated to file the Shelf Registration Statement, SEMCO Energy and the Guarantors, if any, will use their respective reasonable best efforts to file the Shelf Registration Statement with the SEC on or prior to 45 days after such filing obligation arises and to cause the Shelf Registration to be declared effective by the SEC on or prior to 105 days after such obligation arises.

If:*(1)*
SEMCO Energy and the Guarantors, if any, fail to file any of the registration statements required by the registration rights agreement on or before the date specified for such filing; or

(2)
any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness (the " *Effectiveness Target Date* "); or

(3)
SEMCO Energy and the Guarantors, if any, fail to consummate the Exchange Offer within 30 business days of the Effectiveness Target Date with respect to the Exchange Offer Registration Statement; or

(4)
the Shelf Registration Statement or the Exchange Offer Registration Statement is declared effective but thereafter ceases to be effective or usable in connection with resales of Transfer Restricted Securities during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (4) above, a " *Registration Default* "),

then SEMCO Energy and the Guarantors, if any, will pay Additional Interest to each Holder of the notes, with respect to the first 90-day period immediately following the occurrence of the first Registration Default in an amount equal to $.05 per week per $1,000 principal amount of the notes held by such Holder.

The amount of the Additional Interest will increase by an additional $.05 per week per $1,000 principal amount of the notes with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum amount of Additional Interest for all Registration Defaults of $.50 per week per $1,000 principal amount of the notes.

All accrued Additional Interest will be paid by SEMCO Energy and the Guarantors, if any, on the next scheduled interest payment date to the Global Note Holder by wire transfer of immediately available funds or by federal funds check and to Holders of Certificated Notes by wire transfer to the accounts specified by them or by mailing checks to their registered addresses if no such accounts have been specified.

SEMCO Energy will not be required to pay Additional Interest for more than one Registration Default at any given time. Following the cure of all Registration Defaults, the accrual of Additional Interest will cease.

Holders of the notes will be required to make certain representations to SEMCO Energy (as described in the registration rights agreement) in order to participate in the Exchange Offer and will be required to deliver certain information to be used in connection with the Shelf Registration Statement and to provide comments on the Shelf Registration Statement within the time periods set forth in the registration rights agreement in order to have their notes included in the Shelf Registration Statement and benefit from the provisions regarding Additional Interest set forth above. By acquiring Transfer Restricted Securities, a Holder will be deemed to have agreed to indemnify SEMCO Energy and the Guarantors, if any, against certain losses arising out of information furnished by such Holder in writing for inclusion in any Shelf Registration Statement. Holders of the notes will also be required to suspend their use of the prospectus included in the Shelf Registration Statement under certain circumstances upon receipt of written notice to that effect from SEMCO Energy.

Certain Definitions

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"*Acquired Debt*" means, with respect to any specified Person:*(1)*
Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and

(2)
Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Additional Interest*" means all Additional Interest then owing pursuant to the registration rights agreement.

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*APCO Sale Proceeds*" means any Net Proceeds received in connection with a sale or other disposition of the business or assets owned by Alaska Pipeline Company on the date of the indenture.

"*Asset Sale*" means:*(1)*
the sale, lease, conveyance or other disposition of any assets or rights;*provided* that the sale, conveyance or other disposition of all or substantially all of the assets of SEMCO Energy and its Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption "—Repurchase at the Option of Holders—Change of Control" and/or the provisions described above under the caption "—Certain Covenants—Merger, Consolidation or Sale of Assets" and not by the provisions of the Asset Sale covenant; and

(2)
the issuance of Equity Interests by any of SEMCO Energy's Restricted Subsidiaries or the sale of Equity Interests in any of its Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:*(1)*
any single transaction or series of related transactions that involves assets having a fair market value of less than $2.0 million;

(2)
a transfer of assets between or among SEMCO Energy and its Subsidiaries,

(3)
an issuance of Equity Interests by a Subsidiary to SEMCO Energy or to another Subsidiary;

(4)
the sale or lease of equipment, inventory or accounts receivable in the ordinary course of business;

(5)
the sale or other disposition of cash or Cash Equivalents; and

(6)
a Restricted Payment or Permitted Investment that is permitted by the covenant described above under the caption "—Certain Covenants—Restricted Payments."

"Asset Sale Offer" has the meaning assigned to such term in the indenture governing the notes.

"*Attributable Debt*" in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "Beneficially Owns" and "Beneficially Owned" have a corresponding meaning.

"*Board of Directors*" means:*(1)*
with respect to a corporation, the board of directors of the corporation;

(2)
with respect to a partnership, the Board of Directors of the general partner of the partnership; and

(3)
with respect to any other Person, the board or committee of such Person serving a similar function.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

"*Capital Stock*" means:*(1)*
in the case of a corporation, corporate stock;

(2)
in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3)
in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(4)
any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Equivalents*" means:*(1)*
United States dollars;

(2)
securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (*provided* that the full faith and credit of the United States is pledged in support of those securities) having maturities of not more than six months from the date of acquisition;

(3)
certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of $500.0 million and a Thomson Bank Watch Rating of "B" or better;

(4)
repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5)
commercial paper having the highest rating obtainable from Moody's Investors Service, Inc. or Standard & Poor's Rating Services and in each case maturing within six months after the date of acquisition; and

(6)
money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

"*Change of Control*" means the occurrence of any of the following:*(1)*
the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of SEMCO Energy and its Restricted Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d)(3) of the Exchange Act);

(2)
the adoption of a plan relating to the liquidation or dissolution of SEMCO Energy;

(3)
the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above) becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of SEMCO Energy, measured by voting power rather than number of shares; or

(4)
the first day on which a majority of the members of the Board of Directors of SEMCO Energy are not Continuing Directors.

"*Consolidated Cash Flow*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus* :*(1)*
an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus*

(2)
provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(3)
Consolidated Interest Expense of such Person and its Restricted Subsidiaries for such period to the extent that any such Consolidated Interest Expense was deducted in computing such Consolidated Net Income; *plus*

(4)
depreciation, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *plus*

(5)
any unusual or non-recurring items of loss or expense incurred in connection with the initial offering of notes under the indenture and the use of proceeds therefrom; *minus*

(6)
non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with GAAP.

"*Consolidated Interest Expense*" means, with respect to any Person for any period, the sum of:*(1)*
the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued (including, without limitation, amortization or original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments (if any) made or received pursuant to Hedging Obligations); *plus*

(2)
the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period;*plus*

(3)
any interest expense on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries (whether or not such Guarantee or Lien is called upon); *plus*

(4)
the product of (a) all dividend payments on any series of preferred stock of such Person or any of its Restricted Subsidiaries, times (b) (i) in the case of trust preferred dividend payments, one and (ii) in the case of other dividend payments, a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided* that:*(1)*
the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(2)
the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders; and

(3)
the cumulative effect of a change in accounting principles will be excluded.

"*Construction Business Disposition*" means the sale or other disposition of all or a portion of the assets of SEMCO Energy's construction services business segment; *provided* that:*(1)*
SEMCO Energy would, at the time of such disposition and after giving pro forma effect thereto as if such disposition had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness (other than Permitted Debt) pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock;"

(2)
the consideration received by SEMCO Energy or a Restricted Subsidiary in connection with such disposition is at least equal to the fair market value, as determined in good faith by the Board of Directors and set forth in an officers' certificate delivered to the trustee, of the assets that are the subject of that disposition;

(3)
such disposition is not to a Person that would be an Affiliate of SEMCO Energy (otherwise as a result of SEMCO Energy's ownership interests in such Person); and

(4)
the fair market value of the assets disposed of does not exceed 10% of the total fair market value of SEMCO Energy on a consolidated basis, as determined in good faith by the Board of Directors and set forth in an officers' certificate delivered to the trustee.

"*Continuing Directors*" means, as of any date of determination, any member of the Board of Directors of SEMCO Energy who:*(1)*
was a member of such Board of Directors on the date of the indenture; or

(2)
was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"*Credit Agreement*" means that certain Credit Agreement, dated as of June 25, 2002, by and among SEMCO Energy, Standard Federal Bank N.A., as administrative agent, and the several banks and other financial institutions party thereto, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, modified, renewed, refunded, replaced or refinanced from time to time.

"*Credit Facilities*" means, one or more debt facilities (including, without limitation, the Credit Agreement) or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require SEMCO Energy to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that SEMCO Energy may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption "—Certain Covenants—Restricted Payments."

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Existing Indebtedness*" means Indebtedness of SEMCO Energy and its Subsidiaries (other than Indebtedness under the Credit Agreement), including intercompany Indebtedness underlying the trust preferred securities of SEMCO Energy's Subsidiaries, in existence on the date of the indenture, until such amounts are repaid.

"*Fixed Charge Coverage Ratio*" means with respect to any specified Person for any period, the ratio of the Consolidated Cash Flow of such Person for such period to the Consolidated Interest Expense of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the " *Calculation Date* "), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:*(1)*
acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period will be calculated on a pro forma basis in accordance with Regulation S-X under the Securities Act;

(2)
the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and

(3)
the Consolidated Interest Expense attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Consolidated Interest Expense will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.

"*GAAP*" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession, which are in effect on the date of the indenture.

"*Guarantee*" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

"*Guarantors*" means each Restricted Subsidiary of SEMCO Energy that executes a Guarantee of the notes in accordance with the provisions of the indenture, and its successors and assigns.

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under:*(1)*
interest rate, currency or commodity swap agreements, interest rate cap agreements and interest rate collar agreements;

(2)
other agreements or arrangements designed to protect such Person against fluctuations in interest rates, currency exchange rates or commodity prices; and

(3)
commodity futures contracts, commodity options or other similar agreements or arrangements designed to protect against fluctuations in the price of commodities used by such Person at the time, including fixed price gas supply purchase contracts.

"*Indebtedness*" means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent:*(1)*
in respect of borrowed money;

(2)
evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3)
in respect of banker's acceptances;

(4)
representing Capital Lease Obligations;

(5)
representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or

(6)
representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date will be:*(1)*
the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2)
the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(3)
in the case of any Hedging Obligation, the net amount payable if such Hedging Obligation is terminated at that time due to default by such Person (after giving effect to any contractually permitted set-off).

"*Investments*" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business and excluding trade payables of SEMCO Energy and its Subsidiaries arising in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If SEMCO Energy or any Subsidiary of SEMCO Energy sells or otherwise disposes of any Equity Interests of any direct or indirect Subsidiary of SEMCO Energy such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary of SEMCO Energy, SEMCO Energy will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of SEMCO Energy's Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption "—Certain Covenants—Restricted Payments." The acquisition by SEMCO Energy or any Subsidiary of SEMCO Energy of a Person that holds an Investment in a third Person will be deemed to be an Investment by SEMCO Energy or such Subsidiary in such third Person in an amount equal to the fair market value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption "—Certain Covenants—Restricted Payments."

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"*Moody's*" means Moody's Investors Service, Inc.

"*Net Income*" means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however:*(1)*
any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with: (a) any Asset Sale; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and

(2)
any extraordinary gain (but not loss), together with any related provision for taxes on such extraordinary gain (but not loss).

"*Net Proceeds*" means the aggregate cash proceeds received by SEMCO Energy or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"*Non-Recourse Debt*" means Indebtedness:*(1)*
as to which neither SEMCO Energy nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender;

(2)
no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the notes) of SEMCO Energy or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its Stated Maturity; and

(3)
as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of SEMCO Energy or any of its Restricted Subsidiaries.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"*Permitted Business*" means the business of operating one or more regulated utilities and other businesses that are ancillary, reasonably related thereto, or which are a reasonable extension thereof as determined in good faith by the Board of Directors of SEMCO Energy, including, without limitation, the businesses conducted by SEMCO Energy and its Subsidiaries on the date of the indenture.

"*Permitted Investments*" means:*(1)*
any Investment in SEMCO Energy or in a Restricted Subsidiary of SEMCO Energy;

(2)
any Investment in Cash Equivalents;

(3)
any Investment by SEMCO Energy or any Restricted Subsidiary of SEMCO Energy in a Person, if as a result of such Investment:

(a)
such Person becomes a Restricted Subsidiary of SEMCO Energy and, if required under the covenant described above under the caption "—Certain Covenants—Future Subsidiary Guarantees," a Guarantor; or

(b)
such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, SEMCO Energy or a Restricted Subsidiary of SEMCO Energy that, if required under the covenant described above under the caption "—Certain Covenants—Future Subsidiary Guarantees," is a Guarantor;

(4)
any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales;"

(5)
any Investment in any Person solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of SEMCO Energy;

(6)
any Investments received in compromise of obligations of such persons incurred in the ordinary course of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; and

(7)
Hedging Obligations.

"*Permitted Liens*" means:*(1)*
Liens in favor of SEMCO Energy or any Guarantor;

(2)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business;

(3)
Liens on assets of SEMCO Energy or any Guarantor to secure Indebtedness (including Capital Lease Obligations) or Attributable Debt permitted by clause (4) of the second paragraph of the covenant entitled "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock" covering only the assets acquired with such Indebtedness;

(4)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries existing on the date of the indenture;

(5)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;

(6)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries incurred or deposits made in the ordinary course of business, including but not limited to, (i) any mechanics,' materialmens,' carriers,' workmens,' vendors' or other like Liens and (ii) Liens securing amounts in connection with workers' compensation, unemployment insurance and other types of social security;

(7)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries incurred or deposits made securing the performance of tenders, bids, leases, trade contracts (other than for borrowed money), government contracts, return-of-money bonds and other obligations of like nature incurred in the ordinary course of business;

(8)
rights of financial institutions to offset credit balances in connection with the operation of cash management programs established for the benefit of SEMCO Energy or a Restricted Subsidiary of SEMCO Energy or in connection with the issuance of letter of credit for the benefit of SEMCO Energy or a Restricted Subsidiary of SEMCO Energy;

(9)
Liens that arise pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings and Liens that secure the reimbursement obligations for any bonds obtained in connection with an appeal taken in any court proceeding, so long as the execution or other enforcement of any such Lien arising pursuant to such legal process is effectively stayed and the claims secured thereby are being contested in good faith and, if appropriate, by appropriate legal proceedings, or Liens in favor of a plaintiff or a defendant in any action before a court or tribunal as security for costs and/or other expenses;

(10)
any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, of any Liens referred to above, for amounts not exceeding the principal amount of the Indebtedness secured by the Lien so extended, renewed or replaced; *provided* that such extension, renewal or replacement Lien is limited to all or a part of the same assets that were covered by the Lien extended, renewed or replaced (plus improvements on such assets);

(11)
minor survey exceptions or minor encumbrances, easements or reservations, or rights of others for rights-of-way, utilities and other similar purposes, or zoning or other restrictions as to the use of real properties, which are necessary for the conduct of the activities of SEMCO Energy and its Restricted Subsidiaries of which customarily exist on properties of corporations engaged in similar

activities and similarly situated and which do not in any event materially impair the operation of the business of SEMCO Energy and its Restricted Subsidiaries;*(12)* Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries securing trade payables for natural gas purchases but only to the extent such Liens are required from suppliers generally in accordance with the then-customary market practice;

(13)
Liens on assets of SEMCO Energy or any of its Restricted Subsidiaries incurred in the ordinary course of business of SEMCO Energy with respect to obligations that do not exceed $5.0 million at any one time outstanding.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:*(1)*
the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith);

(2)
such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;

(3)
if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the notes on terms at least as favorable to the Holders of notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and

(4)
such Indebtedness is incurred either by SEMCO Energy or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary.

"*S&P*" means Standard & Poor's Ratings Group.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the date hereof.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subsidiary*" means, with respect to any specified Person:*(1)*
any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

(2)
any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

"*Treasury Rate*" means, as of any Redemption Date, the yield to maturity as of such Redemption Date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the Redemption Date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the Redemption Date to maturity; *provided, however,* that if the period from the Redemption Date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"*Unrestricted Subsidiary*" means any Subsidiary of SEMCO Energy that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution, but only to the extent that such Subsidiary:*(1)*
has no Indebtedness other than Non-Recourse Debt;

(2)
is not party to any agreement, contract, arrangement or understanding with SEMCO Energy or any Restricted Subsidiary of SEMCO Energy unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to SEMCO Energy or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of SEMCO Energy;

(3)
is a Person with respect to which neither SEMCO Energy nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4)
has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of SEMCO Energy or any of its Restricted Subsidiaries.

Any designation of a Subsidiary of SEMCO Energy as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of the Board Resolution giving effect to such designation and an officers' certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption "—Certain Covenants—Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of SEMCO Energy as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock," SEMCO Energy will be in default of such covenant. The Board of Directors of SEMCO Energy may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of SEMCO Energy of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such

Indebtedness is permitted under the covenant described under the caption "—Certain Covenants—Incurrence of Indebtedness and Issuance of Preferred Stock," calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation. Upon any such designation as a Restricted Subsidiary, such Subsidiary will become a Guarantor and execute supplemental indentures if so required under the covenant described above under the caption "—Certain Covenants—Future Subsidiary Guarantees."

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:*(1)* the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS

The following discussion summarizes the material U.S. federal tax consequences of the exchange of outstanding notes for new notes and of the beneficial ownership and disposition of new notes.

This summary is based on the Internal Revenue Code of 1986, referred to herein as the "Code," regulations issued under the Code, judicial authority and administrative rulings and practice, all as of the date of this prospectus, all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal tax consequences described in this prospectus. This summary addresses only the tax consequences to investors that own the outstanding notes and will own the new notes as capital assets and not as part of a hedge, straddle, conversion, constructive sale or other risk reduction transaction for federal income tax purposes. This summary does not discuss all of the tax consequences that may be relevant to particular investors or to investors subject to special treatment under the federal income tax laws (such as insurance companies, partnerships or other entities treated as partnerships for federal income tax purposes, financial institutions, tax-exempt organizations, retirement plans, regulated investment companies, securities dealers, expatriates or persons whose functional currency for tax purposes is not the U.S. dollar). We will not seek a ruling from the Internal Revenue Service, referred to herein as the "IRS," with respect to any matters discussed in this section, and we cannot assure you that the IRS will not challenge one or more of the tax consequences described below. When we use the term "holder" in this section, we are referring to a beneficial owner of the notes and not the record holder. **Persons considering the purchase of the notes should consult their own tax advisors concerning the application of U.S. federal tax laws to their particular situations as well as any consequences of the purchase, beneficial ownership and disposition of the notes arising under the laws of any other taxing jurisdiction.**

Federal Income Tax Consequences to U.S. Holders

The following is a general discussion of the material U.S. federal income tax consequences of the exchange of outstanding notes for new notes and of the beneficial ownership and disposition of the notes by a holder that is a U.S. person, referred to herein as a "U.S. Holder." For purposes of this discussion, a U.S. person means:

- a citizen or resident of the United States (as defined for federal income tax purposes);
- a corporation or other business entity treated as a corporation created or organized in or under the laws of the United States or any State or political subdivision thereof or therein (including the District of Columbia);
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or certain electing trusts that were in existence on August 20, 1996, and were treated as domestic trusts on August 20, 1996.

The Exchange Offer

The exchange of outstanding notes for new notes pursuant to this exchange offer will not be treated as an "exchange" for U.S. federal income tax purposes because the new notes will not be considered to differ materially in kind or extent from the outstanding notes. Rather, any new notes received by you will be treated as a continuation of your investment in the outstanding notes. As a result, there will be no U.S. federal income tax consequences to you resulting from the exchange offer and you will have the same adjusted tax basis and holding period in the new notes as you had in the outstanding notes immediately prior to the exchange.

Treatment of Interest

Stated interest on the notes will be taxable to a U.S. Holder as ordinary income at the time it is accrued or received (in accordance with the U.S. Holder's method of tax accounting).

Market Discount

If a U.S. Holder purchases a new note (or purchased an outstanding note and exchanges it for a new note) for an amount that is less than the stated principal amount of the note, the amount of such difference is treated as "market discount" for U.S. federal income tax purposes, unless such difference is less than 1/4 of one percent of the stated principal amount multiplied by the remaining number of complete years to maturity from the date of the acquisition.

A U.S. Holder holding a note with market discount generally will be required to treat any full or partial principal payment, or any gain upon the sale, exchange or retirement (including redemption or repurchase) of the note, as ordinary income to the extent of the accrued market discount on the note that such holder has not previously included in income. A U.S. Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry a note with market discount.

In general, any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless the holder elects to accrue the market discount under a constant yield method. A U.S. Holder may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield method), rather than on disposition of the note, in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in gross income on an accrual basis, once made, applies to all market discount obligations acquired by the holder on or after the first day of the first taxable year to which the election applies, and is irrevocable without the consent of the IRS. The holder's tax basis in the notes will be increased by the amount of any market discount included in gross income under such an election.

Amortizable Bond Premium

In general, if a U.S. Holder purchases a new note (or purchased an outstanding note and exchanges it for a new note) for an amount in excess of the sum of all amounts payable on the note (other than stated interest payments), such excess will be considered to be "amortizable bond premium." A U.S. Holder generally may elect to amortize the bond premium over the remaining term of the note on a constant yield method as an offset to interest. Special rules apply to determine the amount of amortizable bond premium on debt instruments (such as the notes) that may be redeemed prior to maturity at the issuer's option. Under these rules, a U.S. Holder will calculate the amount of amortizable bond premium based on the amount payable at the applicable call date, but only if the use of the call date (in lieu of the stated maturity date) results in a smaller amortizable bond premium for the period ending on the call date. If a U.S. Holder does not elect to amortize bond premium, that premium will decrease the gain or increase the loss such holder would otherwise recognize on disposition of the note.

If a U.S. Holder elects to amortize bond premium, its tax basis in the note will be reduced by the amount of allowable amortization. The election to amortize bond premium applies to all taxable debt obligations held during or after the taxable year for which the election is made, and is irrevocable without the consent of the IRS.

The rules regarding market discount and amortizable bond premium are complex, and you should consult your own tax advisors regarding these rules.

Treatment of Dispositions of Notes

Upon the sale, exchange, retirement or other taxable disposition of a note, a U.S. Holder generally will recognize gain or loss equal to the difference between the amount received on such disposition (other than amounts representing accrued and unpaid interest not previously included in income) and the U.S. Holder's tax basis in the note. A U.S. Holder's tax basis in a note will be, in general, the cost of the note to the U.S. Holder, increased by any market discount included in income and decreased by any amortizable bond premium. Subject to the market discount rules discussed above, gain or loss realized on the sale, exchange or retirement of a note generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such sale, exchange or retirement, the note has been held for more than one year. Net long-term capital gain recognized by a non-corporate U.S. Holder is generally subject to U.S. federal income tax at a preferential rate. The ability of a U.S. Holder to deduct a capital loss is subject to limitations under the Code.

Federal Tax Consequences to Non-U.S. Holders

The following is a general discussion of the U.S. federal income and estate tax consequences of the exchange offer, and of the beneficial ownership and disposition of new notes by a holder that is not a partnership or a U.S. person, referred to herein as a "Non-U.S. Holder." For purposes of the following discussion, any interest income and any gain realized on the sale, exchange or other disposition of a note will be considered "U.S. trade or business income" if such interest income or gain is (i) effectively connected with the conduct of a trade or business in the United States or (ii) in the case of a treaty resident, attributable to a permanent establishment (or in the case of an individual, to a fixed base) in the United States.

The Exchange Offer

The exchange of outstanding notes for new notes pursuant to this exchange offer will not be a taxable sale or exchange for U.S. federal income tax purposes.

Treatment of Interest

A Non-U.S. Holder will not be subject to U.S. federal income or withholding tax in respect of interest income on a note if each of the following requirements is satisfied:

- The interest is not U.S. trade or business income (as defined above).

- The Non-U.S. Holder provides to us or our paying agent a properly completed IRS Form W-8BEN (or successor form), or an appropriate substitute form, together with all appropriate attachments, signed under penalties of perjury, identifying the Non-U.S. Holder and stating, among other things, that the Non-U.S. Holder is not a U.S. person. If a note is held through a securities clearing organization, bank or another financial institution that holds customers' securities in the ordinary course of its trade or business, this requirement is satisfied if (i) the Non-U.S. Holder provides such a form to the organization or institution, and (ii) the organization or institution, under penalties of perjury, certifies to us that it has received such a form from the beneficial owner or another intermediary and furnishes us or our paying agent with a copy.

- The Non-U.S. Holder does not actually or constructively own 10% or more of the voting power of our stock.

- The Non-U.S. Holder is not a "controlled foreign corporation" (as defined for federal income tax purposes) that is actually or constructively related to us.

If all of these conditions are not met, a 30% U.S. withholding tax will apply to interest income on the notes, unless one of the following two exceptions is satisfied. The first exception is that an applicable income tax treaty reduces or eliminates such tax, and a Non-U.S. Holder claiming the

benefit of that treaty provides to us or our paying agent a properly completed IRS Form W-8BEN (or successor form), or an appropriate substitute form. The second exception is that the interest is U.S. trade or business income (as defined above) and the Non-U.S. Holder provides an appropriate statement to that effect on a properly completed IRS Form W-8ECI (or successor form), or an appropriate substitute form. In the case of the second exception, such Non-U.S. Holder generally will be subject to U.S. federal income tax with respect to all income from the notes on a net income basis in the same manner as a U.S. Holder, as described above. Additionally, Non-U.S. Holders that are corporations could be subject to a branch profits tax on such income. Special procedures contained in Treasury regulations may apply to partnerships, trusts and intermediaries. We urge Non-U.S. Holders to consult their own tax advisors for information on the impact of these withholding regulations.

Treatment of Dispositions of Notes

Generally, a Non-U.S. Holder will not be subject to U.S. federal income tax on gain realized upon the sale, exchange, retirement or other disposition of a note unless:

- such holder is an individual present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met, or

- the gain is U.S. trade or business income (as defined above).

Treatment of Notes for U.S. Federal Estate Tax Purposes

A note held, or treated as held, by an individual who is a Non-U.S. Holder at the time of his or her death will not be subject to U.S. federal estate tax, provided that the Non-U.S. Holder does not at the time of death actually or constructively own 10% or more of the combined voting power of all classes of our stock and payments of interest on such notes would not have been considered U.S. trade or business income (as defined above).

U.S. Information Reporting Requirements and Backup Withholding

When required, we will report to the holders of the notes and the IRS amounts paid on or with respect to the notes and the amount of any tax withheld from such payments.

Certain non-corporate U.S. Holders may be subject to backup withholding (currently at a rate of 28%) on payments made on or with respect to the notes and on payment of the proceeds from the disposition of a note. In general, backup withholding will apply to a U.S. Holder only if the U.S. Holder:

- fails to furnish its Taxpayer Identification Number, or TIN, which for an individual is his or her Social Security Number;

- furnishes an incorrect TIN;

- is notified by the IRS that it has failed properly to report payments of interest and dividends; or

- under certain circumstances, fails to certify, under penalties of perjury, that it has furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments.

A U.S. Holder will be eligible for an exemption from backup withholding by providing a properly completed IRS Form W-9 (or successor form), or an appropriate substitute form, to us or our paying agent.

A Non-U.S. Holder that provides an IRS Form W-8BEN (or successor form), or an appropriate substitute form, together with all appropriate attachments, signed under penalties of perjury, identifying the Non-U.S. Holder and stating that the Non-U.S. Holder is not a U.S. person, will not be subject to U.S. backup withholding and generally will not be subject to IRS information reporting requirements

provided that neither we nor our paying agent has actual knowledge that the holder is a U.S. person or otherwise does not satisfy the requirements of an exemption.

The payment of the proceeds from the disposition of notes to or through the U.S. office of any broker, U.S. or foreign, will be subject to information reporting and possible backup withholding unless the owner certifies as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption, provided that the broker does not have actual knowledge or reason to know that the holder is a U.S. person or that the conditions of any other exemption are not, in fact, satisfied. The payment of the proceeds from the disposition of notes to or through a non-U.S. office of a non-U.S. broker will not be subject to information reporting or backup withholding unless the non-U.S. broker has certain types of relationships with the United States, referred to as a U.S. related person. In the case of the payment of the proceeds from the disposition of the notes to or through a non-U.S. office of a broker that is either a U.S. person or a U.S. related person, the Treasury regulations require information reporting (but not backup withholding) on the payment unless the broker has documentary evidence in its files that the owner is a Non-U.S. Holder and the broker has no knowledge (or reason to know) to the contrary. Non-U.S. Holders should consult their own tax advisors on the application of information reporting and backup withholding to them in their particular circumstances (including upon their disposition of notes).

Backup withholding is not an additional tax and may be refunded or credited against the holder's U.S. federal income tax liability, provided that certain required information is furnished to the IRS. The information reporting requirements may apply regardless of whether withholding is required. Copies of the information returns reporting interest and withholding may be made available to the tax authorities in foreign countries under the provisions of a tax treaty or agreement.

The federal tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their own tax advisors with respect to the tax consequences to them of the beneficial ownership and disposition of the notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in federal or other tax laws.

PLAN OF DISTRIBUTION

Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such notes. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of notes received in exchange for outstanding notes where such outstanding notes were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of 180 days after the expiration date of the exchange offer, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition, until August 24, 2004, all dealers effecting transactions in the new notes may be required to deliver a prospectus.

We will not receive any proceeds from any sale of new notes by broker-dealers. New notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the new notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such new notes. Any broker-dealer that resells new notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such new notes may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on such resale of new notes and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that, by acknowledging that it will deliver and delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

For a period of 180 days after the expiration date of the exchange offer, we will promptly send additional copies of this prospectus and any amendment or supplement to this prospectus to any broker-dealer that requests such documents as set forth in the letter of transmittal. We have agreed to pay all expenses incident to the exchange offer (including the expenses of one counsel for the holders of the outstanding notes) other than commissions or concessions of any brokers or dealers and will indemnify the holders of the outstanding notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

NOTICE TO CANADIAN RESIDENTS

Any resale of the notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Note holders resident in Canada are advised to seek legal advice prior to any resale of the notes.

LEGAL MATTERS

Certain legal matters in connection with the offering and sale of the notes regarding the validity and enforceability of the notes will be passed upon for us by Gibson, Dunn & Crutcher LLP, New York, New York. Certain other legal matters will be passed upon for us by Dickinson Wright PLLC, Detroit, Michigan.

EXPERTS

Our consolidated financial statements as of December 31, 2002 and for the year then ended, included elsewhere in this prospectus, have been so included in reliance on the report of

PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting. Our consolidated financial statements as of December 31, 2001 and 2000 and for the years then ended, included elsewhere in this prospectus, have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report included herein. Arthur Andersen LLP has not consented to the incorporation by reference to their report, and we have dispensed with the requirement to file their consent in reliance upon Rule 437a of the Securities Act. In May 2002, our Board of Directors voted to discontinue using Arthur Andersen LLP to audit our financial statements for the year ending December 31, 2002. We had previously retained Arthur Andersen LLP to review our financial statements for the quarter ended March 31, 2002. Because Arthur Andersen LLP has not consented to the incorporation by reference of their report in this prospectus, you will not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act for any untrue statements of material fact contained in the financial statements audited by them or any omission to state a material fact required to be stated therein. See "Risk Factors—You may not be able to seek remedies against Arthur Andersen LLP, our former independent accountants, with respect to our financial statements that were audited by Arthur Andersen." On May 28, 2002, we appointed PricewaterhouseCoopers LLP to audit our financial statements for the year ending December 31, 2002. During 2000 and 2001, there were no disagreements or reportable events as described in Item 304(a) of Regulation S-K promulgated by the SEC between Arthur Andersen LLP and us.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We are subject to the informational requirements of the Exchange Act, and in accordance with the requirements of the Exchange Act, we file reports and other information with the SEC. You may read and, for a fee, copy any document that we file with the SEC at the public reference facility maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at *http://www.sec.gov* .

Our reports and other information that are filed with the SEC are not incorporated by reference into this prospectus except that the information under the section entitled "Stock Outstanding and Voting Rights" and "Compensation of Executive Officers and Directors" starting on pages 4 and 11, respectively, of our Proxy Statement, dated March 10, 2003 (and incorporated by reference to the annual report on Form 10-K filed on March 14, 2003), is incorporated into this prospectus by reference. We also incorporate by reference all documents that we file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of this offering from the dates of the filing of these documents with the SEC.

We maintain a website on the Internet at address http://www.semcoenergy.com. We make available free of charge on or through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC. This reference to our Internet address is for informational purposes only and shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this prospectus.

You may also request a copy of these filings at no cost, by writing or telephoning us at the following address:

SEMCO Energy, Inc.
Attention: Corporate Secretary
28470 13 Mile Road, Suite 300
Farmington Hills, MI 48334
(248) 702-6000

SEMCO ENERGY, INC. AND ITS CONSOLIDATED SUBSIDIARIES

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REPORTS OF INDEPENDENT ACCOUNTANTS

To SEMCO Energy, Inc.:

In our opinion, the accompanying consolidated statements of financial position and capitalization as of December 31, 2002 and the related consolidated statements of operations, changes in common shareholders' equity and cash flows present fairly, in all material respects, the financial position of SEMCO Energy, Inc. and its subsidiaries at December 31, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001 and for each of the two years in the period ended December 31, 2001, prior to the inclusion of the goodwill transitional disclosures in Note 1, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated February 7, 2002.

As explained in Note 1 to the financial statements, effective January 1, 2002, SEMCO Energy, Inc. changed its method of accounting related to goodwill in accordance with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

As discussed above, the financial statements of SEMCO Energy, Inc. as of December 31, 2001, and for each of the two years in the period ended December 31, 2001 were audited by other independent accountants who have ceased operations. As described in Note 1, these financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No. 142. We audited the adjustments in the transitional disclosures in Note 1. In our opinion, all such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review or apply any procedures to the 2001 and 2000 financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 and 2000 financial statements taken as a whole.

PricewaterhouseCoopers LLP

Detroit, Michigan
February 10, 2003

The following report is a copy of a report previously issued by Arthur Andersen LLP. This report has not been reissued by Arthur Andersen LLP, and Arthur Anderson LLP did not consent to the incorporation by reference of this report (as included in our Annual Report on Form 10-K) into any of SEMCO's registration statements.

As discussed in Note 1, the Company has revised its financial statements for the years ended December 31, 2001 and 2000 to include the transitional disclosures required by SFAS No. 142, "Goodwill and Other Intangible Assets." The Arthur Andersen report does not extend to these changes. The revisions to the 2001 and 2000 financial statements related to these transitional disclosures were reported on by PricewaterhouseCoopers LLP, as stated in their report appearing on the preceding page.

To SEMCO Energy, Inc.:

We have audited the accompanying consolidated statements of financial position and capitalization of SEMCO Energy, Inc. (a Michigan corporation) and subsidiaries as of December 31, 2001 and 2000 and the related consolidated statements of income, changes in common shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SEMCO Energy, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Detroit, Michigan,
February 7, 2002

SEMCO ENERGY, INC.
Consolidated Statements of Operations

	Years ended December 31,		
	2002	2001	2000
	(000's, except per share amounts)		
Operating revenues			
Gas sales	$ 335,655	$ 295,397	$ 273,312
Gas transportation	25,707	25,888	30,783
Construction services	107,365	117,160	95,537
Other	12,238	7,378	10,693
	$ 480,965	$ 445,823	$ 410,325
Operating expenses			
Cost of gas sold	$ 220,422	$ 184,973	$ 161,945
Operation and Maintenance	156,653	162,289	140,236
Depreciation and amortization	35,337	36,505	33,051
Property and other taxes	11,844	11,562	9,860
Restructuring and impairment charges	—	6,103	—
	$ 424,256	$ 401,432	$ 345,092
Operating income	$ 56,709	$ 44,391	$ 65,233
Other income (deductions)			
Interest expense	$ (31,268)	$ (31,784)	$ (34,905)
Other	2,238	2,335	2,828
	$ (29,030)	$ (29,449)	$ (32,077)
Income before income taxes and minority interest	$ 27,679	$ 14,942	$ 33,156
Income taxes	10,139	6,578	11,554
Minority interest—dividends on company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc., net of income taxes of $4,631, $4,632 and $2,695.	8,601	8,603	5,004
Income (loss) from continuing operations	$ 8,939	$ (239)	$ 16,598
Discontinued operations:			
Income (loss) from engineering services operations, net of income tax benefit (expense) of $0, $694 and ($52)	—	$ (1,142)	$ 95
Loss on divestiture of engineering services operations, including losses during phase-out period, net of income tax benefit (expense) of ($1,276), $2,429 and $0	10	(4,980)	—
Net income (loss) available to common shareholders	$ 8,949	$ (6,361)	$ 16,693
Earnings per share—basic			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.92
Net income (loss) available to common shareholders	0.48	(0.35)	0.93
Earnings per share—diluted			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.89
Net income (loss) available to common shareholders	0.48	(0.35)	0.90
Cash dividends per share	$ 0.59	$ 0.84	$ 0.84

Average common shares outstanding—basic	18,472	18,106	17,999
Average common shares outstanding—diluted	18,493	18,106	18,619

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Financial Position

	December 31,	
	2002	2001
	(000's)	
Current assets		
Cash and temporary cash investments, at cost	$ 1,813	$ 1,728
Restricted cash	1,212	—
Receivables, less allowances of $1,909 and $1,849	49,841	64,219
Accrued revenue	40,757	33,153
Gas in underground storage	35,232	12,731
Prepaid expenses	23,449	22,276
Materials and supplies, at average cost	4,254	5,258
Gas charges recoverable from customers	2,200	1,994
Other	1,537	3,608
	$ 160,295	$ 144,967
Property plant and equipment		
Gas distribution	$ 635,992	$ 613,467
Diversified businesses and other	92,774	94,514
	$ 728,766	$ 707,981
Less accumulated depreciation and impairments	207,635	183,436
	$ 521,131	$ 524,545
Deferred charges and other assets		
Goodwill, less accumulated amortization and impairments of $17,764	$ 161,084	$ 161,084
Deferred retiree medical benefits	8,992	9,891
Unamortized debt expense	7,809	7,831
Other	17,203	15,230
	$ 195,088	$ 194,036
Total assets	$ 876,514	$ 863,548
Current liabilities		
Notes payable and current maturities of long-term debt	$ 121,835	$ 137,957
Accounts payable	38,148	30,410
Customer advance payments	11,408	13,530
Accrued interest	7,598	7,665
Accumulated deferred income taxes	1,879	912
Amounts payable to customers	1,073	1,463
Other	19,194	17,076
	$ 201,135	$ 209,013
Deferred credits and other liabilities		
Accumulated deferred income taxes	$ 33,043	$ 33,149
Customer advances for construction	15,841	15,548
Unamortized investment tax credit	1,178	1,445
Other	9,833	12,223
	$ 59,895	$ 62,365
Commitments and contingencies (see Note 13)		
Capitalization		
Long-term debt	$ 366,026	$ 338,966

Company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc.	139,436	139,394
Common shareholders' equity	110,022	113,810
	$ 615,484	$ 592,170

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Cash Flow

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Cash flow provided by (used for) operating activities			
Net income (loss)	$ 8,949	$ (6,361)	$ 16,693
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	35,337	36,505	33,051
Depreciation and amortization in discontinued operations	225	454	421
Accumulated deferred income taxes and investment tax credit	3,516	4,402	6,877
Non-cash impairment charges and subsequent adjustment	(1,732)	7,679	—
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes as shown below	(21,350)	(6,023)	(8,080)
Net cash provided by operating activities	$ 24,945	$ 36,656	$ 48,962
Cash flows provided by (used for) investing activities			
Property additions—gas distribution	$ (29,972)	$ (34,074)	$ (47,466)
Property additions—diversified businesses and other	(5,005)	(21,370)	(19,170)
Proceeds from property sales, net of retirement costs	4,508	(49)	15
Acquisitions of businesses, net of cash acquired	—	—	(784)
Net cash used for investing activities	$ (30,469)	$ (55,493)	$ (67,405)
Cash flows provided by (used for) financing activities			
Issuance of common stock, net of expenses	$ 3,642	$ 2,436	$ 865
Issuance of trust preferred securities, net of expenses	—	—	134,885
Net cash change in notes payable	13,878	(26,185)	(243,708)
Issuance of long-term debt, net of expenses	28,990	58,296	136,619
Repayment of long-term debt and related expenses	(30,125)	(10)	(50)
Payment of dividends	(10,776)	(15,193)	(15,033)
Net cash provided by financing activities	$ 5,609	$ 19,344	$ 13,578
Cash and temporary cash investments			
Net increase (decrease)	$ 85	$ 507	$ (4,865)
Beginning of period	1,728	1,221	6,086
End of period	$ 1,813	$ 1,728	$ 1,221
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes			
Restricted cash	$ (1,212)	$ —	$ —
Receivables, net	14,378	8,920	7,161
Accrued revenue	(7,604)	(941)	(6,832)
Prepaid expenses	(1,173)	(7,967)	12
Materials, supplies and gas in underground storage	(21,497)	(4,185)	4,065
Gas charges recoverable from customers	(206)	704	311
Accounts payable	7,738	(1,890)	(3,780)
Customer advances and amounts payable to customers	(2,219)	(68)	(4,036)
Other	(9,555)	(596)	(4,981)
	$ (21,350)	$ (6,023)	$ (8,080)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Capitalization

	December 31,	
	2002	2001
	(000's)	
Current maturities of long-term debt 6.83% notes due 2002	$ —	$ 30,000
Capitalization		
Long-term debt		
8.00% notes due 2004	$ 55,000	$ 56,900
7.20% notes due 2007	30,000	30,000
8.95% notes due 2008, remarketable 2003	105,378	106,179
6.49% notes due 2009	30,000	—
8.00% notes due 2010	30,758	30,887
8.00% notes due 2016	59,890	60,000
8.32% notes due 2024	25,000	25,000
6.50% medium-term notes due 2005	15,000	15,000
6.40% medium-term notes due 2008	5,000	5,000
7.03% medium-term notes due 2013	10,000	10,000
	$ 366,026	$ 338,966
Company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc.		
10.25% cumulative trust preferred securities—1,600,000 shares issued and outstanding	$ 38,436	$ 38,394
FELINE PRIDES—10,100,000 shares issued and outstanding	101,000	101,000
	$ 139,436	$ 139,394
Common shareholders' equity		
Common stock, par value $1 per share—40,000,000 shares authorized; 18,682,027 and 18,240,143 shares outstanding	$ 18,682	$ 18,240
Capital surplus	120,089	117,091
Accumulated other comprehensive income (loss)	(7,597)	(2,196)
Retained earnings (deficit)	(21,152)	(19,325)
	$ 110,022	$ 113,810
Total capitalization	$ 615,484	$ 592,170

The accompanying notes to the consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.
Consolidated Statements of Changes in Common Shareholders' Equity

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Common stock			
Beginning of year	$ 18,240	$ 18,056	$ 17,909
Issuance of common stock for acquisitions, the DRIP and other	442	184	147
End of year	$ 18,682	$ 18,240	$ 18,056
Capital surplus			
Beginning of year	$ 117,091	$ 115,186	$ 123,861
Issuance of common stock for acquisitions, the DRIP and other	3,200	2,256	1,718
Costs related to FELINE PRIDES (See Note 4)	(202)	(351)	(10,393)
End of year	$ 120,089	$ 117,091	$ 115,186
Accumulated other comprehensive income (loss)			
Beginning of year	$ (2,196)	$ —	$ —
Minimum pension liability adjustment, net of income tax benefit of $2,922, $781 and $0 (See Note 8)	(5,427)	(1,452)	—
Unrealized derivative loss on interest rate hedge from an investment in an affiliate	26	(744)	—
End of year	$ (7,597)	$ (2,196)	$ —
Retained earnings (deficit)			
Beginning of year	$ (19,325)	$ 2,230	$ 570
Net income (loss)	8,949	(6,361)	16,693
Cash dividends on common stock	(10,776)	(15,194)	(15,033)
End of year	$ (21,152)	$ (19,325)	$ 2,230

Disclosure of Comprehensive Income (Loss)

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Net income (loss) available to common shareholders	$ 8,949	$ (6,361)	$ 16,693
Minimum pension liability adjustment, net of income tax benefit of $2,922, $781 and $0 (See Note 8)	(5,427)	(1,452)	—
Unrealized gain (loss) on interest rate hedge from an investment in an affiliate	26	(744)	—
Total comprehensive income (loss)	$ 3,548	$ (8,557)	$ 16,693

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Note 1. Significant Accounting Policies

Company Description. SEMCO Energy, Inc., is an investor-owned company. SEMCO Energy, Inc. and its subsidiaries (the "Company") operate four reportable business segments: (1) gas distribution; (2) construction services; (3) information technology services; and (4) propane, pipelines and storage. The latter three segments are sometimes referred to together as the "Diversified Businesses." The Company's gas distribution business segment distributes and transports natural gas to approximately 272,000 customers in the state of Michigan and approximately 111,000 customers in the state of Alaska. The Alaska-based operation and the Michigan-based operation are known together as the "Gas Distribution Business" and operate as divisions of SEMCO Energy, Inc.

The construction services segment ("Construction Services") currently conducts most of its business in the midwestern, southern and southeastern areas of the United States. Its primary service is the installation and upgrade of compressor stations and underground natural gas mains and service lines.

The information technology services segment ("IT Services") is headquartered in Michigan and provides IT infrastructure outsourcing services and other IT services with a focus on mid-range computers, particularly the IBM I-Series (AS-400) platform. The Company's other business segments accounted for approximately 79% of IT Services' revenues during 2002.

The propane, pipelines and storage segment sells more than 4 million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin and operates natural gas transmission and storage facilities in Michigan.

The Company began accounting for its engineering services segment as a discontinued operation, effective with the fourth quarter of 2001. For additional information, refer to the "Discontinued Operations" disclosure within this Note.

Basis of Presentation. The financial statements of the Company were prepared in conformity with accounting principles generally accepted in the United States. In connection with the preparation of the financial statements, management was required 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.

Principles of Consolidation. The consolidated financial statements include the accounts of SEMCO Energy, Inc. and its wholly-owned subsidiaries. Investments in unconsolidated companies where the Company has significant influence, but does not control the entity, are reported using the equity method of accounting.

Certain of the Company's diversified businesses, primarily Construction Services and IT Services, supply services at a profit to the Company's regulated gas distribution business. In accordance with Statement of Financial Accounting Standard ("SFAS") 71, "Accounting for the Effects of Certain Types of Regulation," intercompany profits remaining in the assets of the regulated business at a particular date are not eliminated since it is probable that, through the ratemaking process, the cost will be recovered through future revenue. As a result, $0.1 million, $0.6 million and $0.9 million of profit on revenues earned from the Company's regulated business by the Company's diversified businesses was not eliminated during consolidation in 2002, 2001, and 2000 respectively. All other significant intercompany transactions have been eliminated.

Rate Regulation. The Gas Distribution Business is subject to regulation. The regulatory matters associated with gas distribution customers located in the City of Battle Creek, Michigan, and surrounding communities are subject to the jurisdiction of the City Commission of Battle Creek

("CCBC"). The Michigan Public Service Commission ("MPSC") has jurisdiction over the regulatory matters related to the Company's remaining Michigan customers. Regulatory matters for gas distribution customers in Alaska are subject to the jurisdiction of the Regulatory Commission of Alaska ("RCA"). These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. The Gas Distribution Business is subject to the provisions of SFAS 71. Refer to Note 2 for additional information regarding SFAS 71.

Restricted Cash. At December 31, 2002, the Company had $1.2 million of restricted cash. The Company expects this cash will be disbursed or that the restricted status will be removed within one year.

Property, Plant, Equipment and Depreciation. The Company's property, plant and equipment ("property") is recorded at cost. The Company provides for depreciation on a straight-line basis over the estimated useful lives of the related property. The ratio of depreciation to the average balance of property approximated 4.9% for the year 2002 and 4.7% for the years 2001 and 2000.

On January 1, 2002, the Company adopted 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 Accounting Principles Board ("APB") Opinion 30, "Reporting Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."

SFAS 144 requires long-lived assets to be measured at the lower of either the carrying amount or the fair value less the cost to sell the assets, 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 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 144 will result in the Company accounting for any future impairment or disposal of long-lived assets under the provisions of SFAS 144, but has not changed the accounting used for previous asset impairments or disposals.

Gas in Underground Storage. The gas inventory of the Gas Distribution Business at December 31, 2002 is reported at average cost. The gas inventory at December 31, 2001 was also stated at average cost with the exception of the inventory held by the Battle Creek division of the Gas Distribution Business, which was stated at last-in, first-out ("LIFO") cost. At December 31, 2001, the replacement cost of the Battle Creek division's gas inventory exceeded the LIFO cost by $0.2 million.

During 2002, the Battle Creek Division changed its method of accounting for gas inventory from LIFO to average cost. This change in accounting principle was made in order to provide a better matching of expenses with revenues and make Battle Creek's accounting for gas inventory consistent with the Company's other gas distribution divisions and other Michigan gas distribution companies. This accounting change was not material to the financial statements, and, accordingly, no retroactive restatement of prior years' financial statements was made.

In general, commodity costs and variable transportation costs are capitalized as gas in underground storage. Fixed costs, primarily pipeline demand charges and storage charges, are expensed as incurred through cost of gas.

Goodwill. Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible assets of businesses acquired. On January 1, 2002, the Company adopted

SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 addresses financial accounting and reporting for all business combinations and requires that all business combinations entered into subsequent to June 30, 2001 be recorded under the purchase method. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition.

In compliance with SFAS 142, goodwill amortization ceased effective January 1, 2002. Prior to January 1, 2002, goodwill was being amortized on a straight-line basis over periods of up to 40 years. Amortization expense was approximately $4.6 million in 2001 and $4.0 million in 2000. During 2001, the Company recorded a charge of $4.0 million for the impairment of goodwill associated with the Company's construction services segment and its discontinued engineering services business. The Company's carrying amount for goodwill at December 31, 2002 was $161.1 million, of which $140.2 million related to the Gas Distribution Business, $17.7 million related to Construction Services, $3.1 million related to the Propane, Pipelines and Storage segment and $0.1 million related to IT Services.

The Company was required to complete a transition impairment test in the year of adoption of SFAS 142 and perform subsequent impairment tests on the remaining goodwill balance annually or at any time when events occur which could impact the value of the Company's business segments. If an impairment test of goodwill shows that the carrying amount of the goodwill is in excess of the fair value, a corresponding impairment loss would be recorded in the Consolidated Statements of Operations. The transition impairment tests were performed for the Company's business units and the results of those tests indicate that no impairment of the Company's goodwill balances existed as of January 1, 2002. The 2002 annual impairment tests were also performed for the Company's business segments and indicated that there was no impairment of goodwill. As a result, there was no change in the carrying amount of goodwill at December 31, 2002 when compared to December 31, 2001.

The following table presents what would have been reported as net income (loss) available to common shareholders and the related per share amounts on a basic and diluted basis in 2002, 2001 and 2000, exclusive of amortization expense (including any related tax effects) related to goodwill.

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Net income (loss) available to common shareholders			
Reported income (loss) from continuing operations	$ 8,939	$ (239)	$ 16,598
Discontinued operations	10	(6,122)	95
Reported net income (loss) available to common shareholders	8,949	(6,361)	16,693
Add back: Goodwill amortization, net of income taxes	—	2,806	2,449
Adjusted net income (loss) available to common shareholders	$ 8,949	$ (3,555)	$ 19,142
Adjusted earnings per share—basic			
Reported income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.92
Discontinued operations	0.00	(0.34)	0.01
Reported net income (loss) available to common shareholders	0.48	(0.35)	0.93
Add back: Goodwill amortization, net of income taxes	—	0.15	0.13
Adjusted net income (loss) available to common shareholders	$ 0.48	$ (0.20)	$ 1.06
Adjusted earnings per share—diluted			
Reported income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.89
Discontinued operations	0.00	(0.34)	0.01
Reported net income (loss) available to common shareholders	0.48	(0.35)	0.90
Add back: Goodwill amortization, net of income taxes	—	0.15	0.13
Adjusted net income (loss) available to common shareholders	$ 0.48	$ (0.20)	$ 1.03

Long-term Note Receivable. The Company sold its entire interest in an Arkansas pipeline to ENOGEX Arkansas Pipeline Corporation ("ENOGEX") in 1998. Pursuant to the terms included in the sales agreement, the Company will receive annual payments of $0.8 million from ENOGEX for 17 years beginning in the year 2004. At December 31, 2002, the Company has a long-term discounted note receivable of $7.7 million for this note, which is reported in deferred charges and other assets in the Consolidated Statements of Financial Position.

Revenue Recognition. The Gas Distribution Business bills monthly on a cycle basis and follows the industry practice of recognizing accrued revenue for gas services rendered to its customers but not billed at month end. Construction Services recognizes revenues as services are rendered. In instances when projects are long-term, Construction Services uses the percentage of completion method. At December 31, 2002, Construction Services did not have any significant long-term projects. The propane business recognizes propane sales in the same period that the propane is delivered to customers.

Cost of Gas. The Alaska-based gas distribution operation ("ENSTAR") has a regulator-approved GCA pricing mechanism, which allows for the adjustment of rates charged to customers in Alaska for increases and decreases in the cost of gas purchased. Under the GCA pricing mechanism, the gas charge portion of customers' gas rates is adjusted annually to reflect the estimated cost of gas purchased for the upcoming 12-month period. Any difference between actual cost of gas purchased and the estimate is deferred as a current asset or current liability and included in the next annual adjustment to the gas charge portion of rates. The GCA may be adjusted quarterly if it is determined that there are significant variances from the estimates used in the annual determination.

ENSTAR has RCA approved gas purchase contracts with several entities. The base price of gas purchased under these contracts can be adjusted annually based on factors such as the price of certain traded oil futures, certain natural gas futures and other inflationary measures. Under the GCA pricing mechanism, customers in Alaska are charged amounts that allow the Company to recoup its cost of purchased gas. As a result, the Company does not earn any income on the gas charge portion of ENSTAR's rates.

Prior to April 1, 1999, the Company's Michigan-based gas distribution operation had a regulator-approved gas cost recovery ("GCR") pricing mechanism for the geographic areas subject to the regulatory jurisdiction of the MPSC and CCBC. The GCR pricing mechanism works similarly to the GCA pricing mechanism. During the three-year period from April 1, 1999 to March 31, 2002, the MPSC and CCBC authorized the Company to suspend its GCR clause and freeze in its customer base rate a fixed gas charge of $3.24 per thousand cubic feet ("Mcf"). The Company was able to offer this Michigan GCR suspension and rate freeze mainly as a result of agreements reached with TransCanada Gas Services, Inc. ("TransCanada"), which also covered the three-year period from April 1, 1999 to March 31, 2002. During 2001, TransCanada sold its gas marketing business and assigned the agreements to BP Canada Energy Marketing Corp. (formerly "BP Gas and Power"), with the Company's consent. Under the agreements, TransCanada or BP Canada Energy Marketing Corp ("BP") provided a significant portion of the Company's natural gas requirements, and managed the Company's natural gas supply and the supply aspects of transportation and storage operations in Michigan for the three-year period, at a cost that was, in most instances, below the $3.24 price charged to customers. As a result, during the three-year period from April 1, 1999 through March 31, 2002, the Michigan gas distribution operation retained any gas costs savings that resulted when the cost of purchased natural gas was below the $3.24 fixed price charged to customers, subject to a customer profit sharing mechanism described in Note 2.

When the suspension period for the GCR pricing mechanism expired on March 31, 2002, the Company reinstated its GCR pricing mechanism for customers subject to the jurisdiction of the MPSC ("MPSC customers"). Consequently, effective April 1, 2002, the Company could no longer earn any income on the gas charge portion of MPSC customers' rates. The Company received approval from the CCBC to extend the GCR suspension period and fixed gas charge program, with a new fixed gas charge, until March 31, 2005 for customers subject to its jurisdiction ("CCBC customers").

The Company has entered into new agreements with BP for the natural gas supply requirements of the CCBC customers, supply portfolio management for the MPSC customers, and transportation and storage asset management for both the CCBC and MPSC customers.

Under the new BP agreement covering MPSC customers, the Company no longer purchases gas at a fixed cost over a number of years. In keeping with the Company's switch back to the GCR pricing mechanism for MPSC customers, the Company is required to solicit bids for all supplies with term lengths longer than three days. Supplies with term lengths of three days or less are purchased from BP. The new BP agreement covering CCBC customers will continue to have a fixed cost for the purchase of natural gas and is effective for the three-year period from April 1, 2002 through March 31, 2005.

In accordance with the GCR pricing mechanism, the Company had $2.2 million recorded in current assets at December 31, 2002 for gas charges recoverable from customers. Also at December 31, 2002, the Company had $1.1 million recorded in current liabilities for amounts payable to customers in accordance with the GCA pricing mechanism.

Income Taxes. Investment tax credits ("ITC") utilized in prior years for income tax purposes are deferred for financial accounting purposes and are amortized through credits to the income tax provision over the lives of the related property. The Company files a consolidated federal income tax

return and income taxes are allocated among the subsidiaries within each business segment based on their separate taxable income.

Discontinued Operations. In December 2001, the Company's board of directors approved a plan to redirect the Company's business strategy, which included the divestiture of its engineering services business. As a result, the operating results and loss on disposal of this business have been segregated and reported as discontinued operations in the Consolidated Statements of Operations. A loss of approximately $5.0 million, representing the estimated loss during the phase-out period and the estimated loss on disposal, was reported as discontinued operations in the 2001 Consolidated Statement of Operations. The Company sold its engineering services business effective November 1, 2002. There was a difference of $10 thousand between the actual losses and estimated losses, which is reported as discontinued operations in 2002. For additional information, refer to Note 14 of the Notes to Consolidated Financial Statements.

Statements of Cash Flow. For purposes of the Consolidated Statements of Cash Flow, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash and temporary cash investments. Supplemental cash flow information for the years ended December 31, 2002, 2001 and 2000, is summarized in the following table.

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Cash paid during the year for:			
Interest	$ 30,304	$ 31,301	$ 29,153
Income taxes, net of (refunds)	$ (2,243)	$ 4,258	$ 4,160
Non-cash investing and financing activities:			
Capital stock issued for acquisitions	$ —	$ —	$ 1,000
Details of acquisitions:			
Fair value of assets acquired	$ —	$ —	$ 3,364
Fair value of liabilities assumed	—	—	(1,576)
Company stock issued	—	—	(1,000)
Cash paid	$ —	$ —	$ 788
Less cash acquired	—	—	4
Net cash paid for acquisitions	$ —	$ —	$ 784

Note 2. Regulatory Matters

RCA. The Company's Alaska gas distribution division, ENSTAR Natural Gas Company and its subsidiary, Alaska Pipeline Company (together known as "ENSTAR"), have been undergoing a rate review with the RCA since 2000.

The Company received an Order dated August 8, 2002 from the RCA on its review of rates for ENSTAR based on normalized data for the year 2000. In its Order the RCA established a revenue requirement of $107.6 million and a 12.55% return on equity. In response to a petition by ENSTAR, the RCA issued an additional Order dated September 16, 2002 which revised the indicated annual revenue reduction from $2.1 million to $2.0 million, which was 1.84% of ENSTAR's revenue in the normalized 2000 test year. The Order required ENSTAR to implement the rate reduction by September 27, 2002 on an across-the-board basis. The RCA also required ENSTAR to file an updated cost of service study by September 9, 2002 and a rate design in December 2002, with a hearing on the

rate design filing scheduled for May 2003. ENSTAR has implemented the rate reduction and filed both the cost of service study and the rate design as required. The rate design filed with the RCA by ENSTAR requests greater recovery of fixed costs in the monthly customer charge and declining block rates for gas sales customers.

MPSC and CCBC. During the three-year period from April 1, 1999 to March 31, 2002, the division of the Gas Distribution Business, subject to the jurisdiction of the MPSC, was under an MPSC order which, among other things, authorized the Company to: (1) suspend its GCR clause; (2) freeze in its customer base rate, a fixed gas charge of $3.24 per Mcf; (3) freeze distribution rate adjustments and (4) adopt a new income sharing mechanism for use during the 1999, 2000 and 2001 calendar years.

The MPSC order was applicable only in the geographic areas subject to the regulatory jurisdiction of the MPSC, and, therefore, did not govern rates regulated by the CCBC. However, the Gas Distribution Business voluntarily requested, and the CCBC approved, a similar freeze in the gas charge at $3.24 for customers subject to the jurisdiction of the CCBC. The CCBC also approved a suspension of the GCR clause, a distribution rate freeze and an income sharing mechanism similar to the MPSC approved program. The changes were effective for the same time period as the changes approved by the MPSC.

Several of the items in the MPSC order were interrelated. The fixed gas charge and the suspension of the GCR clause meant that customers paid $3.24 per Mcf regardless of the Company's actual cost of gas. The Gas Distribution Business was able to offer this Michigan GCR suspension and rate freeze mainly as a result of agreements reached with TransCanada. Refer to the "Cost of Gas" section in Note 1 for further information about the GCR clause, fixed gas charges and the agreements with TransCanada.

The profit incentive and sharing mechanism was effective for the calendar years 1999, 2000 and 2001. Under the mechanism, if the Company's return on equity for its Michigan-based natural gas distribution business exceeded 12.75%, certain portions of the excess return would be credited to customers, i.e., would be reflected prospectively in reduced rates. Four safety and reliability performance measures were required to be met in order not to reduce the return on equity threshold used in the income sharing mechanism.

The Company received approval from the CCBC to extend the GCR suspension period and the fixed gas charge program, with a new fixed gas charge, until March 31, 2005 for CCBC customers. The profit incentive and sharing mechanism discussed previously will remain in effect through March 2005 for CCBC customers. The Company also received approval during 2001 from the CCBC to start charging CCBC customers on a thermal basis rather than a volumetric basis. The Company buys all its natural gas by the dekatherm and now also sells it to these customers by the dekatherm.

The Company filed an application with the MPSC in late 2001 to extend its fixed charge program until March 31, 2005 and increase the current fixed charge for MPSC customers. However, the Company was unable to reach an agreement with the MPSC and other interested parties on a fixed customer charge for natural gas for the three years of the proposed extended period. As a result, the Company reinstated its GCR pricing mechanism when the fixed gas charge program expired on March 31, 2002. Refer to the Cost of Gas section of Note 1 for information regarding the GCR pricing mechanism.

Beginning in 2002, the profit incentive and sharing mechanism discussed previously is no longer in effect for MPSC customers. Instead, the profit incentive and sharing mechanism in effect for the calendar year 1998 was reinstated for 2002. Under this mechanism, referred to as a reverse taper incentive, if the return on equity for the division of Company's Michigan-based natural gas distribution

business that serves its MPSC customers exceeds 10.75%, certain portions of the excess return between 10.75% and 16.0% would be credited to customers. For purposes of this mechanism, if the return on equity exceeds 16.0%, the Company is required to file a general rate case with the MPSC. The return on equity did not exceed 10.75% for 2002.

On November 21, 2002, the MPSC regulated division of SEMCO Energy Gas Company filed an application for a general rate increase of $10.9 million. Among the principal reasons for the requested increase were higher pension and healthcare costs and investment of approximately $120 million in a new plant since the last rate case was approved in 1997. In addition to specific rate relief, the application sought an innovative rate design, which would mitigate some of the effects of warmer than normal weather on the Company's earnings. This new rate design calls for greater recovery of fixed costs in the monthly customer charge and declining block rates for gas sales customers. This would provide more stability in customer bills by moving costs from the peak heating season to summer and off-peak heating months. The filing also requests a change to customer billing based on the heat content of natural gas, or therms, rather than the current volumetric measure, cubic feet. An order is expected in 2003.

Regulatory Assets and Liabilities. The Gas Distribution Business is subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." As a result, the actions of regulators affect when revenues and expenses are recognized. Regulatory assets represent incurred costs to be recovered from customers through the ratemaking process. Regulatory liabilities represent benefits to be refunded to customers.

In the event the Company determines that the Gas Distribution Business no longer meets the criteria for following SFAS 71, the accounting impact would be an extraordinary, non-cash charge to operations of an amount that could be material. Criteria that give rise to the discontinuance of SFAS 71 include (1) increasing competition that restricts the ability of the Gas Distribution Business to establish prices to recover specific costs and (2) a significant change in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company's periodic review of these criteria currently supports the continuing application of SFAS 71.

The following table summarizes the regulatory assets and liabilities recorded in the Consolidated Statements of Financial Position.

	December 31,	
	2002	2001
	(000's)	
Regulatory assets		
Deferred retiree medical benefits	$ 8,992	$ 9,891
Gas charges recoverable from customers	2,200	1,994
Unamortized loss on retirement of debt	1,881	2,126
Other	2,303	2,126
	$ 15,376	$ 16,137
Regulatory liabilities		
Tax benefits amortizable to customers	$ 3,086	$ 3,448
Unamortized investment tax credit	1,228	1,593
Amounts payable to customers (gas cost overrecovery)	1,073	1,463
	$ 5,387	$ 6,504

Note 3. Income Taxes

SFAS 109. The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting For Income Taxes." SFAS 109 requires an annual measurement of deferred tax assets and deferred tax liabilities based upon the estimated future tax effects of temporary differences and carryforwards.

Provision for Income Taxes. The table below summarizes the components of the Company's provision for income taxes.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Federal income taxes:			
Currently payable (refundable)	$ 2,442	$ (7,056)	$ 3,065
Deferred to future periods	2,796	4,717	5,935
Investment tax credits ("ITC")	(267)	(267)	(267)
State income taxes:			
Currently payable (refundable)	907	695	(473)
Deferred to future periods	906	734	651
Total income tax expense (benefit)	$ 6,784	$ (1,177)	$ 8,911
Less amounts included in:			
Dividends on trust preferred securities	(4,631)	(4,632)	(2,695)
Discontinued operations	1,276	(3,123)	52
Income taxes, excluding amounts shown separately	$ 10,139	$ 6,578	$ 11,554

Reconciliation of Statutory Rate to Effective Rate. The table below provides a reconciliation of the difference between the Company's provision for income taxes and income taxes computed at the statutory rate.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Net income (loss)	$ 8,949	$ (6,361)	$ 16,693
Add back: income taxes	6,784	(1,177)	8,911
Pre-tax income (loss)	$ 15,733	$ (7,538)	$ 25,604
Computed federal income taxes	$ 5,507	$ (2,638)	$ 8,961
Amortization of deferred ITC	(267)	(267)	(267)
Amortization of non-deductible amounts resulting from acquisitions	119	237	237
State income tax expense, net of federal tax benefit	1,178	928	79
Other	247	563	(99)
Total income taxes	$ 6,784	$ (1,177)	$ 8,911

Deferred Income Taxes. Deferred income taxes arise from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. At December 31, 2002, there was a valuation allowance of $0.6 million recorded against deferred tax assets. The

valuation allowance relates to a capital loss incurred in 2002 that is likely to expire before being realized for tax purposes. At December 31, 2001, there was no valuation allowance recorded against deferred tax assets. The Company has an estimated net operating loss ("NOL") carryforward for federal tax purposes of $35.6 million at December 31, 2002, of which $21.0 million expires in 2021 and $14.6 million expires in 2022. The table below shows the principal components of the Company's deferred tax assets (liabilities).

	December 31,	
	2002	2001
	(000's)	
Property	$ (46,413)	$ (35,235)
Retiree medical benefit obligation	986	1,249
Retiree medical benefit regulatory assets	(3,147)	(3,462)
ITC	686	820
Unamortized debt expense	(864)	(1,025)
Property taxes	(2,460)	(2,329)
Goodwill	(3,929)	(1,430)
Other comprehensive income	3,704	781
Reserves associated with discontinued operations, restructuring and impairments	2,304	4,108
Net operating losses	12,465	—
Valuation allowance for deferred tax assets	(580)	—
Other	2,326	2,462
Total deferred taxes	$ (34,922)	$ (34,061)
Gross deferred tax liabilities	$ (88,837)	$ (71,695)
Gross deferred tax assets	54,495	37,634
Valuation allowance for deferred tax assets	(580)	—
Total deferred taxes	$ (34,922)	$ (34,061)

Note 4. Capitalization

Common Stock Equity. During 2002 and the last half of 2001, the Company issued approximately 372,000 shares and 166,000 shares, respectively of its common stock to the Company's Direct Stock Purchase and Dividend Reinvestment Plan ("DRIP") to meet the dividend reinvestment and stock purchase requirements of its participants. During 2000 and the first half of 2001, the DRIP purchased Company common stock on the open market to meet these requirements.

The Company issued approximately 70,000, 19,000 and 52,000 shares of Company common stock to certain of the Company's employee benefit plans in 2002, 2001 and 2000, respectively. Also during 2002 and 2001, the Company purchased approximately 40,000 shares and 48,000 shares, respectively, of its common stock on the open market to contribute to certain of its employee benefit plans. The Company issued 83,000 shares of its common stock to the shareholders of a business acquired during 2000.

Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiaries. The Company's Capital Trusts were established for the sole purpose of issuing trust preferred securities and lending the gross proceeds to the Company. The sole assets of the Capital Trusts are debt securities of the Company with terms similar to the terms of the related trust preferred securities. The Capital Trusts are subsidiaries of the Company.

In April 2000, SEMCO Capital Trust I issued 1.6 million shares of 10.25% cumulative trust preferred securities ("10.25% TPS") in a public offering at a price of $25 per security. SEMCO Capital Trust I used the $40 million in proceeds from the issuance of the 10.25% TPS to invest in subordinated debentures of the Company bearing an interest rate of 10.25%. The 10.25% TPS are subject to mandatory redemption upon repayment of the subordinated debentures at maturity or their earlier redemption. The subordinated debentures mature in 2040, but may be redeemed at any time after April 19, 2005, or at any time within 90 days following the occurrence of certain special events. The Company used the entire net proceeds from the sale of the subordinated debentures to repay a portion of the bridge loan utilized in the ENSTAR acquisition.

Also during 2000, the Company issued 10.1 million FELINE PRIDES in a public offering at a price of $10 per security. Each FELINE PRIDES consists of a stock purchase contract of the Company and a 9% trust preferred security of SEMCO Capital Trust II due 2005 with a stated face value per security of $10 ("9% TPS"). SEMCO Capital Trust II used the $101 million in proceeds to invest in 9% senior deferrable notes of the Company due 2005. The Company used the net proceeds from the sale of the senior deferrable notes to repay a portion of the bridge loan utilized for the acquisition of ENSTAR and to repay a portion of its short-term lines of credit.

Under the terms of each stock purchase contract (which is a component of a FELINE PRIDES unit), the FELINE PRIDES holder is obligated to purchase, and the Company is obligated to sell, between .7794 and .8651 shares of Company common stock in August 2003. The actual number of shares of common stock to be sold will depend on the average market value of a share of common stock in August 2003. In addition to payments on the 9% TPS, the Company is also obligated to pay the FELINE PRIDES holders a quarterly contract adjustment payment on each stock purchase contract at an annual rate of 2% of $10. The present value of the contract adjustment payments, or $5.6 million, was recorded as a liability and as a reduction to common stock capital surplus when the FELINE PRIDES were issued. As the Company pays the contract adjustment payments, common stock capital surplus is also reduced by the interest component of the payments. In addition, common stock capital surplus was reduced by $4.6 million for the issuance costs of the FELINE PRIDES.

The FELINE PRIDES holders can settle their obligation to purchase Company common stock by paying cash or by having their 9% TPS remarketed in August 2003. The distribution rate on the 9% TPS will also be reset in August 2003. The reset rate will be equal to the sum of the reset spread and the rate on the two-year benchmark treasury and will be determined by the reset agent as the rate the TPS should bear in order to have an approximate market value of 100.5% of $10. However, the Company may limit the reset rate to be no higher than the rate on the two-year benchmark treasury plus 200 basis points (or 2%).

In the case of FELINE PRIDES holders who decide to have their 9% TPS remarketed, $10 of the proceeds from remarketing each 9% TPS will automatically be applied to satisfy in full the obligation to purchase Company common stock under the related stock purchase contract. If the remarketing agent is unable to remarket the 9% TPS at the reset rate, as described above, the Company may exercise its right as a secured party to dispose of the 9% TPS in accordance with the provisions of the FELINE PRIDES in order to satisfy any unfulfilled obligation to purchase common stock under the related stock purchase contract.

Long-Term Debt. In August 2002, the Company issued $30 million of 6.49% Senior Notes due 2009 ("2009 Senior Notes"). Interest on the 2009 Senior Notes is payable semiannually. The proceeds from the sale were used to redeem $30 million of 6.83% Senior Notes, which matured on October 1, 2002.

In June 2001, the Company issued $60 million of 8% Senior Notes due 2016 ("2016 Senior Notes"). Interest on the 2016 Senior Notes is payable quarterly. On or after June 30, 2006, the Company may redeem some or all of the 2016 Senior Notes at a redemption price of 100% of the principal amount plus any accrued and unpaid interest. The 2016 Senior Notes contain provisions that give the estates or heirs of deceased 2016 Senior Note holders the right to request that the Company redeem their 2016 Senior Notes. During 2002, the Company redeemed $110 thousand of 2016 Senior Notes in accordance with these provisions. The proceeds from the sale of the 2016 Senior Notes were used to repay short-term debt and for general corporate purposes.

In August 2001, the Company entered into an interest rate swap agreement with a financial institution in order to hedge its $55 million 2004 Senior Notes. The swap agreement, which covered the Notes through maturity, effectively converted the fixed rate on the Notes to a floating rate of interest. Under the terms of the swap agreement, the Company paid the counterparty a floating rate of interest based on LIBOR plus a spread of 297 basis points and received payments based on a fixed rate of 8%. During 2002, the Company terminated the interest rate swap and received $2.2 million. This amount is being recognized pro-rata in the Company's Consolidated Statements of Operations, as a reduction in interest expense, over the remaining term of the $55 million 2004 Senior Notes.

In April 2000, the Company sold $30 million of 8% Senior Notes due 2010 ("2010 Senior Notes") in a public offering. Interest on the 2010 Senior Notes is paid semi-annually. The 2010 Senior Notes contain provisions that give the estates or heirs of deceased 2010 Senior Note holders the right to request that the Company redeem their 2010 Senior Notes. During 2002, 2001 and 2000, the Company redeemed $15 thousand, 10 thousand and $50 thousand, respectively, of 2010 Senior Notes in accordance with these provisions.

The Company also sold $105 million of 8.95% Remarketable or Redeemable Securities ("ROARS") in a public offering in June 2000. The ROARS were issued at a discount of approximately $0.3 million. Interest on the ROARS is payable semi-annually. The ROARS mature in July 2008; however, the Company may purchase, or be required to purchase, all of the ROARS in July 2003 if they are not remarketed as discussed below. The Company used the entire net proceeds from the sale of the 2010 Senior Notes and ROARS to repay a portion of the bridge loan utilized for the acquisition of ENSTAR.

In conjunction with the sale of the ROARS, the Company entered into a remarketing agreement with Banc of America Securities LLC ("BAS") under which BAS has the option to purchase all the ROARS in July 2003, at 100% of the aggregate principal amount of the ROARS. The Company received an option premium of approximately $2.5 million for the remarketing option, which is included with the ROARS in long-term debt in the Company's Consolidated Statements of Financial Position. The option premium is being amortized to income over the life of the ROARS.

If BAS elects to purchase the ROARS in July 2003, and the Company does not exercise its right to elect a floating interest rate or its right to redeem the ROARS, both of which are discussed below, BAS will remarket the ROARS at a new interest rate. The new fixed interest rate would be equal to the sum of 6.5% (the "Base Rate") and an applicable spread. Under the terms of the ROARS, the applicable spread is defined as the lowest bid received by BAS from various leading dealers of publicly traded debt securities, expressed as a spread above the Base Rate and based on a purchase price equal to the Dollar Price of the ROARS. The Dollar Price of the ROARS is defined as the present value, at the remarketing date in July 2003, of the remaining scheduled payments of principal and interest through maturity in July 2008 calculated at the Base Rate, discounted to the remarketing date in July 2003 using the rate on U.S. treasury securities with maturities comparable to the remaining term of the ROARS.

If BAS elects to purchase the ROARS in July 2003, the Company will have the right to elect that BAS remarket the ROARS for a period of up to one year using a floating interest rate ("Floating Rate Period") rather than the fixed interest rate described above. At the end of the Floating Rate Period, BAS can elect to purchase the ROARS to remarket at a new fixed interest rate as described above.

If BAS elects to purchase the ROARS for remarketing in July 2003 or at the end of the Floating Rate Period, the Company will also have the right to redeem the ROARS directly from BAS at either time at the Dollar Price as defined above. If BAS does not elect to purchase the ROARS in July 2003, the Company is required to redeem all of the ROARS at that time at 100% of the aggregate principal amount of the ROARS. If BAS does not exercise its option to purchase the ROARS at the end of the floating rate period, the Company is required to redeem all of the ROARS at that time at the Dollar Price.

The Company's long-term and short-term debt agreements contain restrictive financial covenants including, among others, maintaining a Fixed Charges Coverage Ratio (as defined in the agreements) of at least 1.50 and placing limits on the payment of dividends beyond certain levels. Non-compliance with these covenants could result in an acceleration of the due dates for the debt obligations under the agreements. As of December 31, 2002, the fixed charges coverage ratio was 1.89, and the Company was in compliance with all of the covenants in these agreements.

There are no annual sinking fund requirements for the Company's existing debt over the next five years. Debt maturing over the next five years includes the maturity of $55 million of 2004 Senior Notes, $15 million of 6.5% medium-term notes in 2005 and $30 million of 7.2% notes in 2007. The Company may also purchase, or be required to purchase, the $105 million of ROARS in July 2003, or during the subsequent twelve months, if they are not remarketed, as discussed previously. In addition, if the $101 million of 9% TPS are successfully remarketed in 2003, they will mature in 2005.

Note 5. Short-Term Borrowings

During 2002, the Company entered into a $145 million credit agreement with a group of banks, replacing four lines of credit totaling $145 million, which were due to expire. The new agreement, all of which is committed, consists of an $80 million three-year revolver and a $65 million 364-day facility, with a one-year term loan option. The outstanding balances owed by the Company under these credit facilities at December 31, 2002, 2001 and 2000 were $121.2 million, $105.5 million and $133.4 million, respectively. Interest on these credit facilities is at variable rates, which do not exceed the banks' prime lending rates.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Notes payable balance at year end	$ 121,835	$ 107,957	$ 134,142
Unused lines of credit at year end	$ 23,800	$ 39,500	$ 26,650
Average interest rate at year end	2.8%	2.6%	7.3%
Maximum borrowings at any month-end	$ 123,244	$ 122,033	$ 371,621
Average borrowings	$ 99,584	$ 101,362	$ 214,813
Weighted average cost of borrowings	2.9%	4.8%	7.2%

Note 6. Financial Instruments

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments:

Cash, Temporary Cash Investments, Accounts Receivables, Payables and Notes Payable. The carrying amount approximates fair value because of the short maturity of those instruments.

Long-Term Debt. The fair values of the Company's long-term debt are estimated based on quoted market prices for the same or similar issues or, where no market quotes are available, based on discounted future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. Although the current fair value of the long-term debt may differ from the current carrying amount, settlement of the reported debt is generally not expected until maturity, with the possible exception of the ROARS which could be redeemed in July 2003 as discussed in Note 4.

The table below shows the estimated fair values of the Company's long-term debt as of December 31, 2002 and 2001.

	December 31,	
	2002	2001
	(000's)	
Long-term debt, including current maturities		
Carrying amount	$ 366,026	$ 368,966
Fair value	376,915	385,416

Note 7. Risk Management Activities And Derivative Transactions

The Company's business activities expose it to a variety of risks, including commodity price risk and interest rate risk. The Company's management identifies risks associated with the Company's business and determines which risks it wants to manage and which type of instruments it should use to manage those risks.

The Company records any derivative instruments it enters into under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS 137 and SFAS 138, which were amendments to SFAS 133 (hereinafter collectively referred to as "SFAS 133"). SFAS 133 requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the Consolidated Statement of Financial Position as either an asset or liability measured at its fair value. SFAS 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Company will, from time to time, enter into fixed to floating interest rate swaps in order to maintain its desired mix of fixed-rate and floating-rate debt. These swaps are designated as fair value hedges and the difference between the amounts paid and received under these swaps is recorded as an adjustment to interest expense over the term of the swap agreement. If the swaps are terminated, any unrealized gains or losses are recognized pro-rata over the remaining term of the hedged item as an increase or decrease in interest expense. The Company entered into one such interest rate swap in August 2001 in order to hedge the Company's $55 million of 2004 Senior Notes. The swap was terminated in August 2002 and the Company received $2.2 million, which is being recognized pro-rata,

as a reduction in interest expense, over the remaining term of the Notes. In accordance with SFAS 133, the Company's Consolidated Statement of Financial Position, at December 31, 2001, included an asset of $1.9 million and an increase in long-term debt of $1.9 million for this interest rate swap.

An affiliate, in which the Company has a 50% investment, uses a floating to fixed interest rate swap agreement to hedge the variable interest rate payments on a portion of its long-term debt. This swap is designated as a cash flow hedge and the difference between the amounts paid and received under the swap is recorded as an adjustment to interest expense over the term of the agreement. The Company's share of changes in the fair value of the swap are recorded in accumulated other comprehensive income until the swap is terminated. As a result of this interest rate swap agreement, the Company's Consolidated Statements of Financial Position, at December 31, 2002 and December 31, 2001, reflected a $0.7 million reduction in the Company's equity investment in the affiliate and in accumulated other comprehensive income.

Note 8. Pension Plans And Other Postretirement Benefits

Pensions. The Company has defined benefit pension plans that cover the employees of certain companies in the consolidated group. Pension plan benefits are generally based upon years of service or a combination of years of service and compensation during the final years of employment. The Company's funding policy is to contribute amounts annually to the plans based upon actuarial and economic assumptions designed to achieve adequate funding of projected benefit obligations. The Company also has a supplemental executive retirement plan ("SERP"), which is an unfunded defined benefit pension plan.

During 2000, certain pension plans covering employees at the Company's gas distribution operations and corporate offices in Michigan and Alaska were amended. The amendments to certain of the plans included a special frozen benefit for certain eligible employees. In conjunction with the amendments, the Company offered early retirement programs to certain eligible employees. The programs gave the employees the options of receiving either a lump-sum pension benefit payment or an immediate annuity. Sixty-three employees elected to take the early retirement offer. As a result of the 2000 early retirement program, the Company incurred a one-time gain, which reduced 2000 net periodic pension costs by approximately $0.4 million.

Because of unfavorable returns on pension plan assets in 2001 and 2002, certain pension plans were underfunded at December 31, 2002 and 2001. As a result, a minimum pension liability of $3.0 million was recorded during 2001 and an additional minimum pension liability of $8.3 million was recorded in 2002. The total minimum pension liability at December 31, 2002 was $11.3 million.

Other Postretirement Benefits. The Company has postretirement benefit plans that provide certain medical and prescription drug benefits to qualified retired employees, their spouses and covered dependents. Determination of benefits is based on a combination of the retiree's age and years of service at retirement. The Company accounts for retiree medical benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard requires the full accrual of such costs during the years that the employee renders service to the Company until the date of full eligibility.

In 2002, 2001 and 2000, the Company expensed retiree medical costs of $2.0 million, $1.9 million and $1.5 million, respectively. The retiree medical expense for each of those years includes $0.9 million of amortization of previously deferred retiree medical costs. Prior to getting regulatory approval for the recovery of retiree medical benefits in rates, the Michigan gas distribution operation deferred, as a regulatory asset, any portion of retiree medical expense that was not yet provided for in customer rates. After receiving rate approval for recovery of such costs, the Company began amortizing, as a retiree medical expense, the amounts previously deferred.

	Pension Benefits			Other Postretirement Benefits		
	Year Ended December 31,					
	2002	2001	2000	2002	2001	2000
	(000's)					
Components of net benefit cost						
Service cost	$ 2,089	$ 2,097	$ 1,988	$ 357	$ 348	$ 364
Interest cost	4,222	4,054	4,076	2,377	2,527	2,235
Expected return on plan assets	(5,611)	(5,897)	(6,600)	(2,048)	(2,150)	(1,967)
Amortization of transition obligation	40	53	53	922	921	920
Amortization of prior service costs	163	150	106	—	—	—
Amortization of net (gain) or loss	264	(301)	(502)	(553)	(601)	(950)
Amortization of regulatory asset	—	—	—	899	899	899
Net gain due to special termination benefits	—	—	(354)	—	—	—
Net benefit cost (credit)	$ 1,167	$ 156	$ (1,233)	$ 1,954	$ 1,944	$ 1,501

The Company has certain Voluntary Employee Benefit Association ("VEBA") trusts to fund its retiree medical benefits and contributed $0.5 million and $3.0 million to the trusts in 2001 and 2000, respectively. There were no contributions to the VEBA trusts during 2002. The Company can also partially fund retiree medical benefits on a discretionary basis through an Internal Revenue Code Section 401(h) account. No cash contributions were made to the 401(h) account in 2002, 2001 and 2000.

The following table provides reconciliations of the plan benefit obligations, plan assets and funded status of the plans.

	Pension Benefits		Other Postretirement Benefits	
	Year Ended December 31,			
	2002	2001	2002	2001
	(000's)			
Change in benefit obligation				
Benefit obligation at January 1	$ 61,175	$ 57,184	$ 33,964	$ 34,323
Service cost	2,089	2,097	357	348
Interest cost	4,222	4,054	2,377	2,527
Actuarial (gain) loss	2,869	3,461	2,370	(1,671)
Benefits paid from plan assets	(3,287)	(5,615)	—	—
Benefits paid from corporate assets, net of participant contributions	—	—	(1,667)	(1,563)
Plan amendments	—	(6)	(5,610)	—
Benefit obligation at December 31	$ 67,068	$ 61,175	$ 31,791	$ 33,964
Change in plan assets				
Fair value of plan assets at January 1	$ 53,930	$ 62,579	$ 21,964	$ 22,851
Actual return on plan assets	(5,458)	(3,034)	(2,589)	(1,387)
Company contributions	4,225	—	—	500
Benefits paid from plan assets	(3,287)	(5,615)	—	—
Fair value of plan assets at December 31	$ 49,410	$ 53,930	$ 19,375	$ 21,964
Reconciliation of funded status of the plans				
Funded (unfunded) status	$ (17,658)	$ (7,245)	$ (12,416)	$ (12,000)
Unrecognized net (gain) loss	22,643	8,968	1,456	(6,104)
Unrecognized prior service cost	661	824	(528)	—
Unrecognized net transition obligation	25	65	4,133	10,137
Additional minimum pension liability	(11,343)	(2,983)	—	—
Prepaid (accrued) benefit cost	$ (5,672)	$ (371)	$ (7,355)	$ (7,967)
Weighted average assumptions as of December 31				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected long-term rate of return on plan assets	8.50%	9.75%	8.50%	9.75%
Rate of compensation increase	4.00%	4.00-5.00%	4.00%	4.00-5.00%

The 2002 postretirement medical costs were developed based on the health care plan in effect at January 1, 2002. As of December 31, 2002, the actuary assumed that retiree medical cost increases in 2003 would be 7% and prescription drug cost increases in 2003 would be 12%. The actuary also assumed that the rate of increase in retiree medical costs and prescription drug costs would decrease uniformly to 5% in 2008 and thereafter. The health care cost trend rate assumption significantly affects the amounts reported. For example, a one percentage point increase in each year would increase the accumulated retiree medical obligation as of December 31, 2002 by $4.4 million and the aggregate of the service and interest cost components of net periodic retiree medical costs for 2002 by $0.4 million.

401(k) Plans and Profit Sharing Plans. The Company has defined contribution plans, commonly referred to as 401(k) plans, covering the employees of certain of its businesses or divisions. Certain of

the 401(k) plans contain provisions for Company matching contributions. The amount expensed for the Company match provisions was $1.1 million for 2002, 2001 and 2000.

The Company has profit sharing plans covering the employees of certain of its businesses or divisions. Annual contributions are generally discretionary or determined by a formula, which contains minimum contribution requirements. Profit sharing expense was $0.4 million for 2002 and $0.3 million for 2001 and 2000.

Note 9. Stock-Based Compensation

The Company has a long-term incentive plan providing for the issuance of up to 500,000 shares of non-qualified common stock options, adjusted for any subsequent stock dividends and stock splits. During 2000, the Company's Board of Directors approved a second such plan that provides for the issuance of non-qualified stock options up to an amount not to exceed five percent of the total outstanding shares of the Company. The options are reserved for the executives and directors of the Company and are awarded based upon both the Company's and individual's performance. The options vest at the rate of 33 1/3 % per year beginning one year after the date of grant and expire ten years after the grant date.

The exercise price of all the options granted is equal to the average of the high and low market price on the options' grant date. Both the number of options granted and the exercise price are adjusted accordingly for any stock dividends and stock splits occurring during the options' life. The fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model and the weighted average assumptions shown in the table below.

	2002	2001	2000
Risk-free interest rate	4.45%	4.92%	6.55%
Dividend yield	6.63%	5.86%	6.98%
Volatility	34.39%	29.42%	24.96%
Average expected term (years)	5	5	5
Fair value of options granted	$ 1.41	$ 2.57	$ 1.80

The following table summarizes information concerning outstanding and exercisable options at December 31, 2002.

	Options Outstanding			Options Exercisable	
Range of Exercisable Prices	Number Outstanding	Remaining Contractual Life in Years	Weighted Average Exercise Price ($)	Number Exercisable	Weighted Average Exercise Price ($)
$ 6.94 - $ 9.99	251,979	9.2	7.48	—	—
$11.50 - $14.35	436,181	6.9	13.62	229,750	13.30
$14.37 - $15.95	349,958	6.6	14.91	213,292	15.24
$16.19 - $17.14	101,100	3.3	17.02	101,100	17.02
	1,139,218			544,142	

There were 989,000 employee stock options available for grant at December 31, 2002. The following table shows the stock option activity during the past three years and the number of stock options exercisable under the Company's plans at the end of each such year.

	Number of Shares	Weighted Average Exercise Price ($)
Outstanding at December 31, 1999	317,786	16.16
Granted	192,701	12.07
Exercised	—	—
Canceled	(44,707)	14.18
Outstanding at December 31, 2000	465,780	14.65
Granted	555,040	14.33
Exercised	(667)	11.94
Canceled	(71,404)	14.25
Outstanding at December 31, 2001	948,749	14.49
Granted	251,979	7.48
Exercised	—	—
Canceled	(61,510)	14.16
Outstanding at December 31, 2002	1,139,218	12.96
Options exercisable at December 31, 2000	200,924	16.38
Options exercisable at December 31, 2001	298,403	15.48
Options exercisable at December 31, 2002	544,142	14.75

The Company accounts for all stock options under the provisions and related interpretations of Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees." In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company has chosen to continue accounting for these transactions under APB 25 for purposes of determining net income and to present the pro forma disclosures required by SFAS 123. If compensation expense had been determined in a manner consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below.

	Year Ended December 31,		
	2002	2001	2000
		(000's)	
Net income (loss)			
As reported	$ 8,949	$ (6,361)	$ 16,693
Pro forma	8,533	(6,664)	16,517
Earnings per share—basic			
As reported	$ 0.48	$ (0.35)	$ 0.93
Pro forma	0.46	(0.37)	0.92
Earnings per share—diluted			
As reported	$ 0.48	$ (0.35)	$ 0.90
Pro forma	0.46	(0.37)	0.89

Note 10. Earnings Per Share

The Company computes earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings per Share." SFAS 128 requires the computation and presentation of two EPS amounts, basic and diluted. Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to that of basic EPS except that the weighted average number of common shares outstanding is increased to include any shares that would be available if outstanding stock options and stock purchase contracts ("dilutive securities") were exercised. The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price of the Company's common stock during the period and excludes the effect of stock purchase contracts when their reference price exceeds the average market price of common stock during the period.

The following table provides the computations of basic and diluted earnings per share for the years ended December 31, 2002, 2001 and 2000.

	Year Ended December 31,		
	2002	2001	2000
	(000's, except per share amounts)		
Earnings per share computation			
Income (loss) from continuing operations	$ 8,939	$ (239)	$ 16,598
Discontinued operations(a)	10	(6,122)	95
Net income (loss) available to common shareholders	$ 8,949	$ (6,361)	$ 16,693
Weighted average common shares outstanding—basic	18,472	18,106	17,999
Earnings per share—basic			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.92
Discontinued operations(a)	0.00	(0.34)	0.01
Net income (loss) available to common shareholders	$ 0.48	$ (0.35)	$ 0.93
Weighted average common shares outstanding	18,472	18,106	17,999
Incremental shares from assumed conversions of:			
FELINE PRIDES—stock purchase contracts(b)	—	—	599
Stock options(b)	21	—	21
Weighted average common shares outstanding—diluted(b)	18,493	18,106	18,619
Earnings per share—diluted			
Income (loss) from continuing operations	$ 0.48	$ (0.01)	$ 0.89
Discontinued operations(a)	0.00	(0.34)	0.01
Net income (loss) available to common shareholders	$ 0.48	$ (0.35)	$ 0.90

(a)
Effective December 2001, the Company began accounting for the engineering services business as a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in the Consolidated Statements of Operations.

(b)
The FELINE PRIDES and stock options were not included in the computation of diluted earnings per share for 2001 because their effect was antidilutive.

Note 11. Business Segments

The Company follows SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which specifies standards for reporting information about operating segments ("business segments") in annual financial statements and requires selected information in interim financial statements. Business segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, to make decisions on how to allocate resources and to assess performance. The Company's chief operating decision-making group is the Chief Executive Officer ("CEO") and certain other executive officers who report directly to the CEO. The operating segments are organized and managed separately because each segment offers different products or services. The Company evaluates the performance of its business segments based on the operating income generated. Operating income does not include income taxes, interest expense, discontinued operations and non-operating income and expense items.

Under SFAS 131, an operating segment that does not exceed certain quantitative levels is not considered a reportable segment. Instead, the results of all segments that do not exceed the quantitative thresholds can be combined and reported as one segment and referred to as "all other." The Company's propane, pipelines and storage business segment and information technology services segment did not meet these quantitative thresholds and could have been grouped into the "all other" category. However, the Company has decided to voluntarily disclose information on these business segments.

The Company currently operates four reportable business segments. They are gas distribution, construction services, information technology services and propane, pipelines and storage. Refer to Note 1 for a brief description of each business segment.

In December 2001, the Company's Board of Directors approved a plan to redirect the Company's business strategy, which included the divestiture of its engineering services business. The operating results of the engineering services business are segregated and reported as discontinued operations in the Consolidated Statements of Operations. The Company sold its engineering services business effective November 1, 2002. For further information refer to Note 14 of the Notes to Consolidated Financial Statements.

The accounting policies of the Company's four operating segments are the same as those described in Note 1 except that intercompany transactions have not been eliminated in determining individual segment results. The following table provides business segment information as well as a reconciliation ("Corporate and other") of the segment information to the applicable line in the consolidated financial

statements. Corporate and other includes corporate related expenses not allocated to segments, intercompany eliminations and results of other smaller operations.

	Year Ended December 31,		
	2002	2001	2000
	(000's)		
Operating revenues(a)			
Gas distribution	$ 364,711	$ 324,365	$ 307,851
Construction services	119,254	126,205	105,231
Information technology services(b)	9,618	10,275	5,184
Propane, pipelines and storage	7,058	7,443	6,949
Corporate and other(c)	(19,676)	(22,465)	(14,890)
Total consolidated revenues	$ 480,965	$ 445,823	$ 410,325
Depreciation and amortization(a)			
Gas distribution	$ 25,342	$ 27,180	$ 26,272
Construction services	8,049	7,504	5,360
Information technology services(b)	586	397	60
Propane, pipelines and storage	931	1,008	999
Corporate and other	429	416	360
Total consolidated depreciation	$ 35,337	$ 36,505	$ 33,051
Operating income (loss)(a)			
Gas distribution	$ 59,076	$ 50,337	$ 62,876
Construction services	(1,999)	(1,374)	3,676
Information technology services(b)	602	431	481
Propane, pipelines and storage	1,946	1,871	1,530
Corporate and other	(2,916)	(6,874)	(3,330)
Total consolidated operating income	$ 56,709	$ 44,391	$ 65,233
Assets at year end			
Gas distribution	$ 741,613	$ 734,115	$ 741,593
Construction services	72,170	74,453	69,276
Engineering services(a)	—	4,302	8,837
Information technology services(b)	4,569	4,384	1,808
Propane, pipelines and storage	22,443	23,125	24,827
Corporate and other	35,719	23,169	4,882
Total consolidated assets	$ 876,514	$ 863,548	$ 851,223
Capital investments(d)			
Gas distribution	$ 29,972	$ 34,074	$ 47,466
Construction services	3,001	14,855	15,318
Engineering services(a)	—	275	209
Information technology services(b)	437	1,960	2,143
Propane, pipelines and storage	267	335	251
Corporate and other	1,300	3,945	3,033
Total consolidated capital investments	$ 34,977	$ 55,444	$ 68,420

(a)
Effective December 2001, the Company began accounting for the engineering services segment as

a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in the Consolidated Statements of Operations.*(b)* Operations began for the information technology services segment in April 2000.

(c)
Includes the elimination of intercompany construction service revenue of $11,889,000, $12,986,000 and $9,694,000 for 2002, 2001 and 2000, respectively. Includes the elimination of intercompany information technology revenue of $7,620,000, $9,349,000 and $5,032,000 for 2002, 2001 and 2000, respectively.

(d)
Capital investments include purchase of property, plant and equipment and net amounts paid for business acquisitions, including non-cash amounts such as deferred payments and the value, at the time of issuance, of Company stock issued as part of the acquisitions.

Note 12. Investment In Affiliate

The equity method of accounting is used for interests where the Company has significant influence, but does not control the entity. At December 31, 2002, the Company's only investment in affiliates was a 50% ownership interest in the Eaton Rapids Gas Storage System ("ERGSS"). The investment in the unconsolidated affiliate is reported in deferred charges and other assets in the Consolidated Statements of Financial Position. ERGSS provides natural gas storage services to the Company's Gas Distribution Business. ERGSS had annual operating revenues associated with services provided to the Gas Distribution Business of $3.2 million in 2002 and $3.0 million in 2001 and 2000. The table below summarizes the financial information for ERGSS.

	2002	2001	2000
		(000's)	
Operating revenues	$ 5,791	$ 5,714	$ 5,806
Operating income	$ 3,718	$ 3,489	$ 3,579
Net income	$ 2,747	$ 2,379	$ 2,372
The Company's share of net income	$ 1,374	$ 1,190	$ 1,186
Current assets	$ 2,647	$ 3,598	$ 1,435
Non-current assets	23,491	20,552	22,767
Total assets	$ 26,138	$ 24,150	$ 24,202
Current liabilities	$ 5,679	$ 3,332	$ 2,024
Non-current liabilities	11,147	12,567	13,023
Equity	9,312	8,251	9,155
Total liabilities and equity	$ 26,138	$ 24,150	$ 24,202
The Company's equity investment	$ 4,656	$ 4,126	$ 4,165

Note 13. Commitments And Contingencies

Capital Investments. The Company's plans for expansion and improvement of its business properties are continually reviewed. Aggregate capital expenditures for property in 2003 are projected at approximately $33 million. The Company has no plans to incur additional expenditures for business acquisitions in 2003.

Lease Commitments. The Company leases buildings, vehicles and equipment. The resulting leases are classified as operating leases in accordance with SFAS No. 13, "Accounting for Leases." A

significant portion of the Company's vehicles are leased. Leases on the majority of the Company's new vehicles are for a minimum of twelve months. The Company has the right to extend each vehicle lease annually and to cancel the extended lease at any time. During 2002, the Company received $4.4 million in proceeds from the sale of two buildings and land. The Company is leasing these facilities back over the period January 2003 through September 2005 for normal operating purposes. The annual lease payments during this period will amount to approximately $0.5 million.

The Company's future minimum lease payments that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2002 totaled $13.1 million consisting of (in millions): 2003—$1.8; 2004—$1.7; 2005—$1.3; 2006—$1.1; 2007—$1.1 and thereafter—$6.1. Total lease expense approximated $2.2 million, $2.5 million and $2.3 million in 2002, 2001 and 2000, respectively. The annual future minimum lease payments are less than the lease expense incurred in 2000 through 2002 because most of the vehicle leases at December 31, 2002 were on a month-to-month basis and were subject to cancellation at any time. However, management expects to renew or replace substantially all leases.

Environmental Issues. Prior to the construction of major natural gas pipelines, gas for heating and other uses was manufactured from processes involving coal, coke or oil. The Company owns seven Michigan sites, which formerly housed such manufacturing facilities and expects that it will ultimately incur investigation and remedial action costs at some of these sites and one other site. The Company has closed a related site with the approval of the appropriate environmental regulatory authority in the State of Michigan and has developed plans and conducted preliminary field investigations at two other sites. The Company is in the process of estimating its liabilities and potential costs in connection with these sites, but the amounts of these estimates are not yet available. In accordance with an MPSC accounting order, any environmental investigation and remedial action costs will be deferred and amortized over ten years. Rate recognition of the related amortization expense will not begin until after a prudence review in a general rate case.

Personal Property Taxes. The Company and other Michigan utilities have asserted that Michigan's valuation tables in effect prior to 2000 resulted in the substantial overvaluation of utility personal property. Valuation tables established by the Michigan State Tax Commission ("STC") are used to estimate the reduction in value of personal property based on the property's age. In 1998, the Company began filing its personal property tax information with local taxing jurisdictions, using a revised calculation of the value of personal property subject to taxation. A number of local taxing jurisdictions accepted the revised calculation, and the Company recorded lower property tax expense in 1998 and subsequent years associated with the accepting taxing jurisdiction. The Company has also filed appeals to recover excess payments made in 1997 and subsequent years based on the revised calculation and recorded lower property tax expense as a result of the filings.

In November 1999, the STC approved new valuation tables that more accurately recognize the value of a utility's personal property. The new tables became effective in 2000 and are being used for current year assessments in most jurisdictions. However, several local taxing jurisdictions have taken legal action attempting to prevent the STC from implementing the new valuation tables and have continued to prepare assessments based on the superceded tables.

The Company will seek to apply the new tables retroactively and to ultimately settle the pending tax appeals related to prior periods. This is a solution supported by the STC in the past. The legal action, along with possible additional appeals by local taxing jurisdictions or negotiated settlements, may delay the time period for recovery and ultimately impact the amount of recovery. As of December 31, 2002, the Company had a receivable of approximately $4.0 million recorded for the Company's estimated recovery of these prior year excess property tax payments.

On November 7, 2002, the MPSC issued an order requiring each natural gas and electric utility company subject to its jurisdiction to show cause as to why each such utility should not reduce its rates to reflect the new personal property valuation tables that were placed in effect in 2000 by the STC and why it should not refund to the ratepayers any recovery amounts it receives as refunds from taxing jurisdictions as it implements the new valuation tables. The Company filed a response to the Order in December 2002. In its response, the Company stated that its rates should not be reduced and that refunds to customers should not be required as a result of changes in personal property tax multipliers. The reasons sighted by the Company were that (1) its existing rates have been and currently are insufficient for it to earn its authorized rate of return, (2) most of the potential for refunds relates to disputes arising out of tax years prior to the change in the tax multipliers, (3) for that portion of the receivable applicable to the change in the rate multipliers, customers have already received the benefits of the resulting lower property tax expenses through certain incentive regulation and income sharing rate mechanisms that were implemented in conjunction with the Company's approved rates and (4) to order any refund to customers of amounts received by the Company from taxing authorities would constitute prohibited retroactive ratemaking.

Other Contingencies. Under the terms of the Company's acquisition agreement, the former owners of K&B Construction were given the opportunity to receive additional consideration if future results of operations exceed certain targeted levels. The amounts potentially payable to the former owners of K&B are subject to set-off for certain liabilities. There has been no additional consideration paid in connection with the K&B acquisition. The amounts potentially payable have been placed in escrow and are reflected in restricted cash in the Company's Consolidated Statements of Financial Position pending the outcome of certain claims and litigation.

In the normal course of business, the Company may be a party to certain lawsuits and administrative proceedings before various courts and government agencies. These lawsuits and proceedings may involve personal injury, property damage, contractual issues and other matters. Management cannot predict the ultimate outcome of any pending or threatening litigation or of actual or possible claims; however, management believes resulting liabilities, if any, will not have a material adverse impact upon the Company's financial position or results of operations.

Note 14. Restructuring and Discontinuation of Operations

During the fourth quarter of 2001, the Company announced a redirection of its business strategy and began restructuring its corporate, business unit and operational structures. This involved the integration of the Company's Michigan and Alaska gas distribution divisions and the closure of the Company's Houston-based engineering and construction headquarters and related consolidation of administrative functions in Michigan. The redirection also involved the divestiture of the Company's engineering services business and the ceasing of operations in certain regions of the construction business that were not likely to contribute to shareholder value in the near term. The new strategy concentrates more on profitable growth within each line of business and less on acquisitions.

The Company recorded $6.1 million of restructuring and impairment charges in the fourth quarter of 2001 for the planned restructuring activities and the ceasing of operations in certain regions of its construction business. The charges are included in operating expenses in the Consolidated Statements of Operations and include severance expense, costs associated with terminating leases, writedowns of certain construction operations and other related expenses. There was no material adjustment to the restructuring and impairment charges during 2002.

The activities of the Company's engineering services business have been accounted for as a discontinued operation and, accordingly, the operating results and the loss on the disposal of this

business segment are segregated and reported as discontinued operations in the Consolidated Statements of Operations. Operating results, net of income taxes, from the discontinued operations were $(1.1) million and $0.1 million for 2001 and 2000, respectively. In the fourth quarter of 2001, the Company recorded a loss of $5.0 million, net of income taxes, for the estimated loss the Company expected to incur on the disposal of its engineering business segment, including estimated losses from operations during the phase-out period. In November 2002, the Company sold its engineering services business. The sale resulted in a loss, net of income taxes, of $5.0 million, including actual operating losses during the phase-out period. There was a difference of $10 thousand between the actual losses and the estimated losses, which is included in discontinued operations for 2002.

Components of amounts reflected in the Consolidated Statements of Income and Consolidated Statements of Financial Position for the engineering services business are presented in the following table.

	2002	2001	2000
		(000s)	
Consolidated statements of operations—data			
Revenues	$ —	$ 12,247	$ 20,655
Operating expenses	—	14,340	20,630
Operating income (loss)	—	(2,093)	25
Other income (deductions)	—	257	122
Income tax benefit (expense)	—	694	(52)
Income (loss) from discontinued operations	$ —	$ (1,142)	$ 95
Gain (loss) on divestiture of discontinued operations, including losses during phase-out period, net of income tax (expense) benefit of ($1,277), $2,429 and $0	$ 10	$ (4,980)	$ —
Consolidated statements of financial position data			
Current assets	$ —	$ 4,050	$ 5,136
Property, plant and equipment, net	—	250	1,233
Deferred charges and other assets, net	—	2	2,468
Current liabilities	—	(4,880)	(3,401)
Deferred credits and other liabilities	—	—	(911)
Net assets (liabilities) of discontinued operations held for sale	$ —	$ (578)	$ 4,525

Note 15. Quarterly Financial Information (Unaudited)

In the opinion of the Company, the following quarterly information includes all adjustments necessary for a fair statement of the results of operations for such periods. Earnings and dividends per share for each quarter are calculated based upon the weighted average number of shares outstanding during each quarter. As a result, adding the earnings or dividends per share for each quarter of a year may not equal annual earnings or dividends per share due to changes in shares outstanding throughout

the year. Due to the seasonal nature of the Company's gas distribution business, the results of operations reported on a quarterly basis show substantial variations.

Quarters	First	Second	Third	Fourth
	(000's, except per share amounts)			
2002				
Operating revenues	$ 155,911	$ 106,100	$ 72,693	$ 146,261
Operating income	28,619	10,341	(346)	18,095
Income (loss) from continuing operations	11,330	45	(7,014)	4,578
Net income (loss) available to common shareholders	11,330	45	(7,014)	4,588
Earnings per share from income (loss) from continuing operations:				
—basic	0.62	—	(0.38)	0.25
—diluted	0.62	—	(0.38)	0.25
Earnings per share from net income (loss) available to common shareholders:				
—basic	0.62	—	(0.38)	0.25
—diluted	0.62	—	(0.38)	0.25
Cash dividends per share	0.21	0.13	0.13	0.13
2001				
Operating revenues	$ 149,978	$ 86,512	$ 76,804	$ 132,529
Operating income	25,666	5,344	939	12,442
Income (loss) from continuing operations	9,478	(3,345)	(6,503)	131
Net income (loss) available to common shareholders	9,056	(3,339)	(6,645)	(5,433)
Earnings per share from income (loss) from continuing operations:				
—basic	0.52	(0.19)	(0.36)	0.01
—diluted	0.50	(0.19)	(0.36)	0.01
Earnings per share from net income (loss) available to common shareholders:				
—basic	0.50	(0.18)	(0.37)	(0.30)
—diluted	0.48	(0.18)	(0.37)	(0.30)
Cash dividends per share	0.21	0.21	0.21	0.21

SEMCO ENERGY, INC.

Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Operating Revenues						
Gas sales	$ 42,347	$ 34,616	$ 297,025	$ 220,708	$ 411,972	$ 313,689
Gas transportation	5,668	5,051	19,781	19,012	26,476	26,567
Construction services	22,615	30,730	52,966	86,510	73,821	115,380
Other	2,604	2,296	10,091	8,474	13,855	11,596
	73,234	72,693	379,863	334,704	526,124	467,232
Operating Expenses						
Cost of gas sold	25,527	20,075	213,873	139,367	294,928	198,595
Operations and maintenance	36,230	41,157	99,434	121,131	134,956	163,778
Depreciation and amortization	8,798	8,834	26,749	26,487	35,599	35,689
Property and other taxes	3,099	2,973	8,961	9,105	11,700	12,011
Goodwill impairment charge	17,649	—	17,649	—	17,649	—
Restructuring and asset impairment charges	2,825	—	2,825	—	2,825	6,103
	94,128	73,039	369,491	296,090	497,657	416,176
Operating Income (Loss)	(20,894)	(346)	10,372	38,614	28,467	51,056
Other Income (Deductions)						
Other income	835	857	3,002	2,239	3,738	3,369
Interest expense	(12,291)	(7,951)	(29,300)	(23,102)	(37,466)	(31,076)
Debt exchange and extinguishment costs	—	—	(24,030)	—	(24,030)	—
Other deductions	(162)	(163)	(850)	(511)	(1,076)	(1,016)
	(11,618)	(7,257)	(51,178)	(21,374)	(58,834)	(28,723)
Income (Loss) Before Income Taxes and Minority Interest	(32,512)	(7,603)	(40,806)	17,240	(30,367)	22,333
Income Tax (Expense) Benefit	7,671	2,740	10,308	(6,428)	6,597	(9,238)
Minority interest—dividends on company-obligated mandatorily redeemable trust preferred securities of subsidiaries holding solely debt securities of SEMCO Energy, Inc., net of income taxes of $0, $1,158, $2,316, $3,473, $3,473 and $4,632	—	(2,151)	(4,300)	(6,451)	(6,450)	(8,603)
Income (Loss) from Continuing Operations	(24,841)	(7,014)	(34,798)	4,361	(30,220)	4,492
Discontinued Operations						
Loss from engineering services operations, net of income tax benefit of $0, $0, $0, $0, $0 and $353	—	—	—	—	—	(584)
Loss on divestiture of engineering services operations including losses during phase-out period, net of income tax benefit (expense) of $0, $0, $0, $0, ($1,276) and $2,429	—	—	—	—	10	(4,980)
Net Income (Loss) Available to Common Shareholders	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,210)	$ (1,072)
Earnings per Share—Basic						
Net income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)
Earnings per Share—Diluted						

Net income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)
Cash Dividends Declared per Share						
	$ 0.075	$ 0.125	$ 0.200	$ 0.250	$ 0.450	$ 0.670
Average Common Shares Outstanding—Basic						
	23,308	18,519	20,375	18,422	19,933	18,365
Average Common Shares Outstanding—Diluted	23,308	18,519	20,375	18,452	19,933	18,365

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.

Consolidated Statements of Financial Position

Assets

(In thousands)

	September 30, 2003	December 31, 2002
	(Unaudited)	
Current Assets		
Cash and temporary cash investments, at cost	$ 4,190	$ 1,813
Restricted cash	200	1,212
Receivables, less allowances of $2,718 and $1,909	26,810	49,841
Accrued revenue	14,049	40,757
Gas in underground storage, at average cost	65,909	35,232
Prepaid expenses	24,376	23,449
Materials and supplies, at average cost	4,995	4,254
Gas charges recoverable from customers	17,603	2,200
Accumulated deferred income taxes	1,276	—
Other	1,744	1,537
	161,152	160,295
Property, Plant and Equipment		
Gas distribution	654,676	635,992
Diversified businesses and other	90,883	92,774
	745,559	728,766
Less accumulated depreciation	182,694	207,635
	562,865	521,131
Deferred Charges and Other Assets		
Goodwill, less accumulated amortization of $17,764	143,435	161,084
Deferred retiree medical benefits	8,317	8,992
Unamortized debt expense	17,308	7,809
Other	21,755	17,203
	190,815	195,088
Total Assets	$ 914,832	$ 876,514

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.

Consolidated Statements of Financial Position

Liabilities and Capitalization

(In thousands)

	September 30, 2003 (Unaudited)	December 31, 2002
Current Liabilities		
Notes payable	$ 103,831	$ 121,835
Accounts payable	13,371	38,148
Customer advance payments	17,995	11,408
Accrued interest	10,697	7,598
Accumulated deferred income taxes	—	1,879
Amounts payable to customers	3,031	1,073
Other	9,300	19,194
	158,225	201,135
Deferred Credits and Other Liabilities		
Regulatory liability—negative salvage value	50,964	—
Accumulated deferred income taxes	33,076	33,043
Customer advances for construction	15,395	15,841
Unamortized investment tax credit	955	1,178
Other	8,025	9,833
	108,415	59,895
Long-Term Debt	475,525	366,026
Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiaries Holding Solely Debt Securities of Semco Energy, Inc.	—	139,436
Common Shareholders' Equity		
Common stock—$1 par value; 40,000,000 shares authorized; 27,936,269 and 18,682,027 shares outstanding	27,936	18,682
Capital surplus	214,330	120,089
Accumulated other comprehensive income (loss)	(7,512)	(7,597)
Retained earnings (deficit)	(62,087)	(21,152)
	172,667	110,022
Total Liabilities and Capitalization	$ 914,832	$ 876,514

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

SEMCO ENERGY, INC.

Consolidated Statements of Cash Flow

(Unaudited)

(in thousands)

	Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Cash Flows Provided by (Used for) Operating Activities				
Net income (loss)	$ (34,798)	$ 4,361	$ (30,210)	$ (1,072)
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization	26,749	26,487	35,599	35,689
Depreciation and amortization in discontinued operations	—	212	13	328
Debt exchange and extinguishment costs	24,030	—	24,030	—
Accumulated deferred income taxes and investment tax credit	(3,345)	819	(648)	5,392
Non-cash impairment charges	20,474	—	18,742	7,679
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes as shown below	(24,732)	(3,584)	(42,498)	(16,360)
Net Cash Provided by Operating Activities	8,378	28,295	5,028	31,656
Cash Flows Provided by (Used for) Investing Activities				
Property additions—gas distribution	(19,844)	(21,766)	(28,050)	(27,020)
Property additions—diversified businesses and other	(1,689)	(4,557)	(2,137)	(10,699)
Proceeds from property sales, net of retirement costs	1,642	1,363	4,787	1,664
Net Cash Used for Investing Activities	(19,891)	(24,960)	(25,400)	(36,055)
Cash Flows Provided by (Used for) Financing Activities				
Issuance of common stock, net of expenses	2,721	2,796	3,567	3,917
Net change in notes payable	(18,004)	6,458	(10,584)	17,964
Issuance of long-term debt, net of expenses	197,503	29,043	197,450	29,043
Repayment of long-term debt	(138,162)	(30,060)	(138,227)	(30,060)
Debt exchange and extinguishment costs	(24,030)	—	(24,030)	—
Payment of dividends on common stock	(6,138)	(8,447)	(8,467)	(12,260)
Net Cash Provided by (Used for) Financing Activities	13,890	(210)	19,709	8,604
Cash and Temporary Cash Investments				
Net increase (decrease)	2,377	3,125	(663)	4,205
Beginning of period	1,813	1,728	4,853	648
End of period	$ 4,190	$ 4,853	$ 4,190	$ 4,853
Changes in assets and liabilities, net of effects of acquisitions, divestitures and other changes:				
Restricted cash	$ 1,012	$ —	$ (200)	$ —
Receivables, net	23,032	25,766	11,644	27,154
Accrued revenue	26,708	19,567	(463)	470
Prepaid expenses	(927)	(964)	(1,136)	(9,482)
Materials, supplies and gas in undergroung storage	(31,418)	(28,141)	(24,774)	(27,037)

Gas charges recoverable from customers	(15,403)	(3,446)	(12,163)	(3,178)
Accounts payable	(24,777)	(6,939)	(10,100)	(2,783)
Customer advances and amounts payable to customers	8,097	(2,115)	7,993	81
Other	(11,056)	(7,312)	(13,299)	(1,585)
	$ (24,732)	$ (3,584)	$ (42,498)	$ (16,360)

The accompanying condensed notes to the unaudited consolidated financial statements are an integral part of these statements.

Note 1—Significant Accounting Policies

Under the rules and regulations of the Securities and Exchange Commission for Form 10-Q Quarterly Reports, certain footnotes and other financial statement information normally included in the year-end financial statements of SEMCO Energy, Inc. and its subsidiaries (the "Company") have been condensed or omitted in the accompanying unaudited financial statements. These financial statements prepared by the Company should be read in conjunction with the financial statements and notes thereto included in the Company's 2002 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The information in the accompanying financial statements reflects, in the opinion of the Company's management, all adjustments (which include only normal recurring adjustments) necessary for a fair statement of the information shown, subject to year-end and other adjustments, as later information may require.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Goodwill and Goodwill Impairment—Goodwill represents the excess of purchase price and related costs over the value assigned to the net identifiable assets of businesses acquired. The Company accounts for Goodwill under the provisions of Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142,"Goodwill and Other Intangible Assets ("SFAS 142")." SFAS 141 addresses financial accounting and reporting for all business combinations and requires that all business combinations entered into subsequent to June 2001 be recorded under the purchase method. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. This Statement also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. In conjunction with the requirements of these Statements, the Company ceased Goodwill amortization effective January 1, 2002.

The following table presents what would have been reported as net income (loss) available to common shareholders and the related per share amounts on a basic and diluted basis in all periods

presented, exclusive of amortization expense (including any related tax effects) recognized in those periods related to goodwill.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
Net income (loss) available to common shareholders						
Reported net income (loss) from continuing operations	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,220)	$ 4,492
Discontinued operations	—	—	—	—	10	(5,564)
Reported net income (loss) available to common shareholders	(24,841)	(7,014)	(34,798)	4,361	(30,210)	(1,072)
Add back: Goodwill amortization, net of income taxes	—	—	—	—	—	698
Adjusted net income (loss) available to common shareholders	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,210)	$ (374)
Adjusted earnings per share—basic						
Reported net income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Discontinued operations	—	—	—	—	—	(0.30)
Reported net income (loss) available to common shareholders	(1.07)	(0.38)	(1.71)	0.24	(1.52)	(0.06)
Add back: Goodwill amortization, net of income taxes	—	—	—	—	—	0.04
Adjusted net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.02)
Adjusted earnings per share—diluted						
Reported net income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Discontinued operations	—	—	—	—	—	(0.30)
Reported net income (loss) available to common shareholders	(1.07)	(0.38)	(1.71)	0.24	(1.52)	(0.06)
Add back: Goodwill amortization, net of income taxes	—	—	—	—	—	0.04
Adjusted net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.02)

The Company is also required to perform impairment tests on the remaining goodwill balance annually or at any time when events occur which could impact the value of the Company's business segments. If an impairment test of goodwill shows that the carrying amount of the goodwill is in excess of the fair value, a corresponding impairment loss would be recorded in the Consolidated Statements of Operations. The 2002 annual impairment tests were performed for the Company's business units and the results of those tests indicated that there was no impairment of Goodwill.

The 2003 annual impairment test was performed for the Company's construction services business during the first quarter and indicated that there was no impairment of goodwill However, as a result of continuing weakness in the construction services industry, less than expected operating performance at the Company's construction services business, and the Company's belief that these conditions will continue for a longer period than originally anticipated, the Company hired a nationally recognized appraisal company to perform an interim analysis of its construction services business for possible goodwill and asset impairment. As a result of this analysis it was determined that all of the goodwill associated with the Company's construction services business ($17.6 million) was impaired. The $17.6 million charge for impairment of goodwill is reflected in the Company's Consolidated Statements of Operations in operating expenses.

The 2003 annual goodwill impairment test for the company's propane, pipelines and storage business unit was performed during the third quarter of 2003 and indicated that there was no

impairment of goodwill. The 2003 annual impairment tests for the Company's remaining business units will be conducted during the fourth quarter of 2003.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2003 are as follows:

Goodwill	Gas Distribution Segment	Construction Services Segment	Information Technology Services Segment	Propane Pipeline & Storage Segment	Total Company
			(in thousands)		
Balance as of January 1, 2003	$ 140,227	$ 17,649	$ 152	$ 3,056	$ 161,084
Impairment losses		(17,649)			(17,649)
Balance as of September 30, 2003	$ 140,227	$ —	$ 152	$ 3,056	$ 143,435

Property, Plant and Equipment Impairment—In addition to the goodwill impairment test discussed above, the Company also had the appraisal company test its Construction Services Business for impairment of long-lived assets under SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" ("SFAS 144"). The appraisal company valued the long-lived assets as part of an operating entity under the "held and used" model as prescribed in SFAS 144. As a result of this analysis the Company recorded a $2.8 million charge in the third quarter of 2003 for the impairment of long-lived assets. The impairment charge is included in operating expenses in the Company's Consolidated Statements of Operations.

Comprehensive Income—The Company's comprehensive income (loss) for the three, nine and twelve months ended September 30, 2003 and September 30, 2002 is summarized in the following table.

	Three months ended September 30,		Nine months ended September 30,		Twelve months ended September 30,	
	2003	2002	2003	2002	2003	2002
			(in thousands)			
Net income (loss) available to common shareholders	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,210)	$ (1,072)
Minimum pension liability adjustment, net of income tax benefits of $2,922 and $781	—	—	—	—	(5,427)	(1,452)
Unrealized derivative gain (loss) on interest rate hedge from an investment in an affiliate	12	(98)	85	107	4	(637)
Total other comprehensive income (loss)	$ (24,829)	$ (7,112)	$ (34,713)	$ 4,468	$ (35,633)	$ (3,161)

Stock Based Compensation—The Company accounts for all stock options under the provisions and related interpretations of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company has chosen to account for these transactions under APB 25 for purposes of determining net income but must present the pro forma disclosures required by SFAS 123 as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" ("SFAS 148"). If compensation expense had been determined in a manner consistent

with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated in the table below.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
	(000's)					
Net income (loss), as reported	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,220)	$ (1,072)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	95	85	292	301	396	395
Pro forma net income (loss)	$ (24,936)	$ (7,099)	$ (35,090)	$ 4,060	$ (30,616)	$ (1,467)
Earnings per share—basic						
As reported	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)
Pro forma	$ (1.07)	$ (0.38)	$ (1.72)	$ 0.22	$ (1.54)	$ (0.08)
Earnings per share—diluted						
As reported	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)
Pro forma	$ (1.07)	$ (0.38)	$ (1.72)	$ 0.22	$ (1.54)	$ (0.08)

New Accounting Standards—On January 1, 2003 the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations ("SFAS 143")." 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.

The Company adopted SFAS 143 on January 1, 2003 and has determined that it does not have any asset retirement obligations ("ARO") that are to be recorded in accordance with SFAS 143. However, the Company does have non-ARO negative salvage value that had been recorded in the accumulated depreciation of its gas distribution business in accordance with industry practice. As of September 30, 2003, the non-ARO negative salvage was approximately $51 million and is reported as a "Regulatory liability" in the Consolidated Statement of Financial Position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). SFAS 145 eliminates SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt" ("SFAS 4") and thus allows for only those gains or losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS 145 also amends SFAS No. 13, Accounting for Leases" ("SFAS 13") to require sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The provisions of this Statement relating to the rescission of SFAS 4 are effective for fiscal years beginning after May 15, 2002. The provisions of this Statement relating to the amendment of SFAS 13 are effective for transactions occurring after May 15, 2002. All other provisions of this Statement are effective for financial statements issued on or after May 15, 2002. In accordance with the provisions of SFAS 145,

the Company reported debt extinguishments costs incurred during the second quarter of 2003 as a separate line item within the continuing operations section of the Consolidated Statements of Operations. Under previous FASB guidance these costs would have been reported as an extraordinary charge. For further information on debt extinguishments costs see Note 2 of the Condensed Notes to the Unaudited Consolidated Financial Statements. The remaining provisions of SFAS 145 have not had a material impact on the Company's consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). SFAS 146 requires that the liability for costs associated with exit or disposal activities be recognized when incurred, rather than at the date of a commitment to an exit or disposal plan. SFAS 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS 146 did not have a material impact on the Company's financial statements.

In November 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both the annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company continues to account for all stock options under the provisions and related interpretations of APB 25 and reports the disclosure of stock options in accordance with the provisions of SFAS 148. The adoption of the disclosure provisions of SFAS 148 did not to have a material impact on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees and standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions of FIN 45 related to recognizing a liability at inception of the guarantee do not apply to product warranties or guarantees accounted for as derivatives. The initial recognition and initial measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure provisions were effective for financial statements for periods ending after December 15, 2002. The adoption of the recognition and measurement provisions of FIN 45 on January 1, 2003 did not have a material impact on the Company's financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 addresses conditions for consolidating an entity based on variable interests (as defined in the standard) rather than voting interests. FIN 46 clarifies that variable interest entities that do not disperse risks among the parties involved should be

consolidated by the entity that is determined to be the primary beneficiary. FIN 46 applies immediately to variable interest entities created after January 31, 2003. For variable interest entities in which an enterprise holds a variable interest that was acquired before February 1, 2003, FIN 46 originally had to be adopted no later than the first fiscal year or interim period beginning after June 15, 2003. However, in October 2003, the FASB issued FASB Staff Position 46-e, "Effective Date of Interpretation 46" ("FSP 46-e"). FSP 46-e defers the effective date for applying the provisions of FIN 46, for interests held by public entities in variable interest entities created before February 1, 2003, until the end of the first interim or annual period ending after December 15, 2003. The Company is evaluating its consolidated capital trusts, to determine whether they are variable interest entities under FIN 46. The trusts, "SEMCO Capital Trust I" and "SEMCO Capital Trust II", have $40.0 million and $0.1 million, respectively, of outstanding company-obligated mandatorily redeemable trust preferred securities as of September 30, 2003. The trusts are consolidated as of September 30, 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component. This Statement also amends the definition of an "underlying" to conform it to language used in FIN 45 and certain other existing pronouncements. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. In addition, all provisions of this Statement should be applied prospectively except that: a) the provisions of this Statement that relate to SFAS 133 implementation issues that have been effective for fiscal quarters that began prior to June 30, 2003, should continue to be applied in accordance with their respective effective dates and b) provisions related to forward purchases or sales of when-issued securities or securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's financial condition or results of operation.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003. For financial instruments created before the issuance date of this Statement, this Statement is effective at the interim period beginning July 1, 2003. Transition shall be achieved by reporting the cumulative effect of a change in an accounting principle by initially measuring the financial instrument at fair value or other measurement attribute required by this Statement.

The Company has company-obligated mandatorily redeemable trust preferred securities of its subsidiaries ("trust preferred securities") that were in existence prior to the issuance of this Statement. These securities have characteristics of both liabilities and equity and for periods prior to July 1, 2003, they are reported in the Consolidated Statements of Financial Position as a separate line item between long-term debt and common shareholders' equity. For periods after July 1, 2003, the trust preferred securities are reflected in the long-term debt section in compliance with the provisions of SFAS 150. Prior to July 1, 2003, the dividends on these trust preferred securities were reflected in the Consolidated Statements of Operations as "minority interest—dividends on trust preferred securities." In accordance with the provisions of SFAS 150, the dividends on these securities recorded after July 1,

2003 are reflected in "interest expense." The adoption of this Statement did not have a material impact on the Company's net income (loss) available to common shareholders.

Note 2—Short-Term Borrowings and Capitalization

Short-Term Borrowings—During the second quarter of 2003, the Company amended its bank credit agreement to permit the issuance of additional debt securities, to increase the facility from $145 million to $155 million and to extend the maturity date of the 364—day component of the facility to May 20, 2004. The $155 million bank credit facility consists of an $85.5 million multi-year revolver, which expires in June 2005, and a $69.5 million 364 day facility, with a one year term loan option. This amendment provided covenant relief to permit the recently completed offering of senior unsecured notes (as described below), including the incurrence of costs associated with the offering and the other transactions that occurred concurrently with the offering. On September 30, 2003, $46.6 million of the Company's bank credit facility was unused.

On October 15, 2003, the Company amended the terms of its credit agreement to exclude from the financial covenants contained therein, all non-cash goodwill and asset impairment charges that may be taken by the Company's Construction Services Business. As a result, the $17.6 million charge for impairment of goodwill and the $2.8 million charge for impairment of long-lived assets, both of which are discussed in Note 1, will not cause the Company to be out of compliance with the financial covenants contained in its bank credit agreement.

Covenants contained in the Company's amended bank credit agreement require maintenance of a minimum net worth of $215.0 million, a fixed-charge coverage ratio of at least 1.2 until September 30, 2003, at least 1.33 through March 31, 2004 and 1.5 thereafter, and a debt-to-capitalization ratio of less than 0.70 through the earlier of March 31, 2004 or the sale of Alaska Pipeline Company, at which time the debt-to-capitalization ratio must be less than 0.65. As of September 30, 2003, the Company was in compliance with all debt covenants. Failure to comply with such covenants may result in a default with respect to the related debt and could lead to the acceleration of such debt or any instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that the Company would be able to refinance or otherwise repay such indebtedness.

Long-Term Debt (Including Company-Obligated Mandatorily Redeemable Trust Preferred Securities of Subsidiaries)—In May 2003, the Company completed an offering of an aggregate of $300 million of senior unsecured notes. The offering consisted of $150 million of 7.125% senior unsecured notes due 2008 ("7.125% Notes") and $150 million of 7.75% senior unsecured notes due 2013 ("7.75% Notes"). The Company used approximately $92.3 million of the 7.75% Notes in an exchange for $77 million of its outstanding 8.95% Remarketable or Redeemable Securities ("ROARS"). After the exchange was completed the Company cancelled the $77 million of ROARS. The Company accounted for the debt exchange under the provisions of Emerging Issues Task Force Opinion No. 96-19 ("EITF 96-19"). In accordance with EITF 96-19, the Company used the book value of the ROARS ($77 million) as the initial book value for the $92.3 million of 7.75% Notes issued in the exchange. The difference between the face amount and the initial book value of the 7.75% Notes will be amortized as interest expense, using the effective interest method, over the life of the notes. As a result, the book value of the 7.75% Notes will increase by the amount of amortization expense recognized over the life of the notes. The exchange of the $92.3 million of 7.75% Notes for the

$77 million of ROARS was a non-cash financing activity. As a result, it is not reflected in the Company's Consolidated Statements of Cash Flows.

The Company used a portion of the proceeds from the issuance of the new notes, to repurchase its $55 million of outstanding 8.00% Senior Notes due 2004, $30 million of outstanding 7.2% Senior Notes due 2007 and $25 million of outstanding 8.32% Senior Notes due 2024. Approximately $29.6 million of the proceeds was placed into a restricted escrow account and used to repurchase the remaining $28 million of ROARS in July 2003 and to pay the accrued interest thereon. Approximately $24 million of the proceeds was used to pay make-whole premiums or similar amounts in connection with the repurchase of the $138 million in notes and securities discussed above. The make-whole premiums or similar amounts were incurred, in most instances, in order to repurchase these obligations prior to their maturity. The Company expensed the $24 million ($15.6 million net of taxes) at the time of the refinancing. The remainder of the proceeds was used to pay expenses associated with the issuance of the new notes (approximately $9.8 million was incurred through September 30, 2003), to pay down short-term debt and for working capital and general corporate purposes.

On July 1, 2003, the Company adopted SFAS 150. As a result, beginning July 1, 2003, the trust preferred securities of the Company's subsidiaries are reported in long-term debt. Refer to Note 1 for more information on SFAS 150 and the reporting of the Company's trust preferred securities and related dividends prior to and subsequent to July 1, 2003.

In August 2003, the Company retired approximately $101 million of the trust preferred securities that were a component of the FELINE PRIDES securities. Approximately all of the holders of these securities had elected to have their trust preferred securities remarketed to raise the cash needed to fulfill the holders' obligations under the terms of the stock purchase contracts, which were a component of the FELINE PRIDES securities. The remarketing was not successful and the Company took possession of those trust preferred securities and retired them in order to satisfy the FELINE PRIDES holders' obligations to purchase 8.74 million shares of the Company's common stock. Refer to Note 4 of the Notes to the Consolidated Financial Statements in the Company's 2002 Annual Report on Form 10-K for further information on the FELINE PRIDES.

The following table identifies the changes in long-term debt since December 31, 2002 as a result of the adoption of SFAS 150, recent debt offerings, debt exchange and debt repurchases discussed above:

	Balance September 30, 2003	Balance December 31, 2002
Long-term debt		
8.00% notes due 2004	$ —	$ 55,000
7.20% notes due 2007	—	30,000
8.95% notes due 2008, remarketable 2003	—	105,378
7.125% notes due 2008	150,000	—
6.49% notes due 2009	30,000	30,000
8.00% notes due 2010	30,652	30,758
7.75% notes due 2013	135,036	—
8.00% notes due 2016	59,748	59,890
8.32% notes due 2024	—	25,000
6.50% medium-term notes due 2005	15,000	15,000
6.40% medium-term notes due 2008	5,000	5,000
7.03% medium-term notes due 2013	10,000	10,000
10.25% Trust preferred securities(a)	40,000	—
3.77% Trust preferred securities(a)	89	—
	$ 475,525	$ 366,026

(a)
Prior to July 1, 2003, the trust preferred securities were reported as a separate line item between long-term debt and common shareholders' equity. For periods after July 1, 2003, the trust preferred securities are reflected in the long-term debt section in compliance with SFAS 150.

Common Stock Equity—On October 16, 2003, the Company's Board of Directors declared a quarterly cash dividend of $0.075 per share on the Company's common stock. The dividend is payable on November 15, 2003 to shareholders of record at the close of business on October 31, 2003.

In August 2003, the Company paid a quarterly cash dividend of $0.075 per share on its common stock. The total cash dividend was approximately $1.4 million of which $0.2 million was reinvested by shareholders into common stock through participation in the Direct Stock Purchase and Dividend Reinvestment Plan ("DRIP"). The cash dividends for the nine months ended September 30, 2003, were $6.1 million, of which $1.0 million was reinvested by shareholders through participation in the DRIP. During the three and nine months ended September 30, 2003, the Company issued approximately 93,000 and 396,000 shares of Company common stock, respectively, to meet the dividend reinvestment and stock purchase requirements of its DRIP participants. Also during the three and nine months ended September 30, 2003, the Company issued approximately 42,000 and 121,000 shares, respectively, of its common stock to certain of the Company's employee benefit plans.

In August 2003, the Company issued approximately 8.74 million shares of common stock for $101 million through the mandatory stock purchase obligation specified under the terms of the stock purchase contracts, which were a component of the FELINE PRIDES securities. The Company also retired approximately $101 million of trust preferred securities in conjunction with this issuance of

common stock. The retirement of the trust preferred securities in order to fulfill the FELINE PRIDES holders' stock purchase obligations was a non-cash financing activity and therefore both the issuance of the $101 million of common stock and the retirement of the $101 million of trust preferred securities is not reflected in the Company's Consolidated Statements of Cash Flows.

Note 3—Risk Management Activities and Derivative Transactions

The Company's business activities expose it to a variety of risks, including commodity price risk and interest rate risk. The Company's management identifies risks associated with the Company's business and determines which risks it wants to manage and which types of instruments it should use to manage those risks.

The Company records all derivative instruments it enters into under the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 137, SFAS No. 138 and SFAS No. 149, which were amendments to SFAS No. 133 (hereinafter collectively referred to as "SFAS 133"). SFAS 133 requires that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the statement of financial position, as either an asset or liability, measured at its fair value. SFAS 133 also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. For derivatives designated as cash flow hedges, changes in fair value are recorded in other comprehensive income for the portion of the change in value of the derivative that is an effective hedge.

An affiliate, in which the Company has a 50% ownership interest, uses a floating to fixed interest rate swap agreement to hedge the variable interest rate payments on a portion of its long-term debt. This swap is designated as a cash flow hedge and the difference between the amounts paid and received under the swap is recorded as an adjustment to interest expense over the term of the agreement. The Company's share of changes in the fair value of the swap are recorded in accumulated other comprehensive income until the swap is terminated. As a result of this interest rate swap agreement, the Company's Consolidated Statements of Financial Position, at September 30, 2003 and December 31, 2002, reflected reductions of $0.6 million and $0.7 million, respectively, in the Company's equity investment in the affiliate and in accumulated other comprehensive income.

Note 4—Earnings Per Share

The computations of basic and diluted earnings per share for the three, nine and twelve months ended September 30, 2003 and 2002 are as follows (in thousands except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
Basic earnings per share computation						
Income (loss) from continuing operations	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,220)	$ 4,492
Discontinued operations	—	—	—	—	10	(5,564)
Net income (loss) available to common shareholders	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,210)	$ (1,072)
Weighted average common shares outstanding	23,308	18,519	20,375	18,422	19,933	18,365
Earnings per share—basic						
Income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Discontinued operations	—	—	—	—	—	(0.30)
Net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)
Diluted earnings per share computation						
Income (loss) from continuing operations	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,220)	$ 4,492
Adjustment for effect of assumed conversions:						
FELINE PRIDES—dividends on trust preferred securities (a)	—	N/A	—	N/A	—	N/A
Adjusted net income (loss) from continuing operations	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,220)	$ 4,492
Discontinued operations	—	—	—	—	10	(5,564)
Net income (loss) available to common shareholders	$ (24,841)	$ (7,014)	$ (34,798)	$ 4,361	$ (30,210)	$ (1,072)
Weighted average common shares outstanding	23,308	18,519	20,375	18,422	19,933	18,365
Incremental shares from assumed conversions:						
FELINE PRIDES—stock purchase contracts(a)	—	—	—	—	—	—
Stock options(b)	—	—	—	30	—	—
Diluted weighted average common shares outstanding	23,308	18,519	20,375	18,452	19,933	18,365
Earnings per share—diluted						
Income (loss) from continuing operations	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ 0.24
Discontinued operations	—	—	—	—	0.00	(0.30)
Net income (loss) available to common shareholders	$ (1.07)	$ (0.38)	$ (1.71)	$ 0.24	$ (1.52)	$ (0.06)

(a)
For purposes of computing diluted earnings per share for the three, nine and twelve months ended September 30, 2003, $1,136,250, $5,681,250, and $7,953,250, respectively, of dividends on the Company's 9% trust preferred securities (9% TPS") which are a component of the FELINE PRIDES, were not removed from net loss from continuing operations and available to common shareholders and 4,368,414, 7,277,777 and 7,644,724, respectively, of incremental common shares from the assumed failed marketing and related retirement of the 9% TPS to settle the FELINE PRIDES holders' stock purchase obligations were not added to average common shares outstanding. These adjustments were not made because their effect was antidilutive.

(b)
26,986, 25,576, 18,919, 36,588 and 22,357 shares of stock options were not included in the computation of diluted earnings per share for the three, nine and twelve-month periods ending September 30, 2003 and the three and twelve-month periods ending September 30, 2002, respectively, because their effect was antidilutive.

Note 5—Business Segments

The Company operates four reportable business segments: (1) gas distribution; (2) construction services; (3) information technology services; and (4) propane, pipelines and storage. The latter three segments are sometimes referred to together as the "Diversified Businesses." For information regarding the pending sale of a component of the gas distribution segment (Alaska Pipeline Company) and the decision to pursue the sale of the construction services segment, refer to Note 7. Refer to Note 1 for information on the impairment of the construction segment's goodwill and other assets. For information regarding the determination of reportable business segments, refer to Note 11 of the Notes to the Consolidated Financial Statements in the Company's 2002 Annual Report on Form 10-K.

The Company's gas distribution segment distributes and transports natural gas to approximately 271,000 customers in the state of Michigan and approximately 114,000 customers in the state of Alaska. The construction services segment ("Construction Services") currently conducts most of its business in the mid-western, southern and southeastern areas of the United States. Its primary service is the installation and upgrade of compressor stations and underground natural gas mains and service lines. The information technology service segment ("IT Services") is headquartered in Michigan and provides IT infrastructure outsourcing services, and other IT services with a focus on mid-range computers, particularly the IBM I-Series (AS-400) platform. The propane, pipelines and storage segment sells more than four million gallons of propane annually to retail customers in Michigan's upper peninsula and northeast Wisconsin and operates natural gas transmission and storage facilities in Michigan.

The accounting policies of the operating segments are the same as those described in Notes 1 and 11 of the Notes to the Consolidated Financial Statements in the Company's 2002 Annual Report on Form 10-K, except that intercompany transactions have not been eliminated in determining individual segment results. The following table provides business segment information as well as a reconciliation ("Corporate and other") of the segment information to the applicable line in the Consolidated

Financial Statements. Corporate and Other includes corporate related expenses not allocated to segments, intercompany eliminations and results of other smaller operations.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2003	2002	2003	2002	2003	2002
	(in thousands)					
Operating revenues						
Gas distribution	$ 48,936	$ 40,474	$ 319,870	$ 242,281	$ 442,300	$ 343,567
Construction services	25,860	33,868	60,836	95,973	84,117	128,784
Information technology services	2,253	2,510	6,675	7,088	9,205	9,755
Propane, pipelines and storage	1,198	1,097	5,439	4,751	7,746	6,787
Corporate and other(a)	(5,013)	(5,256)	(12,957)	(15,389)	(17,244)	(21,661)
Total operating revenues	$ 73,234	$ 72,693	$ 379,863	$ 334,704	$ 526,124	$ 467,232
Operating income (loss)(b)(c)						
Gas distribution	$ 1,047	$ (690)	$ 37,648	$ 38,037	$ 58,687	$ 57,682
Construction services	(21,179)	578	(26,700)	1,207	(29,906)	(2,724)
Information technology services	81	48	458	367	693	445
Propane, pipelines and storage	194	227	1,415	1,217	2,144	1,735
Corporate and other	(1,037)	(509)	(2,449)	(2,214)	(3,151)	(6,082)
Total operating income	$ (20,894)	$ (346)	$ 10,372	$ 38,614	$ 28,467	$ 51,056
Depreciation and amortization expense						
Gas distribution	$ 6,346	$ 6,354	$ 19,168	$ 19,047	$ 25,463	$ 25,618
Construction services	1,972	1,990	6,057	5,998	8,108	8,050
Information technology services	175	152	515	418	683	650
Propane, pipelines and storage	218	233	767	695	1,003	942
Corporate and other	87	105	242	329	342	429
Total depreciation and amortization expense	$ 8,798	$ 8,834	$ 26,749	$ 26,487	$ 35,599	$ 35,689

(a)
Includes the elimination of intercompany construction services revenue of $3,245,000, $7,871,000 and $10,297,000 for the three, nine and twelve months ended September 30, 2003, respectively, and $3,138,000, $9,463,000 and $13,404,000 for the three, nine and twelve months ended September 30, 2002, respectively. Also includes the elimination of intercompany information technology services revenue of $1,725,000, $4,961,000 and $6,780,000 for the three, nine and twelve months ended September 30, 2003, respectively, and $2,073,000, $5,801,000 and $8,087,000 for the three, nine and twelve months ended September 30, 2002, respectively.

(b)
Operating income for the three, nine and twelve months ended September 30, 2003 includes non-cash charges of $20.5 million for the impairment of goodwill and equipment at the Construction Services Business.

(c)
Operating income for the twelve months ended September 30, 2002 includes restructuring charges and impairment charges of $6.1 million.

Note 6—Commitments and Contingencies

Environmental Matters—Prior to the construction of major natural gas pipelines, gas for heating and other uses was manufactured from processes involving coal, coke or oil. The Company owns seven Michigan sites, which formerly housed such manufacturing facilities and expects that it will ultimately incur investigation and remedial action costs at some of these sites and one other site. The Company

has closed a related site with the approval of the appropriate environmental regulatory authority in the State of Michigan and has developed plans and conducted preliminary field investigations at two other sites. The Company is in the process of estimating its liabilities and potential costs in connection with these sites, but the scope of the Company's liabilities has not been finally determined. In accordance with a Michigan Public Service Commission ("MPSC") accounting order, any environmental investigation and remedial action costs will be deferred and amortized over ten years. Rate recognition of the related amortization expense will not begin until after a prudence review in a general rate case.

Other—In the normal course of business, the Company may be a party to certain lawsuits and administrative proceedings before various courts and government agencies. These lawsuits and proceedings may involve personal injury, property damage, contractual issues and other matters. Management cannot predict the ultimate outcome of any pending or threatened litigation or of actual or possible claims; however, management believes resulting liabilities, if any, will not have a material adverse impact upon the Company's financial position or results of operations. Notwithstanding the above statement, in late March 2003 the Company was served a complaint in a putative class-action lawsuit alleging that the approximately 30 defendants, including SEMCO Energy and SEMCO Energy Ventures, Inc., engaged in practices that violated the Sherman Anti-Trust Act and tortuously interfered with the business of the plaintiffs. In October 2003, the plaintiff dismissed this action in the jurisdiction in which the action was originally filed and gave us notice that it would refile the complaint in a different jurisdiction. The Company is considering potential legal and factual defenses to these claims and intends to vigorously defend itself in this action. Although the Company cannot make assurances, management believes that this suit will not have a material adverse effect on its business or results of operations. Refer to Note 13 of the Notes to the Consolidated Financial Statements in the Company's 2002 Annual Report on Form 10-K for further details regarding other commitments and contingencies.

Note 7—Other Matters and Subsequent Events

Definitive Agreement to Sell Alaska Pipeline Company—In September 2003, the Company entered into a definitive agreement to sell its wholly-owned subsidiary, Alaska Pipeline Company ("APC"), to Atlas Pipeline Partners, L.P. for $95 million. APC, which operates a natural gas transmission pipeline in Alaska, delivers natural gas from several producing fields in south central Alaska to ENSTAR Natural Gas Company's distribution system. APC has no employees and ENSTAR is its only customer. APC is part of the Company's gas distribution business for segment reporting. Under the terms of the sale, ENSTAR will continue to purchase all of APC's gas transmission capacity for at least 10 years and will continue to operate APC's pipeline for a minimum of 5 years. There are no plans to change rates, the service offered, pipeline operations, customer service, gas supply, or staffing as a result of the sale. The sale is subject to approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, approval by the Regulatory Commission of Alaska and consents under various contracts. Proceeds of the sale will be used to reduce the Company's outstanding debt obligations. As of September 30, 2003, the book value of APC's assets the Company expects to be part of a sale was approximately $89 million.

Decision To Pursue Sale Of Construction Services—In November 2003, we announced that our Board of Directors instructed management to pursue the sale of our construction services business. We intend to begin actively marketing the business for sale during the first quarter of 2004. We anticipate that the proceeds of a sale will be used to strengthen our financial position and support the growth of our gas distribution business. As of September 30, 2003, after recording the impairment charges, the book value of the construction services business's assets was approximately $40 million.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus does not offer to sell or ask for offers to buy any securities other than those to which this prospectus relates and it does not constitute an offer to sell or ask for offers to buy any of the securities in any jurisdiction where it is unlawful, where the person making the offer is not qualified to do so, or to any person who cannot legally be offered the securities. The information contained in this prospectus is current only as of its date.

PROSPECTUS

SEMCOENERGY

Exchange Offer for Outstanding
7 3/4 % Senior Notes due 2013
in exchange for new
7 3/4 % Senior Notes due 2013

January 22, 2004

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$50,000,000
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Form S-8

SEMCO ENERGY INC - SEN

Filed: June 02, 2005 (period:)

Securities offered to employees pursuant to employee benefit plans

As filed with the Securities and Exchange Commission on June 2, 2005

Registration No. 333-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-8
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

SEMCO Energy, Inc.
(Exact name of registrant as specified in its charter)

Michigan	**38-2144267**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1411 Third Street, Suite A **Port Huron, Michigan**	**48060**
(Address of Principal Executive Offices)	*(Zip Code)*

SEMCO Energy, Inc.
401(k) Plan
(Full title of the plan)

Peter F. Clark
Senior Vice President and General Counsel
SEMCO Energy, Inc.
2301 West Big Beaver Road, Suite 212
Troy, Michigan 48084
(248) 458-6152
(Name, address and telephone number, including area code, of agent for service)

The Commission is requested to mail signed copies of all orders, notices and communications to:

Peter F. Clark
Senior Vice President and General Counsel
SEMCO Energy, Inc.
2301 West Big Beaver Road, Suite 212
Troy, Michigan 48084
Phone: (248) 458-6152
Facsimile: (248) 458-6150

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered[1, 2, 3]	Proposed maximum offering price per share[4]	Proposed maximum aggregate offering price[4]	Amount of registration fee
Common Stock ($1.00 par value)	400,000	$5.21	$2,084,000	$245.29

(1) Pursuant to General Instruction E of Form S-8, this Registration Statement covers the registration of 400,000 shares of Common Stock in addition to shares previously registered under Registration Statement No. 333-91406.

(2) Pursuant to Rule 416(a) under the Securities Act of 1933, as amended (the "1933 Act"), this Registration Statement also covers an indeterminate amount of interests to be offered or sold pursuant to the employee benefit plan described herein and also covers an indeterminate number of additional shares that may be offered and issued to prevent dilution resulting from stock splits, stock dividends or similar transactions as provided in the plan described herein (the "Plan").

(3) Includes rights (the "Rights") to purchase Common Stock under the Registrant's Rights Agreement dated as of April 15, 1997 as amended through March 19, 2004, that prior to the occurrence of certain events, will not be exercisable or evidenced separately from the shares of Common Stock.

(4) Pursuant to Rule 457(h)(1) under the 1933 Act, the offering price is estimated solely for the purpose of calculating the registration fee and is based on the average of the high and low sales prices of the Registrant's Common Stock on May 25, 2005, as reported on the New York Stock Exchange.

Pursuant to Rule 429 under the 1933 Act, the prospectus related to this Registration Statement meets the requirements of use in connection with securities registered under Registration Statement No. 333-91406 on Form S-8.

EXPLANATORY NOTE

SEMCO Energy, Inc. (the "Registrant") is registering an additional 400,000 shares of its common stock ($1.00 par value), relating to an earlier filed employee benefit plan, the SEMCO Energy, Inc. 401(k) Plan. On June 28, 2002, pursuant to its registration statement on Form S-8 (Registration No. 033-91406), the Registrant registered 400,000 shares of its common stock to be issued in connection with the SEMCO Energy, Inc. 401(k) Plan. As of May 31, 2005, there were 6,164 shares of common stock available for grant under that plan.

Pursuant to General Instruction E to Form S-8, the previously registered shares are being carried forward to, and deemed covered by, this registration statement on Form S-8. The contents of the earlier registration statement for the SEMCO Energy, Inc. 401(k) Plan (Registration No. 333-91406) are incorporated herein by reference.

EXHIBIT INDEX

Exhibit No.	Description	Filed Herewith	Filed By Reference
5	Opinion of Mark T. Prendeville, Vice President and Deputy General Counsel, SEMCO Energy, Inc.	x	
23.1	Consent of Mark T. Prendeville, Vice President and Deputy General Counsel, SEMCO Energy, Inc. (contained in Exhibit 5 hereto).	x	
23.	Consent of PricewaterhouseCoopers LLP.	x	
24	Powers of Attorney (included on the signature page of this registration statement).	x	

SIGNATURES

The Registrant. Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Troy, State of Michigan, on June 1, 2005.

SEMCO Energy, Inc.
(Registrant)

By: /s/George A. Schreiber, Jr.

George A. Schreiber, Jr.
President and Chief Executive Officer

POWERS OF ATTORNEY
AND
SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Peter F. Clark, Sherry L. Abbott and Michael V. Palmeri, and each of them, with full power of substitution, as his attorneys-in-fact and agents for him and in his name and on his behalf as a director and/or officer of SEMCO Energy, Inc. to prepare, execute and file any and all amendments, including post-effective amendments, or supplements to this Registration Statement on Form S-8, and other documents (including any necessary amendments thereof) which such attorneys-in-fact may deem appropriate or necessary and to cause the same to be filed with the Commission.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/George A. Schreiber, Jr. George A. Schreiber, Jr.	President and Chief Executive Officer and Director	June 1, 2005
/s/Michael V. Palmeri Michael V. Palmeri	Senior Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	June 1, 2005
/s/John M. Albertine John M. Albertine	Director and Chairman	June 1, 2005
/s/Edward J. Curtis Edward J. Curtis	Director	May 25, 2005

/s/John T. Ferris John T. Ferris	Director	May 31, 2005
/s/Harvey I. Klein Harvey I. Klein	Director	May 31, 2005
/s/Paul F. Naughton Paul F. Naughton	Director	May 31, 2005
/s/Edwina Rogers Edwina Rogers	Director	May 25, 2005
/s/Thomas W. Sherman Thomas W. Sherman	Director	May 31, 2005
/s/Ben A. Stevens Ben A. Stevens	Director	May 26, 2005
/s/Donald W. Thomason Donald W. Thomason	Director	May 25, 2005

The Plan. Pursuant to the requirements of the Securities Act of 1933, the trustees (or other persons who administer the employee benefit plan) have duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Troy, State of Michigan, on June 1, 2005.

SEMCO Energy, Inc. 401(K) Plan

By: /s/Michael V. Palmeri

Name: Michael V. Palmeri
Title: Senior Vice President, Treasurer and Chief Financial Officer, SEMCO Energy, Inc., Plan Administrator

Exhibit 5

[SEMCO Letterhead]
June 1, 2005

The Board of Directors
SEMCO Energy, Inc.
1411 Third Street, Suite A
Port Huron, Michigan 48060

Registration Statement on Form S-8

Ladies and Gentlemen:

I have acted as counsel to SEMCO Energy, Inc., a Michigan corporation (the "Company"), in connection with the preparation of a registration statement on Form S-8 (the "Registration Statement") with respect to the registration with the Securities and Exchange Commission under the Securities Act of 1933, as amended, of 400,000 of the Company's common stock, $1.00 par value, (the "Shares") reserved for issuance in connection with the Company's 401(k) Plan (the "Plan").

As counsel to the Company, I have examined the Plan and certain books and records of the Company and have made such other investigations as I have deemed necessary for purposes of this opinion. In such examinations I have assumed the genuineness of all signatures on all original documents, the authenticity of all documents submitted to me as originals, the conformity to original documents of all copies submitted to me, the authenticity of the originals of documents submitted to me as copies and the due execution and delivery of all documents where due execution and delivery are prerequisite to the effectiveness thereof.

As to questions of fact material to this opinion, I have relied solely upon statements of officers of the Company. I have assumed and relied upon the accuracy and completeness of such statements, and nothing has come to my attention leading me to question the accuracy of the stated matters. I have made no independent investigation with regard thereto and, accordingly, I do not express any view or belief as to matters that might have been discovered by independent verification.

Based upon and subject to the foregoing, I am of the opinion that the Shares reserved for issuance in accordance with the Plan have been duly authorized and will, when and to the extent issued in connection with the Plan, be validly issued, fully paid and nonassessable.

In expressing the opinions set forth above, I am not passing on the laws of any jurisdiction other than the federal laws of the United States of America and the laws of the State of Michigan.

This opinion is limited to the matters expressly opined on herein, and no opinion may be implied or inferred beyond those expressly stated. This opinion is rendered as of the date hereof, and I make no undertaking and expressly disclaim any duty to supplement or update such opinion, if, after the date hereof, facts or circumstances come to my attention or changes in the law occur which could affect such opinion. This opinion is being furnished to you solely for your benefit in connection with the transactions contemplated by the Plan and, except as expressly set forth below, is not to be used, circulated, quoted or otherwise referred to for any other purpose without my prior express written consent and may not be relied upon by any other person without my express written consent.

I hereby consent to the filing of this opinion or copies thereof as an exhibit to the Registration Statement.

Very truly yours,

/s/Mark T. Prendeville
Mark T. Prendeville
Vice President and Deputy General Counsel

SEMCO Energy, Inc.

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated March 8, 2005, except for the restatement described in Note 16 to the consolidated financial statements and the matter described in the second, third and fourth paragraphs of Management's Report on Internal Control Over Financial Reporting, both of which appear in SEMCO Energy Inc.'s Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2004, as to which our report is dated May 6, 2005.

We also consent to the incorporation by reference in this Registration Statement of our report dated June 10, 2004 relating to the financial statements, which appears in the Annual Report of SEMCO Energy, Inc. 401(k) Plan on Form 11-K for the year ended December 31, 2003.

/s/PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Detroit, Michigan
June 2, 2005

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Form S-8

SEMCO ENERGY INC - SEN

Filed: June 03, 2005 (period:)

Securities offered to employees pursuant to employee benefit plans

As filed with the Securities and Exchange Commission on June 3, 2005

Registration No. 333-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-8
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

SEMCO Energy, Inc.
(Exact name of registrant as specified in its charter)

Michigan	**38-2144267**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1411 Third Street, Suite A **Port Huron, Michigan**	**48060**
(Address of Principal Executive Offices)	*(Zip Code)*

SEMCO Energy, Inc.
2004 Stock Award and Incentive Plan

SEMCO Energy, Inc.
Stock Option Plan of 2000

1997 Long-Term Incentive Plan of
Southeastern Michigan Gas Enterprises, Inc.
and Subsidiaries

Employment Agreement between SEMCO Energy, Inc. and
John E. Schneider dated as of May 7, 1998

Employment Agreement between SEMCO Energy, Inc. and
James T. Fuller dated as of September 14, 1999

Employment Agreement between SEMCO Energy, Inc. and
Robert J. Good dated as of September 14, 1999

(Full title of the plan)

Peter F. Clark
Senior Vice President and General Counsel
SEMCO Energy, Inc.
2301 West Big Beaver Road, Suite 212
Troy, Michigan 48084
(248) 458-6152
(Name, address and telephone number, including area code, of agent for service)

The Commission is requested to mail signed copies of all orders, notices and communications to:

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Senior Vice President and General Counsel
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Troy, Michigan 48084
Phone: (248) 458-6152
Facsimile: (248) 458-6150

CALCULATION OF REGISTRATION FEE				
Title of each class of securities to be registered	Amount to be registered [1, 2,]	Proposed maximum offering price per share [3]	Proposed maximum aggregate offering price [3]	Amount of registration fee
Common Stock ($1.00 par value)	2,425,929	$5.235	$12,699,738	$1,494.76

(1) The registered amounts are comprised of 1,667,100 shares of common stock, $1.00 par value, of the Registrant (the "Common Stock") for issuance and sale under the SEMCO Energy, Inc. 2004 Stock Award and Incentive Plan; 108,250 shares of Common Stock for issuance and sale under the SEMCO Energy, Inc. Stock Option Plan of 2000; 274,911 shares of Common Stock for issuance and sale under the 1997 Long-Term Incentive Plan of Southeastern Michigan Gas Enterprises, Inc. and Subsidiaries; 7,000 shares of Common Stock for issuance and sale under the Employment Agreement between SEMCO Energy, Inc. and John E. Schneider dated as of May 7, 1998; 184,334 shares of Common Stock for issuance and sale under the Employment Agreement between SEMCO Energy, Inc. and J. Terry Fuller dated as of September 14, 1999; 184,334 shares of Common Stock for issuance and sale under the Employment Agreement between SEMCO Energy, Inc. and Robert J. Good dated as of September 14, 1999 (collectively, the "Plans"). Pursuant to Rule 416(a) under the Securities Act of 1933, as amended (the "1933 Act"), this Registration Statement also covers an indeterminate number of additional shares that may be offered and issued to prevent dilution resulting from stock splits, stock dividends or similar transactions as provided in the Plans.

(2) Includes rights (the "Rights") to purchase Common Stock under the Registrant's Rights Agreement dated as of April 15, 1997 as amended through March 19, 2004, that prior to the occurrence of certain events, will not be exercisable or evidenced separately from the shares of Common Stock.

(3) Pursuant to Rule 457(h)(1) under the 1933 Act, the offering price is estimated solely for the purpose of calculating the registration fee and is based on the average of the high and low sales prices of the Registrant's Common Stock on May 26, 2005, as reported on the New York Stock Exchange.

Part I -- Information Required in the Section 10(a) Prospectus

Item 1. Plan Information.*

Item 2. Registrant Information and Employee Plan Annual Information.*

* The information required by Part I to be contained in the Section 10(a) prospectus is omitted from this Registration Statement in accordance with the Note to Part I of Form S-8 and Rule 428.

Part II -- Information Required in the Registration Statement

Item 3. Incorporation of Documents by Reference.

SEMCO Energy, Inc. (the "Registrant") hereby incorporates by reference into this Registration Statement the following documents:

(a) The Registrant's Amended Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004, as filed with the Securities and Exchange Commission (the "Commission") on May 10, 2005;

(b) The Registrant's Current Reports on Form 8-K, as filed with the Commission on January 3, 2005, January 25, 2005, February 18, 2005, February 24, 2005, March 9, 2005, March 10, 2005, March 17, 2005, March 23, 2005, March 30, 2005, April 1, 2005, April 21, 2005, April 29, 2005, and May 9, 2005.

(c) The description of the Registrant's Common Stock, $1.00 par value, contained in the Registrant's Prospectus dated July 24, 1998 which was part of Amendment No. 1 to Registration Statement No. 333-58715.

All documents filed by the Registrant subsequent to the date of this registration statement pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act") and prior to the filing of a post-effective amendment hereto which indicates that all securities offered hereby have been sold or which deregisters all such securities then remaining unsold, shall also be deemed to be incorporated by reference into this registration statement and to be a part hereof from their respective dates of filing. Any statement contained in this registration statement shall be deemed to be modified or superseded to the extent that a statement contained in a subsequently filed document which is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained in any other subsequently filed document that is or is deemed to be incorporated by reference herein, modifies or supersedes such statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Directors and Officers.

The Registrant's Bylaws and the Michigan Business Corporation Act permit the Registrant's officers and directors to be indemnified under certain circumstances for expenses and in some instances, for judgments, fines or amounts paid in settlement of civil, criminal, administrative and investigative suits or proceedings, including those involving alleged violations of the 1933 Act. In addition, the Registrant maintains directors' and officers' liability insurance which, under certain circumstances, would cover alleged violation of the 1933 Act. Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to officers and directors pursuant to the foregoing provisions, the Registrant has been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. Therefore in the event that a claim for such indemnification is asserted by any officer or director, the Registrant (except insofar as such claim seeks reimbursement by the Registrant of the expenses paid or incurred by an officer or director in the successful defense of any action, suit or proceeding) will, unless the matter has heretofore been adjudicated by precedent deemed by the Registrant to be controlling, submit to a court of appropriate jurisdiction the question of whether or not the indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

Item 7. Exemption from Registration Claimed.

Not applicable.

Item 8. Exhibits.

An Exhibit Index appears at page 6 hereof.

Item 9. Undertakings.

The undersigned Registrant hereby undertakes: (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement: (i) to include any prospectus required by Section 10(a)(3) of the 1933 Act; (ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; (iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement; provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the Registration Statement is on Form S-3, Form S-8 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the of 1934 Act that are incorporated by reference in the registration statement. (2) That, for the purpose of determining any liability under the 1933 Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the 1933 Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the 1934 Act that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant, in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether or not such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Troy, State of Michigan, on June 2, 2005.

SEMCO Energy, Inc.
(Registrant)

By: /s/George A. Schreiber, Jr.

George A. Schreiber, Jr.
President and Chief Executive Officer

POWERS OF ATTORNEY
AND
SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Peter F. Clark, Sherry L. Abbott and Michael V. Palmeri, and each of them, with full power of substitution, as his attorneys-in-fact and agents for him and in his name and on his behalf as a director and/or officer of SEMCO Energy, Inc. to prepare, execute and file any and all amendments, including post-effective amendments, or supplements to this Registration Statement on Form S-8, and other documents (including any necessary amendments thereof) which such attorneys-in-fact may deem appropriate or necessary and to cause the same to be filed with the Commission.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/George A. Schreiber, Jr. George A. Schreiber, Jr.	President and Chief Executive Officer and Director	June 2, 2005
/s/Michael V. Palmeri Michael V. Palmeri	Senior Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	June 2, 2005
/s/John M. Albertine John M. Albertine	Director and Chairman	June 2, 2005
/s/Edward J. Curtis Edward J. Curtis	Director	May 25, 2005
/s/John T. Ferris	Director	June 2, 2005

/s/Harvey I. Klein Harvey I. Klein	Director	June 2, 2005
/s/Paul F. Naughton Paul F. Naughton	Director	June 2, 2005
/s/Edwina Rogers Edwina Rogers	Director	May 25, 2005
/s/Thomas W. Sherman Thomas W. Sherman	Director	June 2, 2005
/s/Ben A. Stevens Ben A. Stevens	Director	May 26, 2005
/s/Donald W. Thomason Donald W. Thomason	Director	May 25, 2005

EXHIBIT INDEX

		Filed	
Exhibit			**By**
No.	**Description**	**Herewith**	**Reference**
4.1	Articles of Incorporation of SEMCO Energy, Inc., as restated June 25, 1999, and amendments thereto through May 28, 2004, including Certificate of Designation of 6% Series B Convertible Preference Stock filed March 19, 2004 *(incorporated by reference to Exhibit 3.1 to the Registrants Quarterly Report on Form 10-Q for the quarter ended June 30, 2004) (SEC File No. 001-15565))* .		**x**
4.2	Certificate of Designation of 5% Series B Convertible Cumulative Preferred Stock, filed March 14, 2005 *(incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated March 14, 2005 (SEC File No. 00-1-15565))* .		
4.3	Bylaws - last revised May 24, 2004 *(incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (SEC File No. 001-15565))* .		**x**
4.4	Rights Agreement dated as of April 15, 1997 with Continental Stock Transfer & Trust Company, as Rights *Agent (incorporated by reference to Exhibit 99.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (SEC File No. 0-8503))* .		**x**
4.5	Amended Rights Agreement as of March 19, 2004 with National City Bank (successor Rights Agent) *(incorporated by reference to Exhibit 42 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (SEC File No. 001-15565))* .		**x**
4.6	Indenture relating to Senior Debt Securities dated as of October 23, 1998, with Bank One Trust Company (formerly NBD Bank) as Trustee *(incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form S-3 filed April 11, 2005 (SEC File Nos. 333-124005 and 333-124005-01))* .		**x**
4.7	First Supplemental Indenture relating to Senior Debentures dated as of June 16, 2000, with Bank One Trust Company as Trustee *(incorporated by reference to Exhibit 4(a) to the Registrant's Current Report on Form 8-K dated July 26, 2000 (SEC File No. 001-15565))* .		**x**
4.8	Second Supplemental Indenture relating to Senior Debt Securities dated as of June 29, 2000, with Bank One Trust Company as Trustee *(incorporated by reference to Exhibit 4(b) to the Registrant's Current Report on Form 8-K dated July 26, 2000 (SEC File No. 001-15565))* .		**x**
4.9	Indenture relating to Subordinated Debentures dated as of April 19, 2000, with Bank One Trust Company, Trustee *(incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000 (SEC File No. 001-15565))* .		**x**

4.10	First Supplemental Indenture relating to Subordinated Debentures dated as of April 19, 2000, with Bank One Trust Company, as Trustee *(incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2000 (SEC File No. 001-15565))* .		**x**
4.1	Amended and Restated Credit Agreement dated as of June 25, 2004		**x**

4.12	First Amendment to Amended and Restated Credit Agreement dated as of June 25, 2004 among SEMCO Energy, Inc., as Borrower, various financial institutions and Standard Federal Bank N.A., as Agent, dated November 17, 2004 *(incorporated by reference to Exhibit 4.2.1 to the Registrant's Current Report on Form 8-K dated January 21, 2005 (SEC File No. 00-1-15565))* .		**x**
4.13	Second Amendment to Amended and Restated Credit Agreement dated as of June 25, 2004 among SEMCO Energy, Inc., as Borrower, various financial institutions and Standard Federal Bank N.A., as Agent, dated January 21, 2005 *(incorporated by reference to Exhibit 4.2.2 to the Registrant's Current Report on Form 8-K dated January 21, 2005 (SEC File No. 00-1-15565))* .		**x**
4.14	Third Amendment and Consent dated March 8, 2005 to the Amended and Restated Credit Agreement, by and among the Company, Standard Federal Bank N.A. and the other banks signatory thereto and Standard Federal Bank N.A., as agent for the banks *(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated March 8, 2005 (SEC File No. 00-1-15565))* .		**x**
4.15	Indenture, dated as of May 15, 2003, between SEMCO Energy, Inc. and Fifth Third Bank, relating to SEMCO Energy, Inc.'s 7 ¾% Senior Notes due 2013 *(incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form S-4 filed July 21, 2003 (SEC File No. 333-107200))* .		**x**
4.16	Indenture, dated as of May 21, 2003 between SEMCO Energy, Inc. and Fifth Third Bank, relating to SEMCO Energy, Inc.'s 7 [% Senior Notes due 2008 *(incorporated by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form S-4 filed July 21, 2003 (SEC File No. 333-107200))* .		**x**
4.17	Registration Rights Agreement, dated as of May 15, 2003, by and among SEMCO Energy, Inc. and the parties listed therein *(incorporated by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form S-4 filed July 21, 2003 (SEC File No. 333-107200))* .		**x**
4.18	Registration Rights Agreement, dated as of December 17, 2003, by and between SEMCO Energy, Inc. and Credit Suisse First Boston LLC *(incorporated by reference to Exhibit 4.14 to the Registrant's Registration Statement on Form S-4 filed January 13, 2004 (SEC File No. 333-111872))* .		**x**
4.19	Registration Rights Agreement, dated March 15, 2005, for the benefit of holders of 5% Series B Convertible Cumulative Preferred Stock *(incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated March 14, 2005 (SEC File No. 00-1-15565))* .		
5	Opinion of Mark T. Prendeville, Vice President and Deputy General Counsel, SEMCO Energy, Inc.	**x**	
23.1	Consent of Mark T. Prendeville, Vice President and Deputy General Counsel, SEMCO Energy, Inc. (contained in Exhibit 5 hereto).	**x**	
23.2	Consent of PricewaterhouseCoopers LLP.	**x**	

24	Powers of Attorney (included on the signature page of this registration statement).	**x**	
99.1	1997 Long-Term Incentive Plan of Southeastern Michigan Gas		**x**
99.2	SEMCO Energy, Inc. Stock Option Plan of 2000 *(incorporated by*		**x**

99.3	SEMCO Energy, Inc. 2004 Stock Award and Incentive Plan *(incorporated by reference to Appendix A to the Registrant's 2004 Proxy Statement, dated April 13, 2004 (SEC File No. 001-15565))* .		**x**
99.4	Employment Agreement between SEMCO Energy, Inc. and John E. Schneider dated as of May 7, 1998.	**x**	
99.5	Employment Agreement between SEMCO Energy, Inc. and J. Terry Fuller dated as of September 14, 1999.	**x**	
99.6	Employment Agreement between SEMCO Energy, Inc. and Robert J. Good dated as of September 14, 1999.	**x**	

Exhibit 5

[SEMCO Letterhead]

June 3, 2005

The Board of Directors
SEMCO Energy, Inc.
1411 Third Street, Suite A
Port Huron, Michigan 48060

Registration Statement on Form S-8

Ladies and Gentlemen:

I have acted as counsel to SEMCO Energy, Inc., a Michigan corporation (the "Company"), in connection with the preparation of a registration statement on Form S-8 (the "Registration Statement") with respect to the registration with the Securities and Exchange Commission under the Securities Act of 1933, as amended, of 1,667,100 shares of the Company's common stock, $1.00 par value, (the "Common Stock") reserved for issuance in connection with the Company's 2004 Stock and Incentive Plan; 108,250 shares of Common Stock for issuance and sale under the SEMCO Energy, Inc. Stock Option Plan of 2000; 274,911 shares of Common Stock for issuance and sale under the 1997 Long-Term Incentive Plan of Southeastern Michigan Gas Enterprises, Inc. and Subsidiaries; 7,000 shares of Common Stock for issuance and sale under the Employment Agreement between SEMCO Energy, Inc. and John E. Schneider dated as of May 7, 1998; 184,344 shares of Common Stock for issuance and sale under the Employment Agreement between SEMCO Energy, Inc. and Terry Fuller dated as of September 14, 1999; 184,334 shares of Common Stock (together with the other shares, the "Shares") for issuance and sale under the Employment Agreement between SEMCO Energy, Inc. and Robert J. Good dated as of September 14, 1999 (collectively, the "Plans").

As counsel to the Company, I have examined the Plans and certain books and records of the Company and have made such other investigations as I have deemed necessary for purposes of this opinion. In such examinations I have assumed the genuineness of all signatures on all original documents, the authenticity of all documents submitted to me as originals, the conformity to original documents of all copies submitted to me, the authenticity of the originals of documents submitted to me as copies and the due execution and delivery of all documents where due execution and delivery are prerequisite to the effectiveness thereof.

As to questions of fact material to this opinion, I have relied solely upon statements of officers of the Company. I have assumed and relied upon the accuracy and completeness of such statements, and nothing has come to my attention leading me to question the accuracy of the stated matters. I have made no independent investigation with regard thereto and, accordingly, I do not express any view or belief as to matters that might have been discovered by independent verification.

Based upon and subject to the foregoing, I am of the opinion that the Shares reserved for issuance in accordance with the Plans have been duly authorized and will, when and to the extent issued in connection with the Plans, be validly issued, fully paid and nonassessable.

In expressing the opinions set forth above, I am not passing on the laws of any jurisdiction other than the federal laws of the United States of America and the laws of the State of Michigan.

This opinion is limited to the matters expressly opined on herein, and no opinion may be implied or inferred beyond those expressly stated. This opinion is rendered as of the date hereof, and I make no undertaking and expressly disclaim any duty to supplement or update such opinion, if, after the date hereof, facts or circumstances come to my attention or changes in the law occur which could affect such opinion. This opinion is being furnished to you solely for your benefit in connection with the transactions contemplated by the Plans and, except as expressly set forth below, is not to be used, circulated, quoted or otherwise referred to for any other purpose without our prior express written consent and may not be relied upon by any other person without my express written consent.

I hereby consent to the filing of this opinion or copies thereof as an exhibit to the Registration Statement.

Very truly yours,

/s/Mark T. Prendeville

Mark T. Prendeville
Vice President and Deputy General Counsel
SEMCO Energy, Inc.

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated March 8, 2005, except for the restatement described in Note 16 to the consolidated financial statements and the matter described in the second, third and fourth paragraphs of Management's Report on Internal Control Over Financial Reporting, both of which appear in SEMCO Energy Inc.'s Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2004, as to which our report is dated May 6, 2005.

/s/PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Detroit, Michigan
June 2, 2005

Exhibit 99.4

[SEMCO ENERGY LOGO]

William L. Johnson
Chairman of the Board
President
Chief Executive Officer

May 7, 1998

John E. Schneider
Suite 10
5001 Birch Street
Newport Beach, CA 92660

Dear John:

This letter is to confirm our recent conversations regarding your employment with SEMCO Energy, Inc.

As per our conversations, I am offering you the position of Senior Vice President, SEMCO Energy Ventures. I anticipate your start date at June 1, 1998.

In your new position your major leadership responsibilities involve development of strong lines of business in natural gas construction, engineering and propane operations. As we discussed, if a certain large propane acquisition should occur shortly, then propane operations will report directly to me. Propane would then be replaced by development of a substantial HVAC business as part of Energy Ventures.

Please note you will also supervise certain small SEMCO investments in gas storage, pipeline operations and gas production. I anticipate that you will review, examine and determine the long term strategy regarding these investments.

Your salary will be $150,000 per year. In addition, I have agreed to a stock option grant of 7,000 shares as you begin your new assignment. Your short-term bonus opportunity will be based on a full calendar year as if you had joined SEMCO on January 1, 1998.

You will be eligible for a vehicle allowance. You will also participate in our Supplemental Executive Retirement Plan. Under the plan you will be eligible to receive fifty percent of base salary at age 65 for fifteen years certain.

Other standard benefits will be provided. These include medical and dental benefits, life insurance, disability and accidental death coverage and other benefits consistent with a company of our size.

Initially, I will provide you with a change of control agreement. Employment agreements may be provided in the future.

We will assist you with your relocation to Michigan. Please feel free to discuss matters related to moving expenses with Mr. Barrett Hatches, Vice President of Human Resources.

Finally, as per our discussion, I will provide a $50,000 signing bonus for you to accept the position and move to Michigan. This is a one-time bonus and will not be part of your annual compensation in future years.

I believe this represents our agreement relative to your employment with SEMCO. If so, please sign both letters and send one back to me at your convenience.

I look forward to an exciting future at SEMCO Energy. I know that you will become a key player in the development of our company in the years ahead.

Please call if you have questions or concerns.

Sincerely,

/s/William L. Johnson
William L. Johnson
Chairman, President & CEO

_____
John E. Schneider
Signed _____, 1998

Exhibit 99.5

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made as of September 14, 1999 (the "Effective Date") by Flint Construction Company, Georgia corporation , ("Employer"), SEMCO Energy, Inc., a Michigan corporation ("SEMCO"), and J. Terry Fuller, an individual residing at 3093 Brookshire Way, Duluth, Georgia 30096 ("Executive")

This Agreement is entered into in connection with and as an integral part of the purchase by SEMCO of all the outstanding capital stock of Employer under that certain Stock Purchase Agreement dated September 14, 1999. SEMCO and Employer desire Executive's continued employment with Employer, and Executive wishes to accept such continued employment, upon the terms and conditions set forth in this Agreement. The execution of this Agreement is a condition to and an inducement to SEMCO for consummating the transactions under the Stock Purchase Agreement.

The parties, intending to be legally bound, agree as follows:

1. DEFINITIONS

For the purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1.

"Basic Compensation" shall mean Salary and Benefits.

"Board of Directors" shall mean the board of directors of Employer.

"Confidential Information" shall mean any and all:

(a) trade secrets concerning the business and affairs of Employer, product specifications, data, know- how, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions and ideas, past, current, and planned research and development, current and planned manufacturing or distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs (including object code and source code), computer software and database technologies, systems, structures, and architectures (and related formulae, compositions, processes, improvements, devices, know-how, inventions, discoveries, concepts, ideas, designs, and methods), and any other information, however documented, that is a trade secret; and

(b) information concerning the business and affairs of Employer (which includes historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel, personnel training and techniques and materials, and pricing), however documented; and

(c) notes, analysis, compilations, studies, summaries, and other material prepared by or for Employer containing or based, in whole or in part, on any information included in the foregoing.

"Employee Invention" shall mean any idea, invention, technique, modification, process, or improvement (whether patentable or not), any industrial design (whether registerable or not), and any work of authorship (whether or not copyright protection may be obtained for it) created, conceived, or

developed by Executive, either solely or in conjunction with others, during the Employment Period, or a period that includes a portion of the Employment Period, that relates in any way to, or is useful in any manner in, the business then being conducted or proposed to be conducted by Employer, and any such item created by Executive, either solely or in conjunction with others, following termination of Executive's employment with Employer, that is based upon or uses Confidential Information.

“Employment Period” shall mean the term of Executive's employment under this Agreement.

“GAAP” shall mean generally accepted accounting principles as currently interpreted by the public accounting profession in the United States of America.

“Person” shall mean any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, or governmental body.

“Incentive Compensation” shall mean additional compensation paid to Executive in the form of Bonus or Stock Options, or both.

“Return on Assets” (“ROA”) shall mean the result obtained by dividing Earnings Before Interest and Taxes for the 12 month period ending on the last day of the Employer's fiscal year (which is currently a calendar year) by Total Assets.

“Total Assets” shall mean the average of the calculations for each month during the fiscal year of the sum of the Current Assets plus Fixed Assets (including Goodwill recorded on the books of SEMCO in connection with the acquisition of the common stock of the Employer, less accumulated depreciation and amortization), all as reflected on Employer's books, and determined by Employer in accordance with GAAP.

(b) “Earnings Before Interest and Taxes” (“EBIT”) shall mean Employer's revenue from ordinary business operations, less expenses, and other charges (including amortization of goodwill recorded on the books of SEMCO as a result of the acquisition of the common stock of the Employer), before deducting interest and Federal and state income taxes, all as reflected on Employer's books. The EBIT will be determined by the Employer in accordance with GAAP.

2. EMPLOYMENT TERMS AND DUTIES

2.1 EMPLOYMENT

Employer hereby employs Executive, and Executive hereby accepts employment by Employer, upon the terms and conditions set forth in this Agreement.

2.2 TERM

Subject to the provisions of Section 6, the term of Executive's employment under this Agreement will be three (3) years, beginning on the Effective Date and ending on August 31, 2002.

2.3 DUTIES

Executive will have such duties as are assigned or delegated to Executive by the Board of Directors, and will initially serve as Vice-President of Employer. Executive will devote his entire best efforts, time, attention and energy to the performance of his duties hereunder and to promote and further the interests of Employer, and will cooperate fully with the Board of Directors in the advancement of the best interests of Employer. Nothing in this Section 2.3, however, will prevent Executive from engaging in additional activities in connection with personal investments and community affairs that are not inconsistent with Executive's duties under this Agreement.

3. COMPENSATION

3.1 BASIC COMPENSATION

(A) Salary. Executive shall be paid an annual salary of One Hundred Ten Thousand Dollars ($110,000), subject to adjustment as provided below ("Salary"), which will be payable in equal periodic installments according to Employer's customary payroll practices, but no less frequently than monthly. The Salary will be reviewed by the Board of Directors not less frequently than annually, and may be adjusted upward in the sole discretion of the Board of Directors, but in no event will the Salary be less than One Hundred Ten Thousand Dollars ($110,000).

(B) Benefits. Executive will, during the Employment Period, be permitted to participate in such pension, profit sharing, life insurance, hospitalization, major medical, and other employee benefit plans of Employer that may be in effect from time to time, to the extent Executive is eligible under the terms of those plans (collectively, "Benefits"). Employer will pay the cost of Executive's dependent health care coverage under Employer's plans.

(C) Directors Fees. If Executive serves as a director of the Employer or one of its subsidiaries, Executive will be paid for such service in accordance with Employer's standard practices for such service. Executive understands that it is not SEMCO's practice to pay such fees for serving as a director of SEMCO's affiliates.

3.2 INCENTIVE COMPENSATION

(A) The Employer will pay the Executive Incentive Compensation for the services to be rendered by Executive pursuant to this Agreement in accordance with the following provisions. If the Employer's ROA, as adjusted for any partial year, for any calendar year during the first three (3) year period after Closing is equal to the target ROA percentages indicated in the table below, Executive shall receive the corresponding (i) Bonus and (ii) Stock Options to acquire the number of shares of SEMCO common stock as indicated in the table below. The period for which a calculation respecting incentive compensation is to be made shall be called the "Calculation Period.". The first Calculation Period shall be for the period from the Effective Date until December 31, 1999. The second Calculation Period shall be the calendar year ending December 31, 2000. The third Calculation Period shall be the calendar year ending December 31, 2001. The final Calculation Period shall be the eight calendar month period ending August 31, 2002. In the event this Agreement is terminated prior to August 31, 2002, the final Calculation Period shall be the period from the end of the prior Calculation Period to the end of the month in which the termination occurs. For the first Calculation Period the Executive will be paid Incentive

Compensation equal to five percent (5%) of the Net Income of the Employer (computed in accordance with generally accepted accounting principals) prior to the deduction of income taxes or any Incentive Compensation to be paid to the Executive or Mr. Robert J. Good. Thereafter, in the event that the Calculation Period is less than a full calendar year, the calculation shall be made by multiplying the numbers in each column in the table below by a fraction, the numerator of which is the number of months in the final Calculation Period and the denominator of which is 12.

Actual ROA	Bonus	Stock Options
11.00%	$36,000	7,000
10.75%	$33,600	6,000
10.50%	$31,200	5,000
10.25%	$28,800	4,000
10.00%	$26,400	3,000
9.75%	$24,000	2,000
9.50%	$21,600	1,000
9.25%	$19,200	0
9.00%	$0	0

(B) In addition to the foregoing, Employee shall receive the following additional Incentive Compensation for each 25 basis points Employer's actual ROA exceeds 11 %: $2,200 in bonus and stock options for 1,000 shares of SEMCO common stock. For these purposes there shall be no interpolation or no additional Incentive Compensation paid, within each 25 basis point increments of ROA. The appropriate Incentive Compensation described herein will be paid to Executive in one lump sum, or in a single Stock Option grant, as the case may be, within 90 days after the end of the applicable calendar year or fiscal period.

4. FACILITIES AND EXPENSES

4.1 GENERAL

Employer will furnish Executive office space, equipment, supplies, and such other facilities and personnel as Employer deems necessary or appropriate for the performance of Executive's duties under this Agreement. Employer will pay Executive's dues in such professional societies and organizations, as the Board of Directors deems appropriate. Additionally, Employer will pay on behalf of Executive (or reimburse Executive for) reasonable expenses incurred by Executive at the request of, or on behalf of, Employer in the performance of Executive's duties pursuant to this Agreement, and in accordance with Employer's employment policies, including reasonable expenses incurred by Executive in attending conventions, seminars, and other business meetings, in appropriate business entertainment activities, and for promotional expenses. Executive shall file expense reports with respect to such expenses in accordance with Employer's policies.

4.2 AUTOMOBILE AND OTHER BENEFITS

Employer shall furnish to Executive at Employer's cost, an automobile substantially equivalent to the automobile currently driven by Executive and otherwise in accordance with the terms of the Employer's company-owned automobile policies. Such automobile shall be available for use exclusively by Executive. The Employer shall pay, or, at Executive's election, shall reimburse Executive for, all fees, taxes, costs and expenses relating to licensing, insuring and maintaining such automobile and shall furnish gasoline in connection with any use of such automobile by Executive for Employer purposes. Executive shall be responsible for all payments attributable to traffic violations relating to Executive's use of such automobile (other than such payments, or the portion thereof, covered by insurance on such automobile) and shall maintain the automobile in saleable condition at all times. Employer shall also furnish Executive with a pager and cell phone at Employer's cost.

5. VACATIONS AND HOLIDAYS

Executive will be entitled to four (4) weeks' paid vacation each Calendar year and five (5) sick days in accordance with the vacation and sick day policies of Employer in effect for its executive officers from time to time. Executive must take vacation at such time or times as approved by the Chairman of the Board. Executive will also be entitled to the paid holidays and other paid leave set forth in Employer's policies. Vacation days and holidays during any Calendar year that are not used by Executive during such Calendar year may not be used in any subsequent Calendar year.

6. TERMINATION

6.1 EVENTS OF TERMINATION

The Employment Period, Executive's Basic Compensation and Incentive Compensation, and any and all other rights of Executive under this Agreement or otherwise as an employee of Employer will terminate (except as otherwise provided in this Section 6):

(a) upon the death of Executive;

(b) upon the Disability of Executive (as defined in Section 6.2) immediately upon notice from either party to the other;

(c) for cause (as defined in Section 6.3), immediately upon notice from Employer to Executive, or at such later time as such notice may specify;

(d) for good reason (as defined in Section 6.4) upon not less than thirty days' prior notice from Executive to Employer;

(e) termination by Employer not for cause; or

(f) termination by Executive not for good reason.

6.2 DEFINITION OF DISABILITY

For purposes of Section 6.1, Executive will be deemed to have a “disability” if, for physical or mental reasons, Executive is unable to perform Executive's duties under this Agreement for 120 consecutive days, or 180 days during any twelve month period, as determined in accordance with this Section 6.2. The disability of Executive will be determined by a medical doctor selected by written agreement of Employer and Executive upon the request of either party by notice to the other. If Employer and Executive cannot agree on the selection of a medical doctor, each of them will select a medical doctor and the two medical doctors will select a third medical doctor who will determine whether Executive has a disability. The determination of the medical doctor selected under this Section 6.2 will be binding on both parties. Executive shall submit to a reasonable number of examinations by the medical doctor making the determination of disability under this Section 6.2, and Executive hereby authorizes the disclosure and release to Employer of such determination and all supporting medical records. If Executive is not legally competent, Executive's legal guardian or duly authorized attorney-in-fact will act in Executive's stead, under this Section 6.2, for the purposes of submitting Executive to the examinations, and providing the authorization of disclosure, required under this Section 6.2.

6.3 DEFINITION OF “FOR CAUSE”

For purposes of Section 6.1, the phrase “for cause” means: (a) Executive's material breach of this Agreement; (b) Executive's failure to perform his duties in accord with the direction of the Board of Directors; (c) the appropriation (or attempted appropriation) of a material business opportunity of Employer, including attempting to secure or securing any personal profit in connection with any transaction entered into on behalf of Employer; (d) the misappropriation (or attempted misappropriation) of any of Employer's funds or property; (e) the conviction of, indictment for (or its procedural equivalent), or the entering of a guilty plea or plea of no contest with respect to a felony or the equivalent thereof; or (f) material breach of the common law duty of loyalty.

6.4 DEFINITION OF “FOR GOOD REASON”

For purposes of Section 6.1, the phrase “for good reason” means any of the following: (a) Employer's material breach of this Agreement; or (b) the assignment of Executive without his consent to a position, responsibilities, or duties of a materially lesser status or degree of responsibility than his position, responsibilities, or duties at the Effective Date or a reduction in Executive's Salary or Incentive Compensation.

6.5 TERMINATION PAY

Effective upon the termination of this Agreement, Employer will be obligated to pay Executive (or, in the event of his death, his designated beneficiary as defined below) only such compensation as is provided in this Section 6.5. For purposes of this Section 6.5, Executive's designated beneficiary will be such individual beneficiary or trust, located at such address, as Executive may designate by notice to Employer from time to time or, if Executive fails to give notice to Employer of such a beneficiary, Executive's estate. Notwithstanding the preceding sentence, Employer will have no duty, in any circumstances, to attempt to open an estate on behalf of Executive, to determine whether any beneficiary designated by Executive is alive or to ascertain the address of any such beneficiary, to determine the existence of any trust, to determine whether any person or entity purporting to act as Executive's personal representative (or the trustee of a trust established by Executive) is duly authorized to act in that capacity, or to locate or attempt to locate any beneficiary, personal representative, or trustee.

(A) Termination by Employer for Other Than Cause or Termination by Executive for Good Reason. If the Employer terminates Executive's employment prior to the end of the Employment Period (other than for Cause, disability or death), or if Executive terminates his employment hereunder for Good Reason, Employer will pay Executive (i) Executive's Salary for the remainder, if any, of the Employment Period, and (ii) Executive's Incentive Compensation, if any, for the calendar year during which the termination is effective. Notwithstanding the preceding sentence, if Executive obtains other employment prior to the end of the six months following the month in which the termination is effective, he must promptly give notice thereof to Employer, and the Salary and Incentive Compensation payments under this Agreement for any period after Executive obtains other employment will be reduced by the amount of the cash compensation received and to be received by Executive from Executive's other employment for services performed during such period.

(B) Termination by Employer for Cause. If Employer terminates this Agreement for cause, Executive will be entitled to receive his Salary only through the date such termination is effective, and will not be entitled to any Incentive Compensation for the Calendar year during which such termination occurs or any subsequent Calendar year.

(C) Termination upon Disability. If this Agreement is terminated by either party as a result of Executive's disability, as determined under Section 6.2, Employer will pay Executive his Salary through the remainder of the calendar month during which such termination is effective and for the lesser of (i) six consecutive months thereafter, or (ii) the period until disability insurance benefits commence under the disability insurance coverage furnished by Employer to Executive, and a prorated amount of Executive's Incentive Compensation, if any, for the Calendar year during which his disability occurs, calculated based upon the EBIT for the calendar year, with the amount of such Executive's Incentive Compensation being a prorated amount on the basis of the number of months through the end of the calendar month during which the termination occurs.

(D) Termination upon Death. If this Agreement is terminated because of Executive's death, Executive will be entitled to receive his Salary through the end of the calendar month in which his death occurs, and a prorated amount of Executive's Incentive Compensation, if any, for the Calendar year during which his death occurs, using the EBIT for the calendar year, with the amount of such Executive's Incentive Compensation being a prorated amount on the basis of the number of months through the end of the calendar month during which his death occurs.

(E) Benefits. Except as required by law, Executive's accrual of, or participation in plans providing for, the Benefits will cease at the effective date of the termination of this Agreement, and Executive will be entitled to accrued Benefits pursuant to such plans only as provided in such plans.

7. NON-DISCLOSURE COVENANT; EMPLOYEE INVENTIONS

7.1 ACKNOWLEDGMENTS BY EXECUTIVE

Executive acknowledges that (a) during the Employment Period and as a part of his employment, Executive will be afforded access to Confidential Information; (b) public disclosure of such Confidential Information could have an adverse effect on Employer and its business; (c) because Executive possesses substantial technical expertise and skill with respect to Employer's business,

Employer desires to obtain exclusive ownership of each Employee Invention, and Employer will be at a substantial competitive disadvantage if it fails to acquire exclusive ownership of each Employee Invention; (d) SEMCO has required that Executive make the covenants in this Section 7 as a condition to its consummation of the transactions under the Stock Purchase Agreement; and (e) the provisions of this Section 7 are reasonable and necessary to prevent the improper use or disclosure of Confidential Information and to provide Employer with exclusive ownership of all Employee Inventions.

7.2 AGREEMENTS OF EXECUTIVE

In consideration of the compensation and benefits to be paid or provided to Executive by Employer under this Agreement, Executive covenants as follows:

(A) Confidentiality.

(i) During and following the Employment Period, Executive will hold in confidence the Confidential Information and will not disclose it to any person except with the specific prior written consent of Employer or except as otherwise expressly permitted by the terms of this Agreement.

(ii) Any trade secrets of Employer will be entitled to all of the protections and benefits under applicable state trade secret law and any other applicable law. If any information that Employer deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. Executive hereby waives any requirement that Employer submit proof of the economic value of any trade secret or post a bond or other security.

(iii) None of the foregoing obligations and restrictions applies to any part of the Confidential Information that Executive demonstrates was or became generally available to the public other than as a result of a disclosure by Executive.

(iv) Executive will not remove from Employer's premises (except to the extent such removal is for purposes of the performance of Executive's duties at home or while traveling, or except as otherwise specifically authorized by Employer) any document, record, notebook, plan, model, component, device, or computer software or code, whether embodied in a disk or in any other form (collectively, the “Proprietary Items”). Executive recognizes that, as between Employer and Executive, all of the Proprietary Items, whether or not developed by Executive, are the exclusive property of Employer. Upon termination of this Agreement by either party, or upon the request of Employer during the Employment Period, Executive will return to Employer all of the Proprietary Items in Executive's possession or subject to Executive's control, and Executive shall not retain any copies, abstracts, sketches, or other physical embodiment of any of the Proprietary Items.

(B) Employee Inventions. Each Employee Invention will belong exclusively to Employer. Executive acknowledges that all of Executive's writing, works of authorship, specially commissioned works, and other Employee Inventions are works made for hire and the property of Employer, including any copyrights, patents, or other intellectual property rights pertaining thereto. If it is determined that any such works are not works made for hire, Executive hereby assigns to Employer all of Executive's right, title, and interest, including all rights of copyright, patent, and other intellectual property rights, to or in such Employee Inventions. Executive covenants that he will promptly:

(i) disclose to Employer in writing any Employee Invention;

(ii) assign to Employer or to a party designated by Employer, at Employer's request and without additional compensation, all of Executive's right to the Employee Invention for the United States and all foreign jurisdictions;

(iii) execute and deliver to Employer such applications, assignments, and other documents as Employer may request in order to apply for and obtain patents or other registrations with respect to any Employee Invention in the United States and any foreign jurisdictions;

(iv) sign all other papers necessary to carry out the above obligations; and

(v) give testimony and render any other assistance, but without expense to Executive, in support of Employer's rights to any Employee Invention.

8. NON-COMPETITION AND NON-INTERFERENCE

8.1 ACKNOWLEDGMENTS BY EXECUTIVE

Executive acknowledges that: (a) the services to be performed by him under this Agreement are of a special, unique, unusual, extraordinary, and intellectual character; (b) Employer's business is regional in scope, covering Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia (the “Region”); (c) Employer competes with other businesses that are or could be located in any part of the Region; (d) the covenants set forth in this Section 8 have been negotiated and agreed to in connection with and as partial consideration for SEMCO's consummation of the purchase of the common stock of the Employer in accordance with the terms of the Stock Purchase Agreement between SEMCO and Executive dated September 14, 1999.

8.2 COVENANTS OF EXECUTIVE

In consideration of the acknowledgments by Executive, and in consideration of the compensation and benefits to be paid or provided to Executive by Employer, Executive covenants that he will not, directly or indirectly:

(a) during the Employment Period, except in the course of his employment hereunder, and during the Post-Employment Period, engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend Executive's name or any similar name to, lend Executive's credit to or render services or advice to, any business whose products or activities compete in whole or in part with the products or services of Employer anywhere in the Region; provided, however, that Executive may purchase or otherwise acquire up to (but not more than) one percent of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934;

(b) whether for Executive's own account or for the account of any other person at any time during the Employment Period and the Post-Employment Period, solicit business of the same or similar type being carried on by Employer, from any person that was a customer of Employer during the period when the

Executive was employed by the Employer, whether or not Executive had personal contact with such person during and by reason of Executive's employment with Employer;

(c) whether for Executive's own account or the account of any other person (i) at any time during the Employment Period and the Post-Employment Period, solicit, employ, or otherwise engage as an employee, independent contractor, or otherwise, any person who is or was an employee of Employer at any time during the Employment Period or in any manner induce or attempt to induce any employee of Employer to terminate his employment with Employer; or (ii) at any time during the Employment Period and thereafter, interfere with Employer's relationship with any person, including any person who at any time during the Employment Period was an employee, contractor, supplier, or customer of Employer; or

(d) at any time during or after the Employment Period, disparage Employer or any of its affiliates, shareholders, directors, officers, employees, or agents.

For purposes of this Section 8.2, the term “Post-Employment Period” means the later of (i) five years after the Closing of the Stock Purchase Agreement or (ii) the two year period beginning on the date of termination of Executive's employment with Employer.

If any covenant in this Section 8.2 is held to be unreasonable, arbitrary, or against public policy, such covenant will be considered to be divisible with respect to scope, time, and geographic area, and such lesser scope, time, or geographic area, or all of them, as a court of competent jurisdiction may determine to be reasonable, not arbitrary, and not against public policy, will be effective, binding, and enforceable against Executive.

The period of time applicable to any covenant in this Section 8.2 will be extended by the duration of any violation by Executive of such covenant.

While the covenant under this Section 8.2 is in effect, Executive will give notice to Employer, within ten days after accepting any other employment, of the identity of Executive's employer. SEMCO or Employer may notify such employer that Executive is bound by this Agreement and, at Employer's election, furnish such employer with a copy of this Agreement or relevant portions thereof.

9. GENERAL PROVISIONS

9.1 INJUNCTIVE RELIEF AND ADDITIONAL REMEDY

Executive acknowledges that the injury that would be suffered by Employer as a result of a breach of the provisions of this Agreement (including any provision of Sections 7 and 8) would be irreparable and that an award of monetary damages to Employer for such a breach would be an inadequate remedy. Consequently, Employer will have the right, in addition to any other rights it may have, to obtain injunctive relief to restrain any breach or threatened breach or otherwise to specifically enforce any provision of this Agreement, and Employer will not be obligated to post bond or other security in seeking such relief. Without limiting Employer's rights under this Section 9 or any other remedies of Employer, if Executive breaches any of the provisions of Section 7 or 8, Employer will have the right to cease making any payments otherwise due to Executive under this Agreement.

9.2 COVENANTS OF SECTIONS 7 AND 8 ARE ESSENTIAL AND INDEPENDENT COVENANTS

The covenants by Executive in Sections 7 and 8 are essential elements of this Agreement, and without Executive's agreement to comply with such covenants, SEMCO would not have consummated the transactions under the Stock Purchase Agreement and Employer would not have entered into this Agreement or employed or continued the employment of Executive. Employer and Executive have independently consulted their respective counsel and have been advised in all respects concerning the reasonableness and propriety of such covenants, with specific regard to the nature of the business conducted by Employer.

Executive's covenants in Sections 7 and 8 are independent covenants and the existence of any claim by Executive against Employer under this Agreement or otherwise, or against SEMCO, will not excuse Executive's breach of any covenant in Section 7 or 8.

If Executive's employment hereunder expires or is terminated, this Agreement will continue in full force and effect as is necessary or appropriate to enforce the covenants and agreements of Executive in Sections 7 and 8.

9.3 OFFSET

The Employer will be entitled to offset against any and all amounts owing to the Executive under this Agreement the amount of any and all claims that the SEMCO may have against the Executive under the Stock Purchase Agreement.

9.4 REPRESENTATIONS AND WARRANTIES BY THE EXECUTIVE

Executive represents and warrants to Employer that the execution and delivery by the Executive of this Agreement do not, and the performance by the Executive of the Executive's obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (a) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to the Executive; or (b) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which the Executive is a party or by which the Executive is or may be bound.

9.5 OBLIGATIONS CONTINGENT ON PERFORMANCE

The obligations of Employer hereunder, including its obligation to pay the compensation provided for herein, are contingent upon Executive's performance of Executive's obligations hereunder.

9.6 WAIVER

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by either party in exercising any right, power, or privilege under this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party;

(b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement.

9.7 BINDING EFFECT; DELEGATION OF DUTIES PROHIBITED

This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective successors, assigns, heirs, and legal representatives, including any entity with which Employer may merge or consolidate or to which all or substantially all of its assets may be transferred. The duties and covenants of Executive under this Agreement, being personal, may not be delegated.

9.8 NOTICES

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by facsimile (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may designate by notice to the other parties):

If to Employer: Flint Construction Company
272 Hurricane Shoals Road
Lawrenceville, Georgia 30245
770-339-7379 (FAX)

With copies to: SEMCO Energy, Inc.
405 Water St.
Port Huron, Michigan 48061-5026
Attention: Chairman, President & CEO

Arnold R. Madigan
303 East 17th Avenue
Suite 780
Denver, Colorado 80203-1260
303-894-0756 (FAX)

If to Executive: J. Terry Fuller
3093 Brookshire Way
Duluth, Georgia 30096
_____ (FAX)

9.9 ENTIRE AGREEMENT; AMENDMENTS

This Agreement, the Stock Purchase Agreement, and the documents executed in connection with the Stock Purchase Agreement, contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, between the

parties hereto with respect to the subject matter hereof. This Agreement may not be amended orally, but only by an agreement in writing signed by the parties hereto.

9.10 GOVERNING LAW

This Agreement will be governed by the laws of the State of Georgia without regard to conflicts of laws principles.

9.11 SECTION HEADINGS, CONSTRUCTION

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement unless otherwise specified. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

9.12 SEVERABILITY

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

9.13 COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

Intending to be legally bound, the parties have executed and delivered this Agreement as of the date first written above.

EMPLOYER:

Flint Construction Company

By /s/Robert A. Stone
Robert A. Stone, Authorized Officer

EXECUTIVE:

/s/J. Terry Fuller
J. Terry Fuller

Exhibit 99.6

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made as of September 14, 1999 (the "Effective Date") by Flint Construction Company, Georgia corporation , ("Employer"), SEMCO Energy, Inc., a Michigan corporation ("SEMCO"), and Robert J. Good, an individual residing at 1601 Old Fountain Road, Lawrenceville, Georgia 30043 ("Executive")

This Agreement is entered into in connection with and as an integral part of the purchase by SEMCO of all the outstanding capital stock of Employer under that certain Stock Purchase Agreement dated September 14, 1999. SEMCO and Employer desire Executive's continued employment with Employer, and Executive wishes to accept such continued employment, upon the terms and conditions set forth in this Agreement. The execution of this Agreement is a condition to and an inducement to SEMCO for consummating the transactions under the Stock Purchase Agreement.

The parties, intending to be legally bound, agree as follows:

1. DEFINITIONS

For the purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1.

"Basic Compensation" shall mean Salary and Benefits.

"Board of Directors" shall mean the board of directors of Employer.

"Confidential Information" shall mean any and all:

(a) trade secrets concerning the business and affairs of Employer, product specifications, data, know- how, formulae, compositions, processes, designs, sketches, photographs, graphs, drawings, samples, inventions and ideas, past, current, and planned research and development, current and planned manufacturing or distribution methods and processes, customer lists, current and anticipated customer requirements, price lists, market studies, business plans, computer software and programs (including object code and source code), computer software and database technologies, systems, structures, and architectures (and related formulae, compositions, processes, improvements, devices, know-how, inventions, discoveries, concepts, ideas, designs, and methods), and any other information, however documented, that is a trade secret; and

(b) information concerning the business and affairs of Employer (which includes historical financial statements, financial projections and budgets, historical and projected sales, capital spending budgets and plans, the names and backgrounds of key personnel, personnel training and techniques and materials, and pricing), however documented; and

(c) notes, analysis, compilations, studies, summaries, and other material prepared by or for Employer containing or based, in whole or in part, on any information included in the foregoing.

"Employee Invention" shall mean any idea, invention, technique, modification, process, or improvement (whether patentable or not), any industrial design (whether registerable or not), and any work of authorship (whether or not copyright protection may be obtained for it) created, conceived, or

developed by Executive, either solely or in conjunction with others, during the Employment Period, or a period that includes a portion of the Employment Period, that relates in any way to, or is useful in any manner in, the business then being conducted or proposed to be conducted by Employer, and any such item created by Executive, either solely or in conjunction with others, following termination of Executive's employment with Employer, that is based upon or uses Confidential Information.

“Employment Period” shall mean the term of Executive's employment under this Agreement.

“GAAP” shall mean generally accepted accounting principles as currently interpreted by the public accounting profession in the United States of America.

“Person” shall mean any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, or governmental body.

“Incentive Compensation” shall mean additional compensation paid to Executive in the form of Bonus or Stock Options, or both.

“Return on Assets” (“ROA”) shall mean the result obtained by dividing Earnings Before Interest and Taxes for the 12 month period ending on the last day of the Employer's fiscal year (which is currently a calendar year) by Total Assets.

“Total Assets” shall mean the average of the calculations for each month during the fiscal year of the sum of the Current Assets plus Fixed Assets (including Goodwill recorded on the books of SEMCO in connection with the acquisition of the common stock of the Employer, less accumulated depreciation and amortization), all as reflected on Employer's books, and determined by Employer in accordance with GAAP.

(b) “Earnings Before Interest and Taxes” (“EBIT”) shall mean Employer's revenue from ordinary business operations, less expenses, and other charges (including amortization of goodwill recorded on the books of SEMCO as a result of the acquisition of the common stock of the Employer), before deducting interest and Federal and state income taxes, all as reflected on Employer's books. The EBIT will be determined by the Employer in accordance with GAAP.

2. EMPLOYMENT TERMS AND DUTIES

2.1 EMPLOYMENT

Employer hereby employs Executive, and Executive hereby accepts employment by Employer, upon the terms and conditions set forth in this Agreement.

2.2 TERM

Subject to the provisions of Section 6, the term of Executive's employment under this Agreement will be three (3) years, beginning on the Effective Date and ending on August 31, 2002.

2.3 DUTIES

Executive will have such duties as are assigned or delegated to Executive by the Board of Directors, and will initially serve as President of Employer. Executive will devote his entire best efforts, time, attention and energy to the performance of his duties hereunder and to promote and further the interests of Employer, and will cooperate fully with the Board of Directors in the advancement of the best interests of Employer. Nothing in this Section 2.3, however, will prevent Executive from engaging in additional activities in connection with personal investments and community affairs that are not inconsistent with Executive's duties under this Agreement.

3. COMPENSATION

3.1 BASIC COMPENSATION

(A) Salary. Executive shall be paid an annual salary of One Hundred Twenty Thousand Dollars ($120,000), subject to adjustment as provided below (“Salary”), which will be payable in equal periodic installments according to Employer's customary payroll practices, but no less frequently than monthly. The Salary will be reviewed by the Board of Directors not less frequently than annually, and may be adjusted upward in the sole discretion of the Board of Directors, but in no event will the Salary be less than One Hundred Twenty Thousand Dollars ($120,000).

(B) Benefits. Executive will, during the Employment Period, be permitted to participate in such pension, profit sharing, life insurance, hospitalization, major medical, and other employee benefit plans of Employer that may be in effect from time to time, to the extent Executive is eligible under the terms of those plans (collectively, “Benefits”). Employer will pay the cost of Executive's dependent health care coverage under Employer's plans.

(C) Directors Fees. If Executive serves as a director of the Employer or one of its subsidiaries, Executive will be paid for such service in accordance with Employer's standard practices for such service. Executive understands that it is not SEMCO's practice to pay such fees for serving as a director of SEMCO's affiliates.

3.2 INCENTIVE COMPENSATION

(A) The Employer will pay the Executive Incentive Compensation for the services to be rendered by Executive pursuant to this Agreement in accordance with the following provisions. If the Employer's ROA, as adjusted for any partial year, for any calendar year during the first three (3) year period after Closing is equal to the target ROA percentages indicated in the table below, Executive shall receive the corresponding (i) Bonus and (ii) Stock Options to acquire the number of shares of SEMCO common stock as indicated in the table below. The period for which a calculation respecting incentive compensation is to be made shall be called the “Calculation Period.”. The first Calculation Period shall be for the period from the Effective Date until December 31, 1999. The second Calculation Period shall be the calendar year ending December 31, 2000. The third Calculation Period shall be the calendar year ending December 31, 2001. The final Calculation Period shall be the eight calendar month period ending August 31, 2002. In the event this Agreement is terminated prior to August 31, 2002, the final Calculation Period shall be the period from the end of the prior Calculation Period to the end of the month in which the termination occurs. For the first Calculation Period the Executive will be paid Incentive

Compensation equal to five percent (5%) of the Net Income of the Employer (computed in accordance with generally accepted accounting principals) prior to the deduction of income taxes or any Incentive Compensation to be paid to the Executive or Mr. Robert J. Good. Thereafter, in the event that the Calculation Period is less than a full calendar year, the calculation shall be made by multiplying the numbers in each column in the table below by a fraction, the numerator of which is the number of months in the final Calculation Period and the denominator of which is 12.

Actual ROA	Bonus	Stock Options
11.00%	$36,000	7,000
10.75%	$33,600	6,000
10.50%	$31,200	5,000
10.25%	$28,800	4,000
10.00%	$26,400	3,000
9.75%	$24,000	2,000
9.50%	$21,600	1,000
9.25%	$19,200	0
9.00%	$0	0

(B) In addition to the foregoing, Employee shall receive the following additional Incentive Compensation for each 25 basis points Employer's actual ROA exceeds 11 %: $2,400 in bonus and stock options for 1,000 shares of SEMCO common stock. For these purposes there shall be no interpolation or no additional Incentive Compensation paid, within each 25 basis point increments of ROA. The appropriate Incentive Compensation described herein will be paid to Executive in one lump sum, or in a single Stock Option grant, as the case may be, within 90 days after the end of the applicable calendar year or fiscal period.

4. FACILITIES AND EXPENSES

4.1 GENERAL

Employer will furnish Executive office space, equipment, supplies, and such other facilities and personnel as Employer deems necessary or appropriate for the performance of Executive's duties under this Agreement. Employer will pay Executive's dues in such professional societies and organizations, as the Board of Directors deems appropriate. Additionally, Employer will pay on behalf of Executive (or reimburse Executive for) reasonable expenses incurred by Executive at the request of, or on behalf of, Employer in the performance of Executive's duties pursuant to this Agreement, and in accordance with Employer's employment policies, including reasonable expenses incurred by Executive in attending conventions, seminars, and other business meetings, in appropriate business entertainment activities, and for promotional expenses. Executive shall file expense reports with respect to such expenses in accordance with Employer's policies.

4.2 AUTOMOBILE AND OTHER BENEFITS

Employer shall furnish to Executive at Employer's cost, an automobile substantially equivalent to the automobile currently driven by Executive and otherwise in accordance with the terms of the Employer's company-owned automobile policies. Such automobile shall be available for use exclusively by Executive. The Employer shall pay, or, at Executive's election, shall reimburse Executive for, all fees, taxes, costs and expenses relating to licensing, insuring and maintaining such automobile and shall furnish gasoline in connection with any use of such automobile by Executive for Employer purposes. Executive shall be responsible for all payments attributable to traffic violations relating to Executive's use of such automobile (other than such payments, or the portion thereof, covered by insurance on such automobile) and shall maintain the automobile in saleable condition at all times. Employer shall also furnish Executive with a pager and cell phone at Employer's cost.

5. VACATIONS AND HOLIDAYS

Executive will be entitled to four (4) weeks' paid vacation each Calendar year and five (5) sick days in accordance with the vacation and sick day policies of Employer in effect for its executive officers from time to time. Executive must take vacation at such time or times as approved by the Chairman of the Board. Executive will also be entitled to the paid holidays and other paid leave set forth in Employer's policies. Vacation days and holidays during any Calendar year that are not used by Executive during such Calendar year may not be used in any subsequent Calendar year.

6. TERMINATION

6.1 EVENTS OF TERMINATION

The Employment Period, Executive's Basic Compensation and Incentive Compensation, and any and all other rights of Executive under this Agreement or otherwise as an employee of Employer will terminate (except as otherwise provided in this Section 6):

(a) upon the death of Executive;

(b) upon the Disability of Executive (as defined in Section 6.2) immediately upon notice from either party to the other;

(c) for cause (as defined in Section 6.3), immediately upon notice from Employer to Executive, or at such later time as such notice may specify;

(d) for good reason (as defined in Section 6.4) upon not less than thirty days' prior notice from Executive to Employer;

(e) termination by Employer not for cause; or

(f) termination by Executive not for good reason.

6.2 DEFINITION OF DISABILITY

For purposes of Section 6.1, Executive will be deemed to have a “disability” if, for physical or mental reasons, Executive is unable to perform Executive's duties under this Agreement for 120 consecutive days, or 180 days during any twelve month period, as determined in accordance with this Section 6.2. The disability of Executive will be determined by a medical doctor selected by written agreement of Employer and Executive upon the request of either party by notice to the other. If Employer and Executive cannot agree on the selection of a medical doctor, each of them will select a medical doctor and the two medical doctors will select a third medical doctor who will determine whether Executive has a disability. The determination of the medical doctor selected under this Section 6.2 will be binding on both parties. Executive shall submit to a reasonable number of examinations by the medical doctor making the determination of disability under this Section 6.2, and Executive hereby authorizes the disclosure and release to Employer of such determination and all supporting medical records. If Executive is not legally competent, Executive's legal guardian or duly authorized attorney-in-fact will act in Executive's stead, under this Section 6.2, for the purposes of submitting Executive to the examinations, and providing the authorization of disclosure, required under this Section 6.2.

6.3 DEFINITION OF “FOR CAUSE”

For purposes of Section 6.1, the phrase “for cause” means: (a) Executive's material breach of this Agreement; (b) Executive's failure to perform his duties in accord with the direction of the Board of Directors; (c) the appropriation (or attempted appropriation) of a material business opportunity of Employer, including attempting to secure or securing any personal profit in connection with any transaction entered into on behalf of Employer; (d) the misappropriation (or attempted misappropriation) of any of Employer's funds or property; (e) the conviction of, indictment for (or its procedural equivalent), or the entering of a guilty plea or plea of no contest with respect to a felony or the equivalent thereof; or (f) material breach of the common law duty of loyalty.

6.4 DEFINITION OF “FOR GOOD REASON”

For purposes of Section 6.1, the phrase “for good reason” means any of the following: (a) Employer's material breach of this Agreement; or (b) the assignment of Executive without his consent to a position, responsibilities, or duties of a materially lesser status or degree of responsibility than his position, responsibilities, or duties at the Effective Date or a reduction in Executive's Salary or Incentive Compensation.

6.5 TERMINATION PAY

Effective upon the termination of this Agreement, Employer will be obligated to pay Executive (or, in the event of his death, his designated beneficiary as defined below) only such compensation as is provided in this Section 6.5. For purposes of this Section 6.5, Executive's designated beneficiary will be such individual beneficiary or trust, located at such address, as Executive may designate by notice to Employer from time to time or, if Executive fails to give notice to Employer of such a beneficiary, Executive's estate. Notwithstanding the preceding sentence, Employer will have no duty, in any circumstances, to attempt to open an estate on behalf of Executive, to determine whether any beneficiary designated by Executive is alive or to ascertain the address of any such beneficiary, to determine the existence of any trust, to determine whether any person or entity purporting to act as Executive's personal representative (or the trustee of a trust established by Executive) is duly authorized to act in that capacity, or to locate or attempt to locate any beneficiary, personal representative, or trustee.

(A) Termination by Employer for Other Than Cause or Termination by Executive for Good Reason. If the Employer terminates Executive's employment prior to the end of the Employment Period (other than for Cause, disability or death), or if Executive terminates his employment hereunder for Good Reason, Employer will pay Executive (i) Executive's Salary for the remainder, if any, of the Employment Period, and (ii) Executive's Incentive Compensation, if any, for the calendar year during which the termination is effective. Notwithstanding the preceding sentence, if Executive obtains other employment prior to the end of the six months following the month in which the termination is effective, he must promptly give notice thereof to Employer, and the Salary and Incentive Compensation payments under this Agreement for any period after Executive obtains other employment will be reduced by the amount of the cash compensation received and to be received by Executive from Executive's other employment for services performed during such period.

(B) Termination by Employer for Cause. If Employer terminates this Agreement for cause, Executive will be entitled to receive his Salary only through the date such termination is effective, and will not be entitled to any Incentive Compensation for the Calendar year during which such termination occurs or any subsequent Calendar year.

(C) Termination upon Disability. If this Agreement is terminated by either party as a result of Executive's disability, as determined under Section 6.2, Employer will pay Executive his Salary through the remainder of the calendar month during which such termination is effective and for the lesser of (i) six consecutive months thereafter, or (ii) the period until disability insurance benefits commence under the disability insurance coverage furnished by Employer to Executive, and a prorated amount of Executive's Incentive Compensation, if any, for the Calendar year during which his disability occurs, calculated based upon the EBIT for the calendar year, with the amount of such Executive's Incentive Compensation being a prorated amount on the basis of the number of months through the end of the calendar month during which the termination occurs.

(D) Termination upon Death. If this Agreement is terminated because of Executive's death, Executive will be entitled to receive his Salary through the end of the calendar month in which his death occurs, and a prorated amount of Executive's Incentive Compensation, if any, for the Calendar year during which his death occurs, using the EBIT for the calendar year, with the amount of such Executive's Incentive Compensation being a prorated amount on the basis of the number of months through the end of the calendar month during which his death occurs.

(E) Benefits. Except as required by law, Executive's accrual of, or participation in plans providing for, the Benefits will cease at the effective date of the termination of this Agreement, and Executive will be entitled to accrued Benefits pursuant to such plans only as provided in such plans.

7. NON-DISCLOSURE COVENANT; EMPLOYEE INVENTIONS

7.1 ACKNOWLEDGMENTS BY EXECUTIVE

Executive acknowledges that (a) during the Employment Period and as a part of his employment, Executive will be afforded access to Confidential Information; (b) public disclosure of such Confidential Information could have an adverse effect on Employer and its business; (c) because Executive possesses substantial technical expertise and skill with respect to Employer's business,

Employer desires to obtain exclusive ownership of each Employee Invention, and Employer will be at a substantial competitive disadvantage if it fails to acquire exclusive ownership of each Employee Invention; (d) SEMCO has required that Executive make the covenants in this Section 7 as a condition to its consummation of the transactions under the Stock Purchase Agreement; and (e) the provisions of this Section 7 are reasonable and necessary to prevent the improper use or disclosure of Confidential Information and to provide Employer with exclusive ownership of all Employee Inventions.

7.2 AGREEMENTS OF EXECUTIVE

In consideration of the compensation and benefits to be paid or provided to Executive by Employer under this Agreement, Executive covenants as follows:

(A) Confidentiality.

(i) During and following the Employment Period, Executive will hold in confidence the Confidential Information and will not disclose it to any person except with the specific prior written consent of Employer or except as otherwise expressly permitted by the terms of this Agreement.

(ii) Any trade secrets of Employer will be entitled to all of the protections and benefits under applicable state trade secret law and any other applicable law. If any information that Employer deems to be a trade secret is found by a court of competent jurisdiction not to be a trade secret for purposes of this Agreement, such information will, nevertheless, be considered Confidential Information for purposes of this Agreement. Executive hereby waives any requirement that Employer submit proof of the economic value of any trade secret or post a bond or other security.

(iii) None of the foregoing obligations and restrictions applies to any part of the Confidential Information that Executive demonstrates was or became generally available to the public other than as a result of a disclosure by Executive.

(iv) Executive will not remove from Employer's premises (except to the extent such removal is for purposes of the performance of Executive's duties at home or while traveling, or except as otherwise specifically authorized by Employer) any document, record, notebook, plan, model, component, device, or computer software or code, whether embodied in a disk or in any other form (collectively, the “Proprietary Items”). Executive recognizes that, as between Employer and Executive, all of the Proprietary Items, whether or not developed by Executive, are the exclusive property of Employer. Upon termination of this Agreement by either party, or upon the request of Employer during the Employment Period, Executive will return to Employer all of the Proprietary Items in Executive's possession or subject to Executive's control, and Executive shall not retain any copies, abstracts, sketches, or other physical embodiment of any of the Proprietary Items.

(B) Employee Inventions. Each Employee Invention will belong exclusively to Employer. Executive acknowledges that all of Executive's writing, works of authorship, specially commissioned works, and other Employee Inventions are works made for hire and the property of Employer, including any copyrights, patents, or other intellectual property rights pertaining thereto. If it is determined that any such works are not works made for hire, Executive hereby assigns to Employer all of Executive's right, title, and interest, including all rights of copyright, patent, and other intellectual property rights, to or in such Employee Inventions. Executive covenants that he will promptly:

(i) disclose to Employer in writing any Employee Invention;

(ii) assign to Employer or to a party designated by Employer, at Employer's request and without additional compensation, all of Executive's right to the Employee Invention for the United States and all foreign jurisdictions;

(iii) execute and deliver to Employer such applications, assignments, and other documents as Employer may request in order to apply for and obtain patents or other registrations with respect to any Employee Invention in the United States and any foreign jurisdictions;

(iv) sign all other papers necessary to carry out the above obligations; and

(v) give testimony and render any other assistance, but without expense to Executive, in support of Employer's rights to any Employee Invention.

8. NON-COMPETITION AND NON-INTERFERENCE

8.1 ACKNOWLEDGMENTS BY EXECUTIVE

Executive acknowledges that: (a) the services to be performed by him under this Agreement are of a special, unique, unusual, extraordinary, and intellectual character; (b) Employer's business is regional in scope, covering Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia and West Virginia (the “Region”); (c) Employer competes with other businesses that are or could be located in any part of the Region; (d) the covenants set forth in this Section 8 have been negotiated and agreed to in connection with and as partial consideration for SEMCO's consummation of the purchase of the common stock of the Employer in accordance with the terms of the Stock Purchase Agreement between SEMCO and Executive dated September 14, 1999.

8.2 COVENANTS OF EXECUTIVE

In consideration of the acknowledgments by Executive, and in consideration of the compensation and benefits to be paid or provided to Executive by Employer, Executive covenants that he will not, directly or indirectly:

(a) during the Employment Period, except in the course of his employment hereunder, and during the Post-Employment Period, engage or invest in, own, manage, operate, finance, control, or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend Executive's name or any similar name to, lend Executive's credit to or render services or advice to, any business whose products or activities compete in whole or in part with the products or services of Employer anywhere in the Region; provided, however, that Executive may purchase or otherwise acquire up to (but not more than) one percent of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934;

(b) whether for Executive's own account or for the account of any other person at any time during the Employment Period and the Post-Employment Period, solicit business of the same or similar type being carried on by Employer, from any person that was a customer of Employer during the period when the

Executive was employed by the Employer, whether or not Executive had personal contact with such person during and by reason of Executive's employment with Employer;

(c) whether for Executive's own account or the account of any other person (i) at any time during the Employment Period and the Post-Employment Period, solicit, employ, or otherwise engage as an employee, independent contractor, or otherwise, any person who is or was an employee of Employer at any time during the Employment Period or in any manner induce or attempt to induce any employee of Employer to terminate his employment with Employer; or (ii) at any time during the Employment Period and thereafter, interfere with Employer's relationship with any person, including any person who at any time during the Employment Period was an employee, contractor, supplier, or customer of Employer; or

(d) at any time during or after the Employment Period, disparage Employer or any of its affiliates, shareholders, directors, officers, employees, or agents.

For purposes of this Section 8.2, the term “Post-Employment Period” means the later of (i) five years after the Closing of the Stock Purchase Agreement or (ii) the two year period beginning on the date of termination of Executive's employment with Employer.

If any covenant in this Section 8.2 is held to be unreasonable, arbitrary, or against public policy, such covenant will be considered to be divisible with respect to scope, time, and geographic area, and such lesser scope, time, or geographic area, or all of them, as a court of competent jurisdiction may determine to be reasonable, not arbitrary, and not against public policy, will be effective, binding, and enforceable against Executive.

The period of time applicable to any covenant in this Section 8.2 will be extended by the duration of any violation by Executive of such covenant.

While the covenant under this Section 8.2 is in effect, Executive will give notice to Employer, within ten days after accepting any other employment, of the identity of Executive's employer. SEMCO or Employer may notify such employer that Executive is bound by this Agreement and, at Employer's election, furnish such employer with a copy of this Agreement or relevant portions thereof.

9. GENERAL PROVISIONS

9.1 INJUNCTIVE RELIEF AND ADDITIONAL REMEDY

Executive acknowledges that the injury that would be suffered by Employer as a result of a breach of the provisions of this Agreement (including any provision of Sections 7 and 8) would be irreparable and that an award of monetary damages to Employer for such a breach would be an inadequate remedy. Consequently, Employer will have the right, in addition to any other rights it may have, to obtain injunctive relief to restrain any breach or threatened breach or otherwise to specifically enforce any provision of this Agreement, and Employer will not be obligated to post bond or other security in seeking such relief. Without limiting Employer's rights under this Section 9 or any other remedies of Employer, if Executive breaches any of the provisions of Section 7 or 8, Employer will have the right to cease making any payments otherwise due to Executive under this Agreement.

9.2 COVENANTS OF SECTIONS 7 AND 8 ARE ESSENTIAL AND INDEPENDENT COVENANTS

The covenants by Executive in Sections 7 and 8 are essential elements of this Agreement, and without Executive's agreement to comply with such covenants, SEMCO would not have consummated the transactions under the Stock Purchase Agreement and Employer would not have entered into this Agreement or employed or continued the employment of Executive. Employer and Executive have independently consulted their respective counsel and have been advised in all respects concerning the reasonableness and propriety of such covenants, with specific regard to the nature of the business conducted by Employer.

Executive's covenants in Sections 7 and 8 are independent covenants and the existence of any claim by Executive against Employer under this Agreement or otherwise, or against SEMCO, will not excuse Executive's breach of any covenant in Section 7 or 8.

If Executive's employment hereunder expires or is terminated, this Agreement will continue in full force and effect as is necessary or appropriate to enforce the covenants and agreements of Executive in Sections 7 and 8.

9.3 OFFSET

The Employer will be entitled to offset against any and all amounts owing to the Executive under this Agreement the amount of any and all claims that the SEMCO may have against the Executive under the Stock Purchase Agreement.

9.4 REPRESENTATIONS AND WARRANTIES BY THE EXECUTIVE

Executive represents and warrants to Employer that the execution and delivery by the Executive of this Agreement do not, and the performance by the Executive of the Executive's obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (a) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to the Executive; or (b) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which the Executive is a party or by which the Executive is or may be bound.

9.5 OBLIGATIONS CONTINGENT ON PERFORMANCE

The obligations of Employer hereunder, including its obligation to pay the compensation provided for herein, are contingent upon Executive's performance of Executive's obligations hereunder.

9.6 WAIVER

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by either party in exercising any right, power, or privilege under this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party;

(b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement.

9.7 BINDING EFFECT; DELEGATION OF DUTIES PROHIBITED

This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective successors, assigns, heirs, and legal representatives, including any entity with which Employer may merge or consolidate or to which all or substantially all of its assets may be transferred. The duties and covenants of Executive under this Agreement, being personal, may not be delegated.

9.8 NOTICES

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by facsimile (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may designate by notice to the other parties):

If to Employer: Flint Construction Company
272 Hurricane Shoals Road
Lawrenceville, Georgia 30245
770-339-7379 (FAX)

With copies to: SEMCO Energy, Inc.
405 Water St.
Port Huron, Michigan 48061-5026
Attention: Chairman, President & CEO

Arnold R. Madigan
303 East 17th Avenue
Suite 780
Denver, Colorado 80203-1260
303-894-0756 (FAX)

If to Executive: Robert J. Good
1601 Old Fountain Road
Lawrenceville, Georgia 30043
404-870-4866 (FAX)

9.9 ENTIRE AGREEMENT; AMENDMENTS

This Agreement, the Stock Purchase Agreement, and the documents executed in connection with the Stock Purchase Agreement, contain the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, between the

parties hereto with respect to the subject matter hereof. This Agreement may not be amended orally, but only by an agreement in writing signed by the parties hereto.

9.10 GOVERNING LAW

This Agreement will be governed by the laws of the State of Georgia without regard to conflicts of laws principles.

9.11 SECTION HEADINGS, CONSTRUCTION

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement unless otherwise specified. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

9.12 SEVERABILITY

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

9.13 COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

Intending to be legally bound, the parties have executed and delivered this Agreement as of the date first written above.

EMPLOYER:

Flint Construction Company

By /s/Robert A. Stone
Robert A. Stone, Authorized Officer

EXECUTIVE:

/s/Robert J. Good
Robert J. Good

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SEC POWER SEARCH

Form 424B5

SEMCO ENERGY INC - SEN

Filed: August 10, 2005 (period:)

Form of prospectus disclosing information,facts,events covered in both forms 424B2 424B3

Pursuant to Rule 424(b)5
Registration Statement No. 333-124005

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED AUGUST 3, 2005

4,300,000 Shares

SEMCOENERGY

Common Stock

We are selling 4,300,000 shares of our common stock offered by this prospectus supplement.

Our common stock is listed on the New York Stock Exchange under the symbol "SEN". The last reported sale price on the New York Stock Exchange Composite Tape on August 9, 2005, was $6.55 per share.

The underwriters have an option to purchase a maximum of 645,000 additional shares to cover over-allotments of shares.

Investing in our common stock involves risks. See "Risk Factors" on page S-5.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to SEMCO
Per Share	$6.32	$0.2528	$6.0672
Total	$27,176,000	$1,087,040	$26,088,960

Delivery of the shares of common stock will be made on or about August 15, 2005.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

Natexis Bleichroeder Inc.

A.G. Edwards

The date of this prospectus supplement is August 9, 2005.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

We provide information to you about this offering in two separate documents that are combined together. The first document is the prospectus supplement, which described the specific terms of this offering. The second part is the accompanying prospectus, which provides general information, some of which may not apply to this offering. Generally, when we refer to the prospectus, we are referring to both documents combined. If information in the prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement or incorporated by reference herein. You should read the entire prospectus supplement and the incorporated documents carefully, including the financial statements and the notes thereto. You should read "Risk Factors" beginning on page S-5 for more information about important factors that you should consider before investing in the common stock. Unless otherwise indicated, this prospectus supplement assumes no exercise of the underwriters' option to purchase additional shares. References to "we," "us," "our" and "SEMCO" refer to SEMCO Energy, Inc. and its subsidiaries.

Our Company

We are a public utility company headquartered in southeastern Michigan. Our primary business is a regulated natural gas distribution business with operations in Michigan and Alaska. Founded in 1950, we have historically conducted diversified, non-utility businesses in addition to our natural gas distribution business. Beginning in 2003, our Board of Directors decided to focus our efforts on our core natural gas distribution business. This shift in strategic focus prompted efforts to market our discontinued construction services business, which was sold in September 2004. Our gas distribution business accounted for approximately 98% of our consolidated revenues in 2004.

We purchase, transport, distribute and sell natural gas to approximately 404,000 customers in Michigan and Alaska as of June 30, 2005. Our Michigan gas operations are known as SEMCO Gas and our Alaskan operations are known as ENSTAR. As of December 31, 2004, we had 160 miles and 393 miles of gas transmission pipelines and 5,529 miles and 2,527 miles of gas distribution mains and service lines in and near the SEMCO Gas and ENSTAR service areas, respectively. Our customer base includes residential, commercial and industrial customers, of which approximately 90% were residential as of June 30, 2005. Our largest customers include power plants, food production facilities, paper processing plants, furniture manufacturers, a liquefied natural gas plant, a fertilizer plant and others in a variety of industries.

Our executive offices are located at 1411 Third Street, Suite A, Port Huron, Michigan 48060, and our telephone number is (810) 987-2200.

Gas Distribution Business

Our gas distribution business has two primary components: gas sales and gas transportation. Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. Revenues from gas sales accounted for approximately 91% of consolidated operating revenues in 2004 and approximately 90% of consolidated operating revenues in both 2003 and 2002. Our gas distribution business also provides transportation services to its large-volume commercial and industrial customers. With such transportation services, those customers have the option of purchasing natural gas directly from third-party suppliers. The gas purchased by customers from third-party suppliers is then transported on our gas transmission and distribution network to the customers.

SEMCO Gas, one of our divisions, provides natural gas and associated services to a diverse customer base of, as of June 30, 2005, approximately 284,000 residential, commercial and industrial customers in Michigan. Our largest concentration of customers is in southeastern Michigan, where we had approximately 116,000 customers as of June 30, 2005.

ENSTAR's operations consist of ENSTAR Natural Gas Company (one of our divisions), Alaska Pipeline Company, or APC (one of our subsidiaries), and Norstar Pipeline Company (a subsidiary of APC). ENSTAR provides natural gas distribution services to approximately 120,000 customers in the Anchorage metropolitan and adjoining areas, and its service area encompasses over 50% of the population of Alaska, as of June 30, 2005. Our average number of customers in Alaska increased by an average of approximately 3.2% annually during the last three years. According to 2003 data supplied by the American Gas Association, ENSTAR also has one of the highest consumption levels of natural gas per residential

customer among investor-owned utilities in the United States. APC's transmission system delivers natural gas from producing fields in south central Alaska to ENSTAR's Anchorage-area gas distribution system. APC's only customer is ENSTAR. Norstar began operations in 2002 and provides pipeline management and pipeline construction management services to non-affiliate customers in Alaska.

Other Businesses

We also own and operate other businesses that generally complement our gas distribution business, consisting of information technology services, propane distribution, intrastate natural gas pipelines and natural gas storage facilities. These businesses generated approximately 2% of our consolidated revenues in 2004.

Business Strategy

Since 2003, we have been focused on becoming, and have become, primarily a natural gas distribution company. We are, and intend to continue, executing our strategy by:

- *Focusing on Our Core Business.* As a result of our new strategic focus, we sold substantially all the operating assets of our discontinued construction services business on September 3, 2004. Although we will continue to conduct our non-utility businesses that support our gas distribution business, we are focused on our core business of gas distribution as our chief revenue generator.

- *Expanding Our Gas Distribution Business.* We will continue to seek opportunities to expand our gas distribution business (including related pipeline and storage operations) in an economical manner through appropriate system improvements and the attachment of on-main and near-main potential customers within our existing service territories. In addition to seeking growth within our existing service territories, we seek to selectively analyze and make acquisitions of, or investments in, natural gas distribution businesses and assets, pipelines and storage facilities that provide attractive service territories and additional economies of scale. In June 2005, we acquired substantially all of the assets and certain liabilities of Peninsular Gas Company for approximately $3.1 million in cash (subject to adjustment), which added approximately 3,900 customers to our gas distribution business in the upper peninsula of Michigan. This is a relatively small acquisition but illustrative of our current strategic direction.

- *Maintaining Positive Regulatory Relationships.* In our regulated gas distribution business, it is important that we maintain positive relationships with the regulatory agencies under which we have the authority to provide gas distribution services. We strive to do this by, among other things, providing reliable and responsive customer service to minimize complaints to our regulators. In March 2005 and February 2005, we entered into settlements with the Michigan Public Service Commission, or MPSC, and the City Commission of Battle Creek, or CCBC, respectively, which upon approval authorized rate increases that collectively exceed $10 million per year. In Alaska, the Regulatory Commission of Alaska, or RCA, has indicated that we will not be required to submit a new rate case until 2008, which provides us with near-term stability in that market.

Competitive Strengths

We believe the following characteristics distinguish our past performance and future growth potential from other natural gas distribution utilities:

- *Strong Core Utility Operations.* Approximately 98% of our consolidated revenue is generated from our regulated gas distribution business. Pricing mechanisms are designed so that our cost of gas purchased is passed through to our customers and, therefore, we are able to generate strong, consistent operating cash flows.

- *Barriers to Entry.* Our gas distribution business is regulated by state and local governmental authorities, and we are required to obtain franchise and certificate authority to engage in the

delivery of gas. We do not believe it is likely that the regulatory bodies would grant another natural gas distribution franchise in our service territories.

- *Attractive Service Territories.* ENSTAR's Alaskan service territory has one of the highest gas consumption levels per residential customer in the United States. In addition, the customer growth rate for our gas distribution business has exceeded the industry average growth rate in the past three years. Our service territories also provide ready access to natural gas supplies due to their proximity to current supply sources.

- *Strong Supply and Storage Networks with Long-term Fuel Supply Contracts.* We have sufficient long-term gas supply contracts, storage and pipeline access for our gas distribution business. SEMCO Gas also has access to natural gas supplies throughout the United States and Canada via major interstate and intrastate pipelines that run through Michigan. SEMCO Gas owns or leases underground storage facilities in Michigan with a working capacity that equals approximately 36% of our 2004 annual gas sales volumes in Michigan. In Alaska, ENSTAR has gas supply contracts of varying terms with Marathon Oil Company, Chevron U.S.A., Inc., ConocoPhillips Alaska, Inc., Aurora Gas Company, Anchorage Municipal Light and Power and Union Oil Company of California, or Unocal. Collectively, the gas suppliers are scheduled to supply all of ENSTAR's gas requirements through 2008.

- *Infrastructure Investments.* Over the last several years, we have made material investments in our gas distribution infrastructure. These investments have resulted in increased customer service and administrative and operational efficiencies in our businesses.

The Offering

Issuer	SEMCO Energy, Inc.
Common stock we are offering	4,300,000 shares (4,945,000 shares, if the underwriters' exercise in full their option to purchase additional shares)
Common stock outstanding immediately following this offering	32,993,491 shares (33,638,491 shares, if the underwriters' exercise in full their option to purchase additional shares), not including (i) the 23.5 million shares that we have previously reserved for issuance, into which the 350,000 shares of our 5.00% Series B Convertible Cumulative Preferred Stock (the "Series B Preferred Stock") are potentially convertible, and (ii) the vested and unvested options outstanding to purchase 1.2 million shares of our common stock as of June 30, 2005.
NYSE symbol	SEN
Use of proceeds	We intend to use the net proceeds from this offering to redeem $26,088,950 in aggregate principal amount of our outstanding 10.25% Series A Subordinated Debentures due 2040 (the "10.25% Subordinated Notes"), held by our unconsolidated capital trust subsidiary, SEMCO Capital Trust I (the "Trust"). We will pay the accrued and unpaid interest on the 10.25% Subordinated Notes with available cash or a borrowing under our short-term bank credit facility. We will send the notice of the redemption promptly following the closing of this offering. The Trust, in turn, will use the proceeds from the redemption to redeem $25,306,275 of 10.25% Cumulative Trust Preferred Securities held by the public and $782,675 of the Trust's common securities held by us. As of the date of this prospectus supplement, there is $30,927,850 aggregate principal amount outstanding of the 10.25% Subordinated Notes. To the extent the underwriters exercise any of their option to purchase 645,000 additional shares to cover over-allotments, we will use net proceeds therefrom to redeem an equivalent amount of principal of our 10.25% Subordinated Notes.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, in addition to the other information in this prospectus supplement, before making an investment decision. Each of these risk factors could adversely affect our business, operating results and financial condition, and the value of an investment in our common stock.

Risks Relating to Our Business

Our natural gas distribution business is subject to utility rate regulation, and certain actions of the regulatory bodies may reduce our revenues and our profitability.

We are regulated by the MPSC, the RCA and the CCBC. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. With regard to regulation by the MPSC and the CCBC, in March 2005 and February 2005, respectively, we entered into settlements which upon approval, authorized rate increases. With certain exceptions, we have agreed not to request a further base rate increase with the CCBC to be effective before April 1, 2008, but we are not restricted in requesting that the MPSC authorize further base rate increases. With regard to regulation by the RCA, in June 2005, the RCA issued an order that, among other things, requires our Alaska division and its pipeline subsidiary to file a depreciation study of their Alaska utility plant by June 1, 2007 (as of December 31, 2006) and a revenue requirement and cost-of-study (including rate design data) with the RCA by June 6, 2008 (using a test year ended December 31, 2007).

Approximately 98% of our revenues are generated by our regulated gas distribution business. While we currently have settlements with the MPSC and the CCBC setting our rates in those jurisdictions, there is no guarantee that we would prevail in seeking rate increases in future rate cases. We also have no guarantee that we will be successful in our rate case before the RCA after December 31, 2007. The possibility of a rate decrease, the failure to grant any requested rate increase, cost disallowances, the precise timing of any rate increase, decrease or any other action by our regulators, may reduce our revenues and our profitability.

Our operations and earnings are weather sensitive and seasonal.

Our gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers, who use natural gas mainly for space heating. Consequently, weather has a significant impact on sales and revenues. Given the impact of weather on our gas distribution business, this segment is a seasonal business. Most of our gas sales revenue is generated in the first and fourth quarters of the calendar year and we typically experience losses in the non-heating season, the second and third fiscal quarters of the year. As a result, a mild winter in one of our service areas can have a significant adverse impact on demand for natural gas and, consequently, our earnings and results of operations.

Warmer than normal weather over the last several years has adversely affected the results of operations of our gas distribution business, which has accounted for more than 98% of our consolidated operating revenues for the last three fiscal years. In our Michigan service area, the temperature was approximately 0.3% and 0.9% warmer than normal during 2004 and 2002, respectively, and approximately 4.7% colder than normal during 2003. The temperature was approximately 6.0%, 8.0% and 7.8% warmer than normal in our Alaska service area during 2004, 2003 and 2002, respectively. We estimate that the combined impact of warmer or colder than normal temperatures in Michigan and/or Alaska reduced the gas sales margin of our gas distribution business by approximately $3.9 million, $2.7 million and $5.9 million in 2004, 2003 and 2002, respectively.

Our customers may be able to acquire natural gas without using our distribution system, which would reduce our revenues.

Consistent with other gas distribution utilities, there is potential risk for industrial customers and electric generating plants, located in close proximity to interstate natural gas pipelines, to bypass us and

connect directly to such pipelines, which would reduce our revenues. From time to time, customers raise the issue of bypass and we attempt to address their concerns. We can make no assurances that our customers will not bypass us or that we could successfully retain such customers by employing any special efforts.

Our earnings growth is substantially dependent on customer growth.

Many of our customers are increasingly endeavoring to conserve on energy costs through utilizing energy-efficient heating devices, increased insulation, alternative energy sources and other means. Over the past several years, average annual gas usage has been decreasing slightly because, among other things, new homes and appliances are typically more energy efficient than older homes and appliances. Accordingly, our earnings growth is substantially dependent on customer growth and may be adversely affected if we are unable to achieve customer growth within our existing service territories or add additional customers by expanding our service territories.

Our operating results may be reduced by downturns in the economy.

Our operations are affected by the conditions and overall strength of the national, regional and local economies, which impacts the amount of residential, industrial and commercial growth and actual gas use in our service territories. Many of our commercial and industrial customers use natural gas in the production of their products. During economic downturns, these customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of natural gas they require for production. In addition, during periods of slow or little economic growth, energy conservation efforts often increase. A weakening economy could also adversely impact our customer collections.

Volatility in the price of natural gas and alternative energy sources could reduce our profits.

The market price of alternative energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for our gas transportation services. Certain large industrial customers have or may acquire the capacity to be able to use one or more alternative energy sources or shift production to other facilities if the price of natural gas and delivery services increase significantly. Natural gas has typically been less expensive than these alternative energy sources. However, over the past three years, natural gas prices have been volatile, making some of these alternative energy sources more economical than natural gas. During this period, certain of our large Michigan industrial customers have periodically switched to alternative energy sources.

To lessen the possibility of fuel switching by industrial customers, we offer flexible contract terms and additional services, such as gas storage and balancing. Partially offsetting the impact of this price sensitivity among certain large industrial customers has been the use of natural gas to reduce emissions from their plants. We cannot predict the future stability of natural gas prices nor can we make any assurances that the impact of environmental legislation or any special services we offer will outweigh the negative effects of gas price volatility. Should these customers convert their requirements to another form of energy, our revenue could be reduced.

Our liquidity and earnings could be adversely affected by the MPSC's retrospective review of our gas procurement practices.

Pricing for our gas distribution services are governed in Michigan by an MPSC-approved gas cost recovery, or GCR, pricing mechanism and in Alaska by an RCA-approved gas cost adjustment, or GCA, pricing mechanism. Both of these pricing mechanisms are designed so that, in the absence of any cost disallowances, our cost of gas purchased is passed-through to our customers and, therefore, we do not recognize any income on the gas commodity charge portion of customer rates. In both jurisdictions, these pricing mechanisms allow for the adjustment of rates charged to customers for increases and decreases in the cost of gas purchased by us for sale to customers.

In our gas distribution area regulated by the MPSC, our gas procurement practices are subject to an annual MPSC review. If costs are then disallowed, such costs would be expensed in the cost of gas but would not be recovered by us in rates. The ability of the MPSC to annually retrospectively review our gas procurement practices creates the potential for the disallowance of our recovery through the rates we charge of some or all of our costs of purchasing gas. Such a disallowance could affect our liquidity and earnings.

Declining production from the Cook Inlet gas fields may result in potential deliverability problems in ENSTAR's service area.

ENSTAR's Anchorage area gas supply system is not linked to major interstate and intrastate pipelines or natural gas supplies in other states or Canada. As a result, ENSTAR procures natural gas supplies under long-term RCA-approved contracts from producers in and near the Cook Inlet area. Production from the Cook Inlet gas fields is declining and new discoveries have been modest. As of January 1, 2004, the Cook Inlet area had approximately 2.1 trillion cubic feet, or Tcf, of total proved natural gas reserves according to the most recently available information contained in the Alaska Department of Natural Resources Division of Oil and Gas 2004 Annual Report. Based on the Department's reported 2003 net production of 208 billion cubic feet, or Bcf, there is a reserve life of approximately 10 years, although shortages of daily deliverability could occur earlier. There is ongoing exploration for natural gas in the Cook Inlet area by several parties, including producers that have supply contracts with ENSTAR. The United States Geological Survey and Minerals Management Service has estimated that the Cook Inlet area contains another approximately 2.3 Tcf of undiscovered natural gas, but there are no assurances that any of this natural gas will be discovered and, if discovered, can be produced economically.

ENSTAR has been active in efforts to extend its supply of Cook Inlet gas and to find other gas sources. In addition, preliminary activity by other energy industry participants is underway to finance, permit and build a natural gas pipeline that would extend from Alaska's North Slope, through Alaska and Canada, to the lower 48 states. Assuming this pipeline is built, the flow of natural gas through it could not be expected to begin before the middle of the next decade, at the earliest. We can provide no assurances, however, with respect to the building of this pipeline, when it will be put in service, or whether natural gas supplies transported by the pipeline would be available to ENSTAR customers.

Changes in our regulatory environment and recent events in the energy markets that are beyond our control may reduce our profitability and limit our access to capital markets.

Our rates and operations in our gas distribution business are subject to regulation by various federal, state and local regulators as well as the actions of federal, state and local legislators. As a result of the energy crisis in California during 2000 and 2001, the volatility of natural gas prices in North America, the bankruptcy filings by certain energy companies and investigations by governmental authorities into energy trading activities, the collapse in market values of energy companies and the downgrading by rating agencies of a large number of companies in the energy sector, companies in the regulated and unregulated energy businesses have generally been under an increased amount of scrutiny by federal, state and local regulators, participants in the capital markets and the rating agencies. In addition, the Financial Accounting Standards Board, or FASB, or the Securities and Exchange Commission, or SEC, could enact new accounting standards that could impact the way we are required to record revenues, assets and liabilities. We cannot predict or control what effect these types of events, or future actions of regulatory agencies in response to such events, may have on our business or our access to the capital markets.

We may be required to recognize additional impairment charges which would reduce our reported earnings.

Pursuant to generally accepted accounting principles, we are required to perform impairment tests on our goodwill balance annually or at any time when events occur, which could impact the value of our business segments. During the fourth quarter of 2004, it was determined that all of the goodwill associated with our IT services business ($0.2 million) was impaired. The $0.2 million before-tax charge for

impairment of goodwill is reflected in our Consolidated Statements of Operations for the year ended December 31, 2004, in operating expenses. During the third quarter of 2003, it was determined that all of the goodwill associated with our construction services business ($17.6 million) was impaired. The $17.6 million before-tax charge for impairment of goodwill is reflected in our Consolidated Statements of Operations for the year ended December 31, 2003, as part of the loss from the discontinued construction services business.

The 2005 annual impairment tests for our business units will be conducted during the third and fourth quarters of 2005. There were no adverse changes in the carrying amount of goodwill for the six-month period ended June 30, 2005. Our determination of whether an impairment has occurred is based on an estimate of discounted cash flows attributable to our reporting units that have goodwill. We must make long-term forecasts of future revenues, expenses and capital expenditures related to the reporting unit in order to make the estimate of discounted cash flows. These forecasts require assumptions about future demand, future market conditions, regulatory developments and other factors. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period that could substantially reduce our reported earnings in a period of such change, but not have any impact on our cash flow.

Our ability to use net operating loss carry-forwards may be impaired.

As of December 31, 2004, we had available approximately $111.0 million of net operating losses, or NOLs, with which to offset the imposition of federal income taxes with respect to our future taxable income. In 2004, we underwent an “ownership change” for purposes of section 382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change occurs whenever there is a more than 50% change in the ownership of the stock of a corporation, taking into account all cumulative changes in ownership over the preceding three years. As a result of the ownership change, our ability to use approximately $103 million of our total NOLs in the future is limited. However, we believe that, based on the size of the limitation and projections of future taxable income, we should be able to utilize the entire $111.0 million of NOLs before they expire.

The issuance of additional shares of our capital stock could ultimately trigger another ownership change that could further limit our ability to use such NOLs. While our March 2005 issuance of our Series B Preferred Stock which is convertible into common stock alone did not trigger such an ownership change, that offering when coupled with the shares offered hereby and other future changes in the ownership of our common stock (some of which will be beyond our control) will probably lead to a future ownership change. Any such future ownership change could result in the imposition of lower limits on our utilization of the NOLs to offset future taxable income as well as our ability to use certain built-in losses and tax credits. The magnitude of such limitations and their effect on us is difficult to assess and will depend in part on our value at the time of any such ownership change and prevailing interest rates at such time.

Our operations and business are subject to extensive environmental laws and regulations that may increase our cost of operations, impact or limit our business plans or expose us to environmental liabilities.

Our operations and business are subject to extensive environmental laws and regulations that relate to the environment and health and safety, including those that impose liability for the costs of investigation and cleaning up, and for damage to natural resources from, past spills, waste disposal on and off-site and other releases of hazardous materials or regulated substances. In particular, under applicable environmental requirements, we may be responsible for the investigation and remediation of environmental conditions at currently owned or leased sites, as well as formerly owned, leased, operated or used sites. We may be subject to associated liabilities, including liabilities resulting from lawsuits brought by private litigants, related to the operations of our facilities or the land on which our facilities are located, regardless or whether we lease or own the facility, and regardless of whether such environmental conditions were created

by us or by a prior owner or tenant, or by a third-party or a neighboring facility whose operations may have affected our facility or land.

Given the nature of the past operations conducted by us and others at our properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where environmental site assessments or other investigations have been conducted. Changes in existing laws or policies or their enforcement, future spills or accidents or the discovery of currently unknown contamination may give rise to environmental liabilities which may be material. Based upon the information presently available to us, we expect to incur costs associated with investigatory and remedial actions at seven of our Michigan sites that were formerly manufactured gas plant operations. Because the extent of the soil and groundwater contamination at these sites has not been fully delineated and the scope of our liability (along with other responsible parties, if any) has not been determined, it is difficult for us to estimate the full extent of our liability at this time. However, it is possible that our share of such liability could be material. To the extent not fully recoverable from our customers through regulatory rate proceedings or from insurance recoveries, these costs would reduce our earnings and could harm our business.

Compliance with the requirements and terms and conditions of the environmental licenses, permits and other approvals that are required for the operation of our business may cause us to incur substantial capital costs and operating expenses and may impose restrictions or limitations on the operation of our business, all of which could be substantial. Environmental health and safety regulations may also require us to install new or updated pollution control equipment, modify our operations or perform other corrective actions at our facilities. Existing environmental laws and regulations may be revised to become more stringent or new laws or regulations may be adopted or become applicable to us which may result in increased compliance costs or additional operating restrictions and could reduce our earnings and harm our business, particularly if those costs are not fully recoverable from our customers through regulatory rate proceedings.

Substantial operational risks are involved in operating a natural gas distribution, pipeline and storage system and such operational risks could reduce our revenues and increase our expenses.

There are substantial risks associated with the operation of a natural gas distribution, pipeline and storage system, such as operational hazards and unforeseen interruptions caused by events beyond our control. These include adverse weather conditions, accidents, the breakdown or failure of equipment or processes, the performance of pipeline facilities below expected levels of capacity and efficiency and catastrophic events such as explosions, fires, earthquakes, floods, landslides or other similar events beyond our control. These risks could result in injury or loss of life, extensive property damage, business interruption or environmental pollution, which in turn could lead to substantial financial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks. Liabilities incurred that were not fully covered by insurance could adversely affect our results of operation and financial condition. Additionally, interruptions to the operation of our gas distribution, pipeline or storage system caused by such an event could reduce revenues generated by us and increase our expenses.

Our ability to grow our businesses will be adversely affected if we are not successful in making acquisitions or in integrating the acquisitions we have made.

One of our strategies is to grow through acquisitions. There is significant competition for acquisitions in the U.S. natural gas industry and we believe that there are numerous potential acquisition candidates, some of which represent opportunities that would be material to us. We cannot assure you that we will find attractive acquisition candidates in the future, that we will be able to acquire such candidates on economically acceptable terms, that any acquisitions will not be dilutive to earnings or that any additional debt incurred to finance acquisitions will not impair our capitalization.

In addition, the restructuring of the energy markets in the United States and internationally, including the privatization of government-owned utilities and the sale of utility-owned assets, is creating opportunities for, and competition from, well-capitalized existing competitors as well as new entrants to the markets, which may affect our ability to achieve our business strategy.

To the extent we are successful in making acquisitions, such acquisitions can involve a number of risks including the assumption of material liabilities, the terms and conditions of any state or federal regulatory approvals required for the acquisitions, the diversion of management's attention from the management of daily operations to the integration of operations, difficulties in the assimilation and retention of employees and difficulties in the assimilation of different cultures and practices, as well as in the assimilation of geographically dispersed personnel and operations. The failure to successfully make and integrate acquisitions could have an adverse affect on our business, financial condition and results of operations.

As of December 31, 2004, we had a material weakness in our internal control over financial reporting and we restated certain annual and interim financial statements to correct the amounts originally reported for basic and diluted earnings per share from continuing operations, diluted average common shares outstanding, and comprehensive income (loss) for the year 2004 as well as for the second, third and fourth quarters of 2004; other material weaknesses in our internal control over financial reporting in the future could adversely affect the market price for our common stock.

On May 6, 2005, our management, after a review of the pertinent facts with the Audit Committee of our Board of Directors, concluded that our previously issued financial statements for the year ended December 31, 2004 contained in our Annual Report on Form 10-K and our interim period financial statements for 2004 contained in the Quarterly Reports on Form 10-Q for the quarters ended June 30, 2004 and September 30, 2004, should no longer be relied upon with respect to certain matters. We determined that it was necessary to restate our earnings per share from continuing operations, the number of diluted average common shares outstanding, and comprehensive income (loss) for the 2004 periods contained in those reports. The restatement was required to correct errors arising from our accounting for dividends on our convertible preference stock in the calculation of basic and diluted earnings per share from continuing operations and in the calculation of comprehensive income (loss). The reported amounts of income from continuing operations, losses from discontinued operations, and net income (loss) available to common shareholders for the year 2004 were correct as reported and were not restated. The amounts for basic and diluted earnings per share from net income (loss) available to common shareholders for the year 2004 and the amounts for basic and diluted earnings per share from discontinued operations for the year 2004 were correct as reported in the original filing and were not restated.

We filed an amended Annual Report on Form 10-K/A and amended Quarterly Reports on Form 10-Q/A on May 10, 13 and 16, 2005, to correct the errors. In connection with the restatement, we revised our report on internal control over financial reporting, which is included in our Form 10-K/A, to disclose a material weakness as of December 31, 2004, in our internal control over financial reporting with respect to the accounting for dividends on our preference stock as it relates to the calculation of earnings per share from continuing operations and the calculation of comprehensive income (loss). As a consequence of the identification of this material weakness, we concluded that our internal control over financial reporting was not effective as of December 31, 2004.

In May 2005, we took corrective actions to remediate the material weakness identified above. These corrective actions included the design, documentation and testing of additional controls over the preparation and review of these calculations. As a result of these corrective actions, we believe we have taken steps necessary to remediate the material weakness identified above. However, we cannot assure you that there will not be any other material weaknesses in future periods. If any significant or material weaknesses exist in our internal control in the future, such weaknesses could adversely affect our ability to provide timely and reliable financial information necessary for the conduct of our business and satisfaction of our reporting obligations under federal securities laws, and could cause investors to lose confidence in our reported financial information, with a resulting adverse effect on the market price of our common stock.

Risks Relating to Our Common Stock

The terms of our recently issued Series B Preferred Stock include disincentives for us to pay dividends on our common stock.

In March 2005, we issued 350,000 shares of Series B Preferred Stock, liquidation preference of $200 per share. We are required to pay dividends on our Series B Preferred Stock in cash and we are prohibited from paying cash dividends on our common stock (or any other capital stock that ranks on a parity with our Series B Preferred Stock) unless we are current in the payment of all of our dividends on the Series B Preferred Stock. Furthermore, even where permitted, the payment of such dividends on our common stock would have the effect of increasing by a formula amount the number of shares (and decreasing the conversion price) of our common stock into which the shares of our outstanding Series B Preferred Stock can be converted. While we are permitted to redeem the shares of Series B Preferred Stock on or after February 20, 2010, we are prohibited from doing so before that date. As we discuss further below, on June 24, 2004, we suspended the quarterly cash dividend on our common stock.

Certain of our indentures and our existing credit agreement contain terms that limit us from paying dividends on our preferred stock and our common stock and we currently do not pay cash dividends on our common stock.

Certain of our existing indentures prohibit us from making payments of cash dividends on our capital stock if our fixed charge ratio (as defined therein) is lower than 2:1. We currently do not meet this ratio. However, these indentures allow us to make cash dividend payments of up to $13.5 million per year even if we do not meet these tests.

Under our existing credit agreement, we are prohibited from paying dividends and other distributions on our capital stock unless the aggregate amount of such dividends and other restricted payments does not exceed the sum of $12.0 million plus 80% of our consolidated net income as calculated thereunder. As of June 30, 2005, we are permitted to pay dividends in an aggregate amount of approximately $6.1 million. Our existing credit agreement expires on September 23, 2005, and there are no guarantees that we will be successful in negotiating a new credit facility with equal or more favorable terms permitting the payment of cash dividends.

On June 24, 2004, we suspended the quarterly cash dividend on our common stock. This decision reflects our desire to retain cash in order to strengthen our balance sheet, enhance our financial flexibility and to become better positioned to grow our natural gas distribution business. The payment of future cash dividends will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, our future business prospects and any contractual restrictions on such payments.

Third parties may be deterred or prohibited from acquiring our capital stock, which could deprive our shareholders of the opportunity to gain a takeover premium and depress our stock price.

Certain provisions of our organizational documents, as well as other statutory and regulatory factors, may have the effect of discouraging or preventing others from acquiring large blocks of our common stock, or making it difficult to do so, including the following:

- our articles of incorporation divide the Board into three classes that serve staggered terms;
- our directors may be removed only for cause and by the affirmative vote of a majority of the shares entitled to vote in the election of directors; and
- our Shareholder’s Rights Plan grants our common shareholders the right to purchase shares of our Series A Preference Stock upon the occurrence of certain triggering events (the purpose of the plan is to ensure that any potential purchaser of the company must negotiate with our Board before an acquisition).

In addition, the acquisition or accumulation of large blocks of our voting securities may require prior approval of the RCA and may result in the acquiring entity becoming subject to the jurisdiction of and regulation of the RCA, and notwithstanding the repeal of the Public Utility Holding Company Act of 1935, to other state or federal regulation as a public utility holding company. These consequences would result in substantial increases in that entity's administrative, legal and regulatory compliance costs and could have similar adverse consequences for us.

You may experience dilution if and when we issue common stock upon the conversion of our Series B Preferred Stock.

Our shares of Series B Preferred Stock are convertible into shares of our common stock at any time, at the option of the holder, unless we have redeemed or purchased those shares. In March 2005, the initial conversion rate was 26.1438 shares of our common stock per share of Series B Preferred Stock, which represents a conversion price of approximately $7.65 per share of common stock. The conversion rate and price are subject to adjustment in certain circumstances. We initially reserved for issuance 23.5 million shares of our common stock, which, pursuant to a formula, is the maximum number of shares we could potentially issue upon the conversion of the Series B Preferred Stock. The maximum number of shares issuable upon conversion can occur only in the event of a Fundamental Change (as defined) and only if the Market Value (as defined) of the Company's common stock on the effective date of the Fundamental Change is $3.00 per share or less. In that circumstance, the holders of the Series B Preferred Stock have a one-time option, exercisable during a period of not less than 30 nor more than 60 days commencing on the third business day after the effective date of the Fundamental Change, to convert their shares of Series B Preferred Stock at an adjusted conversion price of $3.00 per share.

On or after February 20, 2010, we may redeem the Series B Preferred Stock in whole or in part and we are obligated to redeem for cash all outstanding shares of the Series B Preferred Stock on February 20, 2015. Should holders of our Series B Preferred Stock exercise their right and convert their shares into shares of our common stock, we will immediately issue shares common stock which will then be freely tradeable upon issuance. Such issuances by us could have a dilutive effect on your shares of common stock.

The price of our securities may be affected by the general perception of the energy and utility sectors of the economy.

Events which have occurred and may in the future occur in the United States and elsewhere could adversely affect investors' perceptions of the energy and utility sectors. A negative perception of our industry by investors could adversely affect the equity prices of companies within the energy and utility sectors. We cannot predict what news or events might affect the perceptions of investors in our industry or how such news or events might affect the market price of our common stock, but fluctuations in the market price of our common stock could be severe and any effects could be long-term.

Risks Relating to Our Indebtedness

Our existing bank credit agreement is set to expire in September 2005. To the extent we are unable to obtain a new bank credit facility, our results of operation and financial results could be adversely affected.

Our existing bank credit agreement is set to expire on September 23, 2005. At June 30, 2005, there was approximately $12.3 million in letters of credit outstanding on our credit facility and no borrowings outstanding, leaving approximately $88.5 million of our bank credit agreement unused. Historically, our borrowings under our bank credit facilities are highest during the fourth quarter. In order to continue to provide working capital to finance our operations in the future, we are in the process of negotiating a new bank credit facility. We can make no assurance that we will be able to obtain a new bank credit facility on

appropriate terms. If we are unable to finalize a new bank credit facility, or do so on appropriate terms, our business, results of operations, liquidity and financial condition could be adversely affected.

Our debt indentures and current bank credit agreement governing our existing debt contain restrictive covenants that may reduce our flexibility in our business operations and limit our growth.

The terms of the indentures relating to certain of our outstanding debt securities and of our bank credit agreement impose significant restrictions on our ability and, in some cases, the ability of our subsidiaries, to take a number of actions that we may otherwise desire to take, including:

- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;
- requiring us to meet certain financial tests, which may affect our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limiting our ability to sell assets, make investments or acquire assets of, or merge or consolidate with, other companies;
- limiting our ability to repurchase or redeem our stock or enter into transactions with our stockholders or affiliates;
- limiting our ability to grant liens, incur additional indebtedness or contingent obligations or obtain additional financing for working capital, capital expenditures, acquisitions and general corporate and other activities; and
- detracting from our ability to successfully withstand a downturn in our business or the economy generally.

These covenants place constraints on our business and may adversely affect our growth, business, results of operations, liquidity and financial condition. Our failure to comply with any of the financial covenants in our current credit agreement or in any future credit facility we may negotiate may result in an event of default which, if not cured or waived, could result in the acceleration of the debt under the applicable credit facility or the indentures governing our outstanding debt issuances that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness, which could result in a material adverse effect on our business, results of operation, liquidity and financial condition.

Adverse changes in our credit ratings may limit our access to capital, increase our cost of capital, increase the cost of maintaining certain contractual relationships or otherwise have a material adverse effect on our business, results of operation, liquidity and financial condition.

Since March 2003, Moody’s Investors Service, Inc. has reduced the credit rating on our senior unsecured debt from Baa3 to Ba2. Since June 2003, Standard & Poor’s Ratings Group has lowered our corporate credit rating from BBB- to BB-. In addition, on March 10, 2005, we were informed that Moody’s Investors Service, Inc. changed its outlook from “stable” to “negative.” These downgrades have required us to pay higher interest rates for financing, increasing our cost of capital. Any additional downgrades could further increase our capital costs and limit our pool of potential investors and funding sources, possibly increasing our costs of operations or requiring us to use a higher percentage of our available borrowing capacity for ordinary course purposes.

Further credit downgrades could also negatively affect the terms on which we can purchase gas and pipeline capacity. As a result of the prior downgrades noted above, four of the pipelines we utilize have required prepayment for their services, one gas supplier has required us to pay multiple times in the month of delivery and other gas suppliers have requested prepayment or letters of credit. We cannot assure you that customers and other suppliers will not impose additional requirements or restrictions on the conduct of our business.

We cannot assure you that any of our current credit ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency. Any downgrade could adversely affect our business, results of operations, liquidity and financial condition.

Our substantial indebtedness may reduce our profitability, limit our growth and diminish our ability to respond to changing economic conditions.

Our business is capital intensive and we have significant amounts of debt. At June 30, 2005, we had total short and long-term debt of $488.1 million. Our substantial debt may adversely affect our business, results of operations, liquidity and financial condition. For example, our substantial debt may:

- limit our ability to borrow additional funds;
- increase the cost of any future debt that we incur;
- reduce cash flow from operations available for working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage as compared to our competitors that are less highly leveraged;
- result in a downgrade in our credit ratings; or
- diminish our ability to successfully withstand a downturn in our business or the economy generally.

Our ability to meet our debt service obligations and to reduce our total indebtedness will depend upon our future performance, which will be subject to weather, general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our bank credit agreement, our existing debt and debt securities, on commercially reasonable terms or at all.

Despite our substantial indebtedness, we may still be able to incur more debt which could further exacerbate the risks associated with our substantial debt.

Although we are presently limited in incurring additional indebtedness, we may be able to incur additional debt in the future. Restrictions applicable to us on the incurrence of additional debt contained in the indentures and bank credit agreement governing our existing debt are subject to a number of qualifications and exceptions that allow us to incur additional debt. An increase in the amount of our indebtedness may negatively affect our capital structure and credit ratings. If new debt is added to our current debt levels, the risks that we now face could intensify.

We are vulnerable to interest rate risk with respect to our debt which could lead to an increase in interest expense.

We are subject to interest rate risk in connection with the issuance of variable and fixed-rate debt. In order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed and variable-rate interest payment obligations over the life of the arrangements, without exchange of the underlying principal amounts. We cannot assure you that we will be successful in structuring such swap agreements to effectively manage our risks. If we are unable to do so, our earnings may be reduced.

FORWARD-LOOKING STATEMENTS

Statements made in this prospectus supplement and other documents we file with the Securities and Exchange Commission, or SEC, that relate to future events or our expectations, projections, estimates, intentions, goals, targets and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including without limitation, statements about our outlook, beliefs, plans, goals, and expectations, are forward-looking statements. In addition, forward-looking statements generally can be identified by use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- the effects of weather and other natural phenomena;
- the economic climate and growth in the geographical areas where we do business;
- the capital intensive nature of our business;
- increased competition within the energy industry as well as from alternative forms of energy;
- the timing and extent of changes in commodity prices for natural gas and propane;
- the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates;
- the adequacy of authorized rates to compensate us for the cost of doing business, including the cost of capital, and the amount of any cost disallowances;
- our ability to procure our gas supply on reasonable credit terms;
- our ability to remain in compliance with our debt covenants and accomplish our financing objectives in a timely and cost-effective manner;
- our ability to maintain an effective system of internal control;
- our ability to execute our strategic plan effectively, including the ability to make acquisitions and investments on reasonable terms and the reasonableness of any conditions imposed on those transactions by governmental and regulatory agencies;
- our ability to conclude litigation and other dispute resolution proceedings on reasonable terms; and
- changes in the performance of certain assets, which could impact the carrying amount of our existing goodwill.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus supplement, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this prospectus supplement and our reports filed with the SEC and incorporated by reference herein that attempt to advise interested parties of the risks and factors that may affect our business.

For a detailed discussion of the important factors that affect us and that could cause actual results to differ from those expressed or implied by our forward-looking statements, please see “Risk Factors” above and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Quantitative and Qualitative Disclosure About Market Risk” contained in certain of the documents incorporated by reference in this prospectus supplement.

USE OF PROCEEDS

Our net proceeds from the sale of the 4,300,000 shares of common stock will be approximately $26.1 million, or approximately $30.0 million if the underwriters exercise their over-allotment option in full, based on a price to the public of $6.32 per share and after deducting the underwriting commission. We will pay the expenses of this offering that are estimated to be $300,000, or $320,000 if the underwriters exercise their over-allotment option in full, from available cash or a borrowing under our short-term bank credit facility.

We intend to use the net proceeds from this offering to redeem $26,088,950 in aggregate principal amount of our outstanding 10.25% Subordinated Notes, held by the Trust. We will pay the accrued and unpaid interest on the 10.25% Subordinated Notes with available cash or a borrowing under our short-term bank credit facility. We will send the notice of the redemption promptly following the closing of this offering. The Trust, in turn, will use the proceeds from the redemption to redeem $25,306,275 of 10.25% Cumulative Trust Preferred Securities held by the public and $782,675 of the Trust's common securities held by us. As of the date of this prospectus supplement, there is $30,927,850 aggregate principal amount outstanding of the 10.25% Subordinated Notes. To the extent the underwriters exercise any of their option to purchase 645,000 additional shares to cover over-allotments, we will use net proceeds therefrom to redeem an equivalent amount of principal of our 10.25% Subordinated Notes.

PRICE RANGE OF OUR COMMON STOCK

Our common stock is traded on the New York Stock Exchange under the symbol "SEN". The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock as reported on the consolidated reporting system of the New York Stock Exchange.

	Sales Price	
	High	Low
2003:		
First Quarter	$ 6.20	$ 3.15
Second Quarter	$ 8.80	$ 3.51
Third Quarter	$ 6.64	$ 3.45
Fourth Quarter	$ 5.27	$ 4.36
2004:		
First Quarter	$ 6.38	$ 4.80
Second Quarter	$ 6.35	$ 5.00
Third Quarter	$ 5.88	$ 4.86
Fourth Quarter	$ 5.74	$ 4.50
2005:		
First Quarter	$ 6.23	$ 5.10
Second Quarter	$ 6.19	$ 5.00
Third Quarter (through August 9, 2005)	$ 6.80	$ 5.82

On August 9, 2005, the closing sale price of our common stock, as reported by the New York Stock Exchange, was $6.55 per share. On August 9, 2005, we had 28,693,491 shares of common stock outstanding, and there were 8,083 holders of record. This number of shares of common stock outstanding excludes (i) the 23.5 million shares that we have previously reserved for issuance, into which the 350,000 shares of our Series B Preferred Stock are potentially convertible, and (ii) the vested and unvested options outstanding to purchase 1.2 million shares of our common stock as of June 30, 2005 .

DIVIDEND POLICY

General

The holders of our common stock are entitled to dividends when, as and if, declared by our Board of Directors out of our surplus after full cumulative dividends on our outstanding series of preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to our preferred stock and preference stock, if any, have been satisfied. As such, our ability to pay dividends on our common stock is governed by the Certificate of Designation creating our Series B Preferred Stock, which is the only series of preferred stock or preference stock under which we have shares currently outstanding. Our ability to pay dividends on any series of our capital stock is also governed by the terms of certain of our indentures and our current credit agreement. We have not paid any dividends on our common stock since May, 2004.

Documents Designating our Series B Preferred Stock

Under the Certificate of Designation governing our Series B Preferred Stock, we must pay holders cumulative cash dividends at the rate per year of 5.00% per year (equivalent to $10.00 per annum per share, and we have 350,000 shares of Series B Preferred Stock currently outstanding). We are prohibited from paying any dividends on our common stock until all accumulated and unpaid dividends on the Series B Preferred Stock are declared and paid.

Shares of Series B Preferred Stock are convertible into shares of our common stock at any time unless we have redeemed or purchased those shares. The conversion rate is initially 26.1438 shares of our common stock per share of Series B Preferred Stock and is subject to adjustment in certain circumstances, including upon the payment of a cash dividend or distribution to all holders of our common stock. If we were to pay a cash dividend to holders of our common stock, the conversion rate for our Series B Preferred Stock would be increased, the effect being that the holder would be entitled to more shares of common stock from us in exchange for its shares of Series B Preferred Stock than it would have been before the dividend. The initial conversion price for the shares of Series B Preferred Stock was $7.65 per share. Our payment of dividends on our common stock would cause the conversion price on the Series B Preferred Stock to decrease.

Prior to February 20, 2010, the Series B Preferred Stock is not redeemable at our option. On or after February 20, 2010, we may redeem the Series B Preferred Stock in whole or in part at a purchase price equal to 100% of the liquidation preference plus accumulated and unpaid dividends to the redemption date. We are obligated to redeem for cash all outstanding shares of the Series B Preferred Stock on February 20, 2015.

Documents Governing our Outstanding Debt

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements.

Our existing bank credit agreement as set forth in the Amended and Restated Credit Agreement dated as of June 25, 2004, as amended, contains a covenant in which we promise not to make any distribution to shareholders except in certain circumstances. If no event of default or unmatured event of default exists or would result therefrom, we can pay dividends, to the extent such payments or distributions are made in shares of our capital stock. In addition, subject to certain restrictions, we may pay any dividend, payment or other distribution if the aggregate amount of such dividends, payments or other distributions under this exception made during a defined period shall not exceed the sum of $12.0 million plus, commencing on September 30, 2004, 80% of our consolidated net income for such period.

Our existing bank credit agreement is set to expire on September 23, 2005. We expect that we will enter into a new credit facility which will have a restriction on our ability to pay dividends in certain circumstances.

In addition, our Indenture dated as of May 15, 2003, and our Indenture dated as of May 21, 2003, under which we have issued senior debt securities, also limit our payment of dividends. Under these documents, we are not permitted to declare or pay any dividend or make any other payment or distribution on account of our capital stock unless:

- after giving effect thereto no default or event of default has occurred and is continuing or would occur as a consequence of the payment;
- we would have, at the time of the payment and after giving pro forma effect thereto as if the payment has been made at the beginning of the applicable four-quarter period, been permitted to incur at least $1.00 of additional indebtedness other than permitted debt per the fixed charge coverage ratio tests contained in such indentures; and
- the payment, together with the aggregate amount of all other restricted payments declared or made after the date of the indentures, do not exceed the basket for such restricted payments as this is set forth in the indentures.

These prohibitions do not apply to regular quarterly dividends on our capital stock so long as no default has occurred and is continuing or would be caused thereby, if the payment of the regular quarterly dividends does not exceed $13.5 million in any twelve-month period.

Other Considerations

On June 24, 2004, we suspended the quarterly cash dividend on our common stock. This decision was based on our desire to retain cash in order to strengthen our balance sheet, enhance our financial flexibility and to become better positioned to grow our natural gas distribution business. The payment of future cash dividends will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, our future business prospects and any contractual restrictions on such payments.

CAPITALIZATION

The following table shows our capitalization as of June 30, 2005, on an actual basis and as adjusted to give effect to our sale of 4,300,000 shares of common stock in this offering, at the public offering price of $6.32 per share, and the application of the net proceeds of the offering to redeem an equivalent amount of principal of the 10.25% Subordinated Notes. The "As Adjusted" column assumes that we will pay the accrued and unpaid interest on the 10.25% Subordinated Notes, as well as the expenses of this common stock offering, with available cash.

This table should be read in conjunction with "Use of Proceeds" herein and "Management's Discussion and Analysis of Results of Operations and Financial Condition" and our historical financial statements and the accompanying notes included in our Annual Report on Form 10-K/A and Quarterly Reports on Form 10-Q incorporated by reference in this prospectus supplement.

	As of June 30, 2005	
	Actual	As Adjusted
	(In thousands)	
Short-term bank credit facility	$ 0	$ 0
Long-term debt:		
6.50% senior notes due 2005	15,000	15,000
3.77% senior notes due 2005	92	92
6.40% senior notes due 2008	5,000	5,000
7.125% senior notes due 2008	149,044	149,044
6.49% senior notes due 2009	30,000	30,000
7.03% senior notes due 2013	10,000	10,000
7.75% senior notes due 2013	188,387	188,387
8.00% senior notes due 2016	59,606	59,606
10.25% subordinated notes due 2040	30,928	4,839
Less: Current maturities on long-term debt	15,092	15,092
Total long-term debt	472,965	446,876
Mezzanine equity:		
Series B Preferred Stock, $1 par value; 500,000 shares authorized; 350,000 shares outstanding	66,473	66,473
Stockholders' equity:		
Common stockholders' equity(1)	165,092	190,296
Total capitalization	$ 704,530	$ 703,645

(1) The "As Adjusted" amount for common stockholders' equity reflects the issuance of 4,300,000 shares of common stock in this offering, the payment from available cash of $300,000 of estimated expenses in connection with this offering, and an estimated $585,000 after-tax write-off of unamortized debt issuance costs related to the 10.25% Subordinated Notes that we will redeem with the net proceeds from this offering.

MATERIAL UNITED STATES FEDERAL INCOME AND ESTATE TAX CONSEQUENCES TO NON-UNITED STATES HOLDERS

The following is a general discussion of the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a "Non-U.S. Holder" who holds shares of our common stock as capital assets (general property held for investment). This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing and proposed Treasury regulations promulgated thereunder, judicial decisions and administrative interpretations in effect as of the date of this prospectus supplement, all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to Non-U.S. Holders in light of their particular circumstances and does not address any tax consequences relating to the purchase, ownership and disposition of our common stock arising under the laws of any state, local or non-U.S. jurisdiction.

Except as provided below in the discussion of estate tax, a "Non-U.S. Holder" is a beneficial owner that, for U.S. federal income tax purposes, is a nonresident alien individual, a foreign corporation or a foreign estate or trust. This discussion does not deal with special tax situations such as: dealers in securities or currencies, traders in securities, persons holding shares as part of a conversion, constructive sale, wash sale or other integrated transactions or a hedge, straddle or synthetic security, persons subject to the alternative minimum tax, certain United States expatriates, financial institutions, insurance companies, controlled foreign corporations, foreign personal holding companies, passive foreign investment companies and regulated investment companies and shareholders of such corporations, entities that are tax-exempt for United States federal income tax purposes and retirement plans, individual retirement accounts and tax-deferred accounts, and pass-through entities, including partnerships and entities and arrangements classified as partnerships for United States federal tax purposes and beneficial owners of pass-through entities. If a partnership holds our common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Partnerships that hold our common stock and partners in such partnerships should consult their tax advisors.

Prospective holders should consult their tax advisors as to the particular tax consequences applicable to them of purchasing, holding and disposing of our common stock, including the applicability of U.S. federal, state or local tax laws or non-U.S. tax laws and any pending or proposed legislation or regulations.

Dividends

Subject to the discussion below, distributions, if any, made to a Non-U.S. Holder of our common stock out of our current or accumulated earnings and profits generally will constitute dividends for U.S. tax purposes and will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. To obtain a reduced rate of withholding under a treaty, a Non-U.S. Holder generally will be required to provide us or a withholding agent with a properly-executed IRS Form W-8BEN certifying the Non-U.S. Holder's entitlement to benefits under that treaty. Treasury Regulations provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, dividends paid to a Non-U.S. Holder that is an entity should be treated as paid to the entity or to those holding an interest in that entity. To the extent those distributions exceed our current and accumulated earnings and profits, they will constitute a return of capital and will first reduce your basis in our common stock, but not below zero, and then will be treated as gain from the sale of stock.

There will be no withholding tax on dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States if a properly-executed IRS Form W-8ECI, stating that the dividends are so connected, is filed with us or the withholding agent. Instead, the effectively connected dividends will be subject to U.S. federal income tax, generally in the same manner as if the Non-U.S. Holder were a U.S. citizen, resident or domestic corporation, as the case may be, unless otherwise provided in an applicable income tax treaty. A corporate Non-U.S. Holder also could be subject to a "branch profits tax" on effectively connected dividend income

at a rate of 30% (or such lower rate as may be specified by an applicable treaty). If you are eligible for a reduced rate of U.S. federal withholding tax pursuant to a tax treaty but fail to provide the necessary Form W-8, you may obtain a refund of any excess amounts withheld if you timely file an appropriate claim for refund with the U.S. Internal Revenue Service.

Gain on disposition of common stock

A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of our common stock unless (i) the gain is effectively connected with such Non-U.S. Holder's conduct of trade or business in the United States and a specific treaty exemption does not apply to eliminate the tax, or if a tax treaty would otherwise apply to eliminate the tax, the gain is attributable to a permanent establishment of the Non-U.S. Holder in the United States, (ii) such Non-U.S. Holder is an individual present in the United States for 183 or more days in the taxable year of the sale or disposition and certain other conditions are met, or (iii) we are or have been a "United States real property holding corporation" within the meaning of section 897(c)(2) of the Code at any time within the shorter of the five-year period preceding such sale or disposition or the period that such Non-U.S. Holder actually or constructively held our common stock and either (1) such Non-U.S. Holder held directly or indirectly more than five percent of our common stock at some time during this period or (2) our common stock has ceased to be regularly traded on an established securities market. We believe that we are not, and do not anticipate becoming, a United States real property holding corporation. In addition, in the event we become a United States real property holding corporation and a Non-U.S. Holder held more than five percent of our common stock during the period described above, there can be no assurance that our common stock will continue to qualify as regularly traded on an established securities market.

If you are a Non-U.S. Holder described in (i) or (iii) above, you will be required to pay tax on the net gain derived from the sale at regular graduated U.S. federal income tax rates, and corporate Non-U.S. Holders described in (i) above may be subject to the branch profits tax at a 30% rate or a lower rate under an applicable income tax treaty. If you are a Non-U.S. Holder described in (ii) above, you will be required to pay a flat 30% tax (or reduced rate under an applicable income tax treaty) on the gain derived from the sale, which gain may be offset by U.S. source capital losses (even though you are not considered a resident of the United States).

Information reporting requirements and backup withholding

Generally, we must report to the U.S. Internal Revenue Service the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or certain other agreements, the U.S. Internal Revenue Service may make its reports available to tax authorities in the recipient's country of residence.

Information reporting and backup withholding tax (at a rate equal to 28% through 2010 and 31% after 2010) will apply to payments made to a Non-U.S. Holder on or with respect to our common stock and proceeds from the sale or other disposition (including a redemption) of our common stock, unless the Non-U.S. Holder certifies as to its status as a non-U.S. holder under penalties of perjury or otherwise establishes an exemption, and certain other conditions are satisfied. The certification procedures required to claim a reduced rate of withholding under a treaty will satisfy the certification requirements necessary to avoid backup withholding tax as well. Any amounts withheld under the backup withholding rules from a payment to a Non-U.S. Holder will be allowed as a refund or a credit against such Non-U.S. Holder's U.S. federal income tax liability, provided that the required procedures are followed.

Federal estate tax

An individual who at the time of death is a non-U.S. holder as specifically defined for U.S. federal estate tax purposes and who is treated as the owner of, or has made certain lifetime transfers of, an interest in our common stock will be required to include the value thereof in his gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

Current U.S. federal tax law provides for reductions in U.S. federal estate tax through 2009 and the elimination of such estate tax entirely in 2010. Under this law, such estate tax would be fully reinstated, as in effect prior to the reductions, in 2011, unless further legislation is enacted.

UNDERWRITING

Under the terms and subject to the conditions contained in an underwriting agreement dated August 9, 2005, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston LLC is acting as representative, the following respective numbers of shares of common stock:

Underwriter	Number of Shares
Credit Suisse First Boston LLC	3,332,500
Natexis Bleichroeder Inc.	645,000
A.G. Edwards & Sons, Inc.	322,500
Total	4,300,000

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro rata basis up to 645,000 additional shares at the public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus supplement and to selling group members at that price less a selling concession of $0.1517 per share. The underwriters and selling group members may allow a discount of $0.10 per share on sales to other broker/dealers. After the initial public offering the representative may change the public offering price and concession and discount to broker/dealers.

The following table summarizes the compensation and estimated expenses we will pay:

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting Discounts and Commissions paid by us	$ 0.2528	$ 0.2528	$ 1,087,040	$ 1,250,096
Expenses payable by us	$ 0.0698	$ 0.0647	$ 300,000	$ 320,000

For a period of 90 days after the date of this prospectus supplement, as may be extended or reduced as described below, which we refer to as the lock-up period, we have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge or disposition, without the prior written consent of Credit Suisse First Boston LLC, except (i) issuances of our common stock pursuant to the conversion or exchange of convertible or exchangeable securities or the exercise of warrants or options, in each case outstanding on the date hereof, (ii) issuances of our common stock or grants of employee stock options pursuant to the terms of certain of our plans, and (iii) issuances of our common stock pursuant to the exercise of such employee stock options. In addition, without the prior written consent of Credit Suisse First Boston LLC, we will not file with the SEC, or publicly disclose the intention to make any such filing of, a registration statement under the Securities Act of 1933, as amended (the “Securities Act”), other than (x) registration statements on Form S-8, (y) registration statements in connection with the our outstanding registration rights agreement with respect to the Series B Preferred Stock and (z) registration statements on Form S-4 or registration statements related to offerings in which the stated use of proceeds is the acquisition of another business or substantially all of the assets of another business. The initial lock-up period may be reduced if Credit Suisse First Boston LLC consents in writing. If (1) during the last 17 days of the initial lock-up period, we release earnings results or material news or a material event

relating to us occurs or (2) prior to the expiration of the initial lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the initial lock-up period, then in each case the lock-up period will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the occurrence of the material news or material event, as applicable, unless Credit Suisse First Boston LLC waives, in writing, such extension; provided, however, that if after any announcement described in clause (2) of this sentence, we announce that we will not release earnings results during the 16-day period beginning on the last day of the initial lock-up period, the lock-up period shall expire at the later of the initial lock-up period end date and the end of any extension of the lock-up period pursuant to clause (1) of this sentence.

Our directors and officers, as that term is defined under Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), have agreed that, subject to certain exceptions, during the lock-up period, they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of shares of our common stock, whether any of these transactions are to be settled by delivery of shares of our common stock or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston LLC. In addition, they agree that, without the prior written consent of Credit Suisse First Boston LLC, they will not, during the lock-up period, make any demand for or exercise any right with respect to, the registration of any shares of our common stock or any security convertible into or exercisable or exchangeable for shares of our common stock.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in that respect.

We will apply to list the shares of common stock on the New York Stock Exchange, under the symbol "SEN".

In connection with the offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over- allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

In the ordinary course of business, certain of the underwriters and their affiliates have provided and may in the future provide financial advisory, investment banking and general financing and banking services for us and our affiliates for customary fees.

A prospectus supplement and accompanying prospectus in electronic format may be made available on the web sites maintained by one or more of the underwriters, or selling group members, if any, participating in this offering and one or more of the underwriters participating in this offering may distribute the prospectus supplement and accompanying prospectus electronically. The representative may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters and selling group members that will make internet distributions on the same basis as other allocations.

The shares of common stock are offered for sale in those jurisdictions in the United States, Europe and elsewhere where it is lawful to make such offers.

In particular, each underwriter has represented and agreed that:

- the common stock is being issued and sold outside the Republic of France and that, in connection with its initial distribution, it has not offered or sold and will not offer or sell, directly or indirectly, any common stock to the public in the Republic of France, and that it has not distributed and will not distribute or cause to be distributed to the public in the Republic of France this prospectus or any other offering material relating to the common stock, and that such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (investisseurs qualifiés) in accordance with Article L.411-2 of the Monetary and Financial Code and decrét no. 98-880 dated 1st October, 1998.

- (i) it has not offered or sold, and will not offer or sell, the shares to any investors in Switzerland other than on a non-public basis; (ii) this prospectus does not constitute a prospectus within the meaning of Article 652a and Art. 1156 of the Swiss Code of Obligations (*Schweizerisches Obligationenrect*); and (iii) neither this offering nor the shares has been or will be approved by any Swiss regulatory authority.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent, and
- the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action — Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus supplement during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us in the event that this prospectus supplement contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

The validity of the issuance of the common stock will be passed upon for us by Dykema Gossett PLLC. Certain other legal matters will be passed upon for us by Troutman Sanders LLP and Mark Prendeville, our Deputy General Counsel. Certain legal matters will be passed upon for the underwriters by Proskauer Rose LLP.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K/A for the year ended December 31, 2004 have been so incorporated in reliance on the report (which contains an adverse opinion on the effectiveness of internal control over financial reporting and an explanatory paragraph relating to the restatement of our financial statements as described in Note 16 to the financial statements) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Such reports and other information can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including us that file electronically at http://www.sec.gov. In addition, reports and other material concerning SEMCO can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with the SEC (File No. 001-15565). This permits us to disclose important information to you by referring to these filed documents. We incorporate by reference:

- our Annual Report on Form 10-K and Form 10-K/ A for the year ended December 31, 2004, filed on March 8, 2005 and May 10, 2005, respectively;
- our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005 and June 30, 2005, filed on May 10, 2005 and August 3, 2005, respectively;
- our Current Reports on Form 8-K filed on January 3, 2005, January 25, 2005, February 18, 2005, March 9, 2005, March 10, 2005, March 17, 2005, March 23, 2005, March 30, 2005, April 1, 2005, April 21, 2005, May 9, 2005, June 21, 2005, July 1, 2005 and August 3, 2005; and
- the description of our common stock in our Registration Statement on Form 8-A (registration number 001-15565) under Section 12(b) of the Exchange Act, filed on December 21, 1999.

All documents filed by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the initial filing of the registration statement and prior to the effectiveness of the registration statement and subsequent to the date of this prospectus supplement and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus supplement and made a part of this prospectus supplement from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus supplement shall be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus

supplement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement. Information in any of our Current Reports on Form 8-K furnished under "Results of Operations and Financial Condition" shall not be incorporated by reference into this prospectus supplement.

You may request a copy of these filings at no cost by writing or telephoning us at the following address:

SEMCO Energy, Inc.
1411 Third Street, Suite A
Port Huron, Michigan 48060
(810) 987-2200
Attn: Corporate Secretary

PROSPECTUS

$150,000,000



Debt Securities
Common Stock
Preferred Stock
Stock Purchase Contracts
Stock Purchase Units

SEMCO Capital Trust III

Trust Preferred Securities and
Related Guarantees

We may offer from time to time up to an aggregate of $150,000,000 of our securities. We will provide specific terms of our securities, including their offering prices, in supplements to this prospectus. The supplements may also add, update or change information contained in this prospectus. You should read this prospectus and any supplements carefully before you invest. This prospectus may not be used to sell any of these securities unless accompanied by a prospectus supplement.

Our common stock is listed on the New York Stock Exchange and trades under the symbol "SEN".

We may offer these securities directly or through underwriters, agents or dealers. The supplements to this prospectus will describe the terms of any offering of these securities, including any underwriting arrangements. See also "Plan of Distribution" on page 35 of this prospectus.

Our principal executive offices are located at 1411 Third Street, Suite A, Port Huron, Michigan 48060, and our telephone number is (810) 987-2200.

See the discussion of risk factors contained in our periodic reports filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, which are incorporated by reference in this prospectus, to read about certain factors you should consider before purchasing any of the securities being offered.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 3, 2005

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we and our trust have filed with the Securities and Exchange Commission, or the SEC, using a "shelf" registration, or continuous offering, process. Under this shelf registration process, we may sell the securities or combinations of the securities described in this prospectus in one or more offerings up to a maximum aggregate offering price of $150,000,000.

This prospectus provides you with a general description of the securities that we may offer. Each time we offer any of the securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and the prospectus supplement, you should rely on the information in the prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under the heading "Where You Can Find More Information."

For more detailed information about the securities, you can read the exhibits to the registration statement of which this prospectus is a part. Those exhibits have been either filed with the registration statement or with our other SEC filings incorporated by reference in the registration statement.

You should rely only on the information contained in, or incorporated by reference in, this prospectus and any prospectus supplement. We have not, and any underwriters, agents or dealers have not, authorized anyone else to provide you with different information. We are not, and any underwriters, agents or dealers are not, making an offer of these securities or soliciting offers to buy these securities in any state where the offer or solicitation is not permitted. You should not assume that the information contained in this prospectus and any prospectus supplement is accurate as of any date other than the date on the front of such document or that the information incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date of filing of that document incorporated by reference. Our business, financial position, results of operations and prospects may have changed since those dates.

Unless the context indicates otherwise, all references in this prospectus to "SEMCO," "we," "us" and "our" refer to SEMCO Energy, Inc.

WHERE YOU CAN FIND MORE INFORMATION

SEMCO and SEMCO Capital Trust III have filed with the SEC a combined registration statement on Form S-3 containing this prospectus (the "Registration Statement," which term encompasses any amendments of the Registration Statement and exhibits to the Registration Statement) under the Securities Act of 1933 (the "1933 Act"). As permitted by the rules and regulations of the SEC, this prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, to which reference is made. We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "1934 Act"), and, in accordance with the 1934 Act, file reports and other information with the SEC. Such reports and other information can be inspected and copied at the public reference facilities of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including us that file electronically at http://www.sec.gov. In addition, reports and other material concerning SEMCO can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with the SEC (File No. 001-15565). This permits us to disclose important information to you by referring to these filed documents. We incorporate by reference:

- our Annual Report on Form 10-K and Form 10-K/A for the year ended December 31, 2004, filed on March 8, 2005 and May 10, 2005, respectively;
- our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2005 and June 30, 2005, filed on May 10, 2005 and August 3, 2005, respectively;
- our Current Reports on Form 8-K filed on January 3, 2005, January 25, 2005, February 18, 2005, March 9, 2005, March 10, 2005, March 17, 2005, March 23, 2005, April 1, 2005, April 21, 2005, May 9, 2005, June 21, 2005 and July 1, 2005; and
- the description of our common stock in our Registration Statement on Form 8-A (registration number 001-15565) under Section 12(b) of the Exchange Act, filed on December 21, 1999.

All documents filed by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the 1934 Act subsequent to the date of the initial filing of the Registration Statement and prior to the effectiveness of the Registration Statement and subsequent to the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus and made a part of this prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may request a copy of these filings at no cost by writing or telephoning us at the following address:

SEMCO Energy, Inc.
1411 Third Street, Suite A
Port Huron, Michigan 48060
(810) 987-2200

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this prospectus and other documents we file with the SEC that relate to future events or our expectations, projections, estimates, intentions, goals, targets and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including without limitation, statements about our outlook, beliefs, plans, goals, and expectations, are forward-looking statements. In addition, forward-looking statements generally can be identified by use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- the effects of weather and other natural phenomena;
- the economic climate and growth in the geographical areas where we do business;
- the capital intensive nature of our business;
- increased competition within the energy industry as well as from alternative forms of energy;

- the timing and extent of changes in commodity prices for natural gas and propane;
- the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates;
- the adequacy of authorized rates to compensate us for the cost of doing business, including the cost of capital, and the amount of any cost disallowances;
- our ability to procure our gas supply on reasonable credit terms;
- our ability to remain in compliance with our debt covenants and accomplish our financing objectives in a timely and cost-effective manner;
- our ability to maintain an effective system of internal control;
- our ability to execute our strategic plan effectively, including the ability to make acquisitions and investments on reasonable terms and any conditions imposed on those transactions by governmental and regulatory agencies;
- our ability to conclude litigation and other dispute resolution proceedings on reasonable terms; and
- changes in the performance of certain assets, which could impact the carrying amount of our existing goodwill.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this prospectus and our reports filed with the SEC and incorporated by reference herein that attempt to advise interested parties of the risks and factors that may affect our business.

For a detailed discussion of the important factors that affect us and that could cause actual results to differ from those expressed or implied by our forward-looking statements, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Risk Factors”, and “Quantitative and Qualitative Disclosure About Market Risk” contained in certain of the documents incorporated by reference in this prospectus.

SEMCO ENERGY, INC.

We are a public utility company headquartered in southeastern Michigan. Our primary business is a regulated natural gas distribution business with operations in Michigan and Alaska. Founded in 1950, we have historically conducted diversified, non-utility businesses in addition to our natural gas distribution business. Beginning in 2003, our Board of Directors decided to focus our efforts on our core natural gas distribution business. This shift in strategic focus prompted efforts to market our discontinued construction services business, which was sold in September 2004. Our gas distribution business accounted for approximately 98% of our consolidated revenues in 2004.

We purchase, transport, distribute and sell natural gas to approximately 398,000 customers in Michigan and Alaska. Our Michigan gas operations are known as SEMCO Gas and our Alaskan operations are known as ENSTAR. As of December 31, 2004, we had 160 miles and 393 miles of gas transmission pipelines and 5,529 miles and 2,527 miles of gas distribution mains and service lines in SEMCO Gas and ENSTAR, respectively. Our customer base includes residential, commercial and industrial customers, of which approximately 90% are residential. Our largest customers include power plants, food production facilities, paper processing plants, furniture manufacturers, a liquefied natural gas plant, a fertilizer plant and others in a variety of industries. Although our average annual gas usage per customer has decreased slightly over the past few years, our average number of customers continues to grow at a favorable rate when compared to industry averages.

Our executive offices are located at 1411 Third Street, Suite A, Port Huron, Michigan 48060, and our telephone number is (810) 987-2200.

Gas Distribution Business

Our gas distribution business has two primary components: gas sales and gas transportation. Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. Revenues from gas sales accounted for approximately 91% of consolidated operating revenues in 2004 and approximately 90% of consolidated operating revenues in both 2003 and 2002. Our gas distribution business also provides transportation services to its large-volume commercial and industrial customers. This service offers those customers the option of purchasing natural gas directly from third-party suppliers. The gas purchased by customers from third-party suppliers is then transported on our gas transmission and distribution network to the customers.

SEMCO Gas, one of our divisions, provides natural gas and associated services to a diverse customer base of approximately 280,000 residential, commercial and industrial customers in Michigan. Our largest concentration of customers is in southeastern Michigan, where we have approximately 117,000 customers. Our average number of customers in Michigan increased by an average of approximately 1.6% annually during years 2002 through 2004.

ENSTAR consists of ENSTAR Natural Gas Company, one of our divisions; Alaska Pipeline Company, or APC, one of our subsidiaries; and Norstar Pipeline Company, a subsidiary of APC. ENSTAR provides natural gas distribution services to approximately 118,000 customers in the Anchorage metropolitan and adjoining areas, and its service area encompasses over 50% of the population of Alaska. Our average number of customers in Alaska increased by an average of approximately 3.2% annually during the last three years. According to 2003 data supplied by the American Gas Association, ENSTAR also has one of the highest consumption levels of natural gas per residential customer among investor-owned utilities in the United States. APC's transmission system delivers natural gas from producing fields in south central Alaska to ENSTAR's Anchorage-area gas distribution system. APC's only customer is ENSTAR. Norstar began operations in 2002 and provides pipeline management and pipeline construction management services to non-affiliate customers in Alaska.

Other Businesses

We also own and operate other businesses that generally complement our gas distribution business, consisting of information technology services, propane distribution, intrastate natural gas pipelines and natural gas storage facilities. These businesses generated approximately 2% of our consolidated revenues in 2004.

We maintain a website on the Internet at address http://www.semcoenergy.com. We make available free of charge on or through our website, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC. This reference to our Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into any of our filings with the SEC. The information available at our Internet address is not part of this prospectus or any other report filed by us with the SEC. The information we file with the SEC can also be obtained on the SEC's website on the Internet at address http://www.sec.gov.

THE TRUST

We created a Delaware business trust pursuant to a trust agreement executed by us as sponsor for the trust on November 23, 1999, appointed trustees for the trust and filed a certificate of trust for the trust with the Delaware Secretary of State. The trust is named SEMCO Capital Trust III, which we refer to herein as the "trust." The amended and restated trust agreement for the trust (as so amended and restated, the "trust agreement"), which is filed as an exhibit to the Registration Statement of which this prospectus forms a part, states the terms and conditions for the trust to issue and sell its trust preferred

securities and trust common securities, which we refer to herein, together with the trust preferred securities, as the trust securities. The trust will exist solely to:

- issue and sell its trust securities;
- use the proceeds from the sale of its trust securities to purchase and hold a series of our debt securities;
- maintain its status as a grantor trust for federal income tax purposes; and
- engage in other activities that are necessary or incidental to these purposes.

We will purchase all of the trust common securities of the trust. The trust common securities will represent an aggregate liquidation amount equal to at least 3% of the trust's total capitalization. The trust common securities will have terms substantially identical to, and will rank equal in priority of payment with, the trust preferred securities. However, if we default on the subordinated debt securities, then cash distributions and liquidation, redemption and other amounts payable on the trust common securities will be subordinate to the trust preferred securities in priority of payment.

We will guarantee the trust preferred securities as described later in this prospectus.

The trust's business and affairs will be conducted by the trustees (the "trustees") appointed by us, as holder of the trust common securities. The duties and obligations of the trustees will be governed by the trust agreement. Pursuant to the trust agreement, the number of trustees will initially be four. Two of the trustees (the "Administrative Trustees") are persons who are our employees or officers of or affiliated with us. The third trustee is a corporation which maintains a principal place of business in the State of Delaware that will serve for the sole purpose of complying with certain Delaware laws (the "Delaware Trustee"). The fourth trustee is a financial institution unaffiliated with us which will serve as property trustee under the trust agreement and as indenture trustee for purposes of the Trust Indenture Act (the "Property Trustee"). Chase Bank USA, National Association acts as the Delaware Trustee and J.P. Morgan Trust Company, National Association as the Property Trustee, in each case until removed or replaced by the holder of the trust common securities. The Property Trustee also acts as indenture trustee under the indenture and guarantee trustee under the Trust Guarantee (the "Guarantee Trustee"). See "Description of the Trust Guarantee." We, as the holder of all the trust common securities, will have the right to appoint, remove or replace any trustee and to increase the number of trustees, provided that the number of trustees will be at least three, two of which will be the Administrative Trustees.

The Property Trustee will hold title to the subordinated debt securities for the benefit of the holders of the trust securities, and will have the power to exercise all rights, powers and privileges as the holder of the subordinated debt securities under the indenture pursuant to which the subordinated debt securities are issued. In addition, the Property Trustee will maintain exclusive control of a segregated non-interest bearing bank account to hold all payments made in respect of the subordinated debt securities for the benefit of the holders of the trust securities. The Property Trustee will make payments of distributions and payments on liquidation, redemption and otherwise to the holders of the trust securities out of funds from the property account. The Guarantee Trustee will hold the guarantee by us of the trust securities for the benefit of the holders of the trust preferred securities.

In addition, unless the Property Trustee maintains a principal place of business in the State of Delaware, and otherwise meets the requirements of applicable law, another trustee of the trust, the Delaware Trustee, will either be a natural person who is a resident of the State of Delaware or an entity which has its principal place of business or resides in the State of Delaware. We have appointed Chase Bank USA, National Association as Delaware Trustee. We will pay all fees and expenses related to the trust and any offering of the related trust preferred securities and will pay all ongoing costs and expenses of the trust, except the trust's obligations under the related trust securities.

The rights of the holders of the trust preferred securities, including economic rights, rights to information and voting rights, are set forth in the trust's trust agreement and the Delaware Business Trust Act, as amended, and the Trust Indenture Act. The principal place of business of the trust is

c/o SEMCO Energy, Inc., 1411 Third Street, Suite A, Port Huron, Michigan 48060, and its telephone number is 810-987-2200.

RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratios of earnings to fixed charges and earnings to combined fixed charges and preference dividends for the periods indicated.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Ratio of Earnings to Fixed Charges(a)	1.06	(c)	1.46	1.17	1.54
Ratio of Earnings to Combined Fixed Charges and Preference Dividends(a)	(b)	(c)	1.46	1.17	1.54

(a) "Earnings" is defined as Income (loss) before income taxes, dividends on trust preferred securities, discontinued operations and extraordinary items plus fixed charges as defined plus distributed earnings of equity investees less reported earnings of equity investees less preference securities dividend requirements of consolidated subsidiaries. "Fixed charges" is defined as interest expensed and capitalized plus amortization of debt costs and debt basis adjustments plus estimate of interest within rental expense plus preference securities dividend requirements of consolidated subsidiaries. "Preference dividends" is defined as preference dividends divided by one minus the effective income tax rate applicable to continuing operations.

(b) For 2004, the ratio of earnings to combined fixed charges and preference dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $3.4 million.

(c) For 2003, the ratios of earnings to fixed charges and earnings to combined fixed charges and preference dividends were less than 1:1. The amount of earnings that would be required to attain ratios of 1:1 was approximately $8.0 million.

USE OF PROCEEDS

Except as may otherwise be set forth in a prospectus supplement, the proceeds from the sale of these securities may be used to retire outstanding debt, to finance a portion of our capital expenditures, to finance strategic investments in, or future acquisitions of, other entities or their assets, and for other general corporate purposes.

DESCRIPTION OF CAPITAL STOCK

Our total authorized capital stock consists of (a) 500,000 shares cumulative preferred stock, par value of $1.00 per share, (b) 3,000,000 shares of preference stock, and (c) 100,000,000 shares of common stock, par value $1.00 per share. At August 3, 2005 there were outstanding 28,688,957 shares of common stock. We have a series of our preferred stock designated as the 5.00% Series B Convertible Cumulative Preferred Stock, of which 350,000 shares were outstanding at August 3, 2005. We also currently have Series A Preference Stock with the number of shares constituting such series set at 2,000,000. The Series A Preference Stock is reserved for issuance pursuant to our Shareholder Rights Plan, but no shares are currently outstanding. We also have a series of preference stock designated 6% Series B Convertible Preference Stock consisting of 70,000 shares, of which none are issued and outstanding. The following description of our capital is qualified in its entirety by reference to our articles of incorporation and bylaws and the laws of the State of Michigan. You should carefully review our articles of incorporation and bylaws which are filed as exhibits to the Registration Statement of which this prospectus is a part for a complete description.

Common Stock

Voting Rights. The holders of common stock are entitled to one vote for each share on all matters voted upon by our shareholders and, subject to any voting rights of the holders of the preferred stock and preference stock described below, the holders of such shares currently possess all voting power. Our articles of incorporation provide for cumulative voting for the election of our directors.

Preemptive Rights. No holder of common stock has any preemptive right to subscribe to any additional securities which we may issue.

Liquidation Rights. Subject to the preferential rights of holders of our preferred stock and preference stock, upon our liquidation the holders of our common stock are entitled to share on a pro rata basis in our net assets which remain after satisfaction of all liabilities.

Listing. Our common stock is listed on the New York Stock Exchange under the symbol "SEN."

Transfer Agent and Registrar. National City Bank is the transfer agent and registrar for our common stock.

Dividend Rights. The holders of common stock are entitled to dividends when, as and if, declared by the Board of Directors out of our surplus after full cumulative dividends on the preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to each series of the preferred stock and preference stock then outstanding, if any, have been satisfied.

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements.

Our credit facility as set forth in the Amended and Restated Credit Agreement dated as of June 25, 2004, as amended, contains a covenant in which we promise not to make any distribution to shareholders except in certain circumstances. If no event of default or unmatured event of default exists or would result therefrom, we can pay dividends, payments or distributions to the extent that they are payable in shares of our capital stock. In addition, we may pay any dividend, payment or other distribution if:

- the aggregate amount of such dividends, payments or other distributions under this exception made during the period from and after March 31, 2004, to and including the date of the making of the dividend, payment or other distribution in question shall not exceed the sum of $12.0 million plus, commencing on September 30, 2004, 80% of our consolidated net income for such period, as calculated in the credit facility; and

- immediately after giving effect to such dividend, payment or other distribution, no event of default or unmatured event of default exists or will have occurred and be continuing and we, after giving effect on a pro forma basis to the payment of such dividends or distributions, are in compliance with all of our financial covenants in the credit facility.

In addition, our Indenture dated as of May 15, 2003, and our Indenture dated as of May 21, 2003, under both of which we have issued senior debt securities, also limits our payment of dividends. Under these documents, we are not permitted to declare or pay any dividend or make any other payment or distribution on account of our capital stock unless:

- after giving effect thereto no default or event of default has occurred and is continuing or would occur as a consequence of the payment;

- we would have, at the time of the payment and after giving pro forma effect thereto as if the payment has been made at the beginning of the applicable four-quarter period, been permitted to incur at least $1.00 of additional indebtedness other than permitted debt per the fixed charge coverage ratio tests contained in such indentures; and

- the payment, together with the aggregate amount of all other restricted payments declared or made after the date of the indentures, do not exceed the basket for such restricted payments as this is set forth in the indentures.

These prohibitions do not apply to regular quarterly dividends on our capital stock so long as no default has occurred and is continuing or would be caused thereby, if the payment of the regular quarterly dividends does not exceed $13,500,000 in any twelve-month period.

Preferred Stock

The Board of Directors is authorized, without further action by shareholders, to issue preferred stock, in one or more series, from time to time, with such rights and preferences as may be provided in a resolution adopted by the Board of Directors. The authority of the Board includes, but is not limited to, the determination or fixing of the following with respect to shares of such class or any series thereof:

(a) the rate of dividends and the extent of further participation in dividend distribution, if any;

(b) the price at and the terms and conditions on which the shares are redeemable;

(c) the amount payable upon shares in event of voluntary or involuntary liquidation;

(d) sinking fund provisions for the redemption or purchase of shares; and

(e) the terms and conditions on which shares are convertible.

The terms of each series of preferred stock will be described in any prospectus supplement related to such series of preferred stock and may include the following:

(a) the title and stated value of such preferred stock;

(b) the number of shares of such preferred stock offered and the offering price and liquidation preference per share of such preferred stock;

(c) the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to such preferred stock;

(d) the date from which dividends on such preferred stock shall accumulate, if applicable;

(e) the provision for a sinking fund, if any, for such preferred stock;

(f) the provision for redemption, if applicable, of such preferred stock;

(g) any listing of such preferred stock on any securities exchange;

(h) a discussion of federal tax considerations applicable to such preferred stock;

(i) any voting rights of holders of such preferred stock;

(j) any other specific terms, preferences, rights, limitations or restrictions of such preferred stock;

(k) the relative ranking and preference of such preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

(l) any limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and

(m) the terms and conditions, if applicable, upon which such preferred stock will be convertible into or participate in dividends, if any, paid on the common stock, including the conversion price (or manner of calculation thereof).

In the event of our liquidation or dissolution, the holders of preferred stock are entitled to receive a fixed amount for each series before any distribution is made to the holders of common stock or preference stock.

As long as any preferred stock remains outstanding, we may not purchase any shares of our common stock or purchase or redeem any preference stock. As long as any preferred stock remains outstanding, we may not without the consent of the holders of at least two-thirds of the outstanding preferred stock authorize any class of stock having a priority or preference over or ranking on a parity with the preferred stock as to dividends or distribution of assets or amend the provisions of our articles of incorporation that would adversely affect the rights of holders of the preferred stock.

If at any time we fail to declare and pay or set apart for payment in full eight quarterly dividends (whether or not consecutive) on all of the outstanding preferred stock, then the holders of the outstanding preferred stock shall have the right, voting as a single class irrespective of series, to elect such number of our directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors, and such right shall continue (and may be exercised at any annual or other meeting of shareholders for the election of directors) until we shall have paid or declared and set apart for payment all accrued dividends on the preferred stock for all past quarterly dividend periods. At April 4, 2005, 350,000 shares of preferred stock were outstanding.

5.00% Series B Convertible Cumulative Preferred Stock. In March 2005, the Board of Directors created a series of preferred stock designated as the "5.00% Series B Convertible Cumulative Preferred Stock" with the number of shares constituting such series at 350,000. The Series B preferred stock pays dividends at the rate of 5.00% per annum. Dividends are payable quarterly in cash on each February 15, May 15, August 15 and November 15, commencing on May 15, 2005, when, as and if declared by our Board of Directors. Dividends will be paid in arrears and will accumulate and be cumulative from the date of the issuance of the Series B preferred stock. Accumulated dividends on the Series B preferred stock will compound quarterly.

The Series B preferred stock has a liquidation preference of $200 per share, plus accumulated and unpaid dividends, and is convertible at the holder's option at any time at an initial conversion rate of 26.1438 shares of our common stock per $200 liquidation preference, which represents an initial conversion price of approximately $7.65 per share of common stock. The Series B preferred stock will rank with respect to dividend rights and rights upon our liquidation, winding-up or dissolution (i) senior to all of our common stock and preference stock and to each other class of capital stock or series of preferred stock issued in the future (unless the terms of that stock expressly provide that it ranks senior to, or on a parity with, the Series B preferred stock), (ii) on parity with any class of capital stock or series of preferred stock established after the issue date of the Series B preferred stock which expressly provides that such class or series will rank on parity with the preferred stock, and (iii) junior to all of our capital stock issued in the future the terms of which expressly provide that such stock will rank senior to the Series B preferred stock.

We may redeem the Series B preferred stock for cash after February 20, 2010, at an initial redemption price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends to the date of redemption. The Series B preferred stock is mandatorily redeemable for cash on February 20, 2015, at a redemption price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends to the date of redemption.

If certain specified "fundamental changes" occur prior to February 20, 2010, we may be required to pay a make-whole premium on the Series B preferred stock converted in connection with the fundamental change. The make-whole premium will be payable in shares of our common stock or the consideration into which the common stock has been converted or exchanged in connection with the fundamental change. The amount of the make-whole premium, if any, will be based on the stock price and the effective date of the fundamental change. A "fundamental change" will be deemed to have occurred if (1) certain transactions occur as a result of which there is a change of control of SEMCO Energy; or (2) our common stock ceases to be listed on a national securities exchange or quoted on The Nasdaq National Market or another established automated over-the-counter trading market in the United States.

Except as required by Michigan law and our articles of incorporation, which include the Certificate of Designation for the Series B preferred stock, the holders of Series B preferred stock will have no voting

rights unless dividends payable on the Series B preferred stock are in arrears for eight or more quarterly periods. In that event, the holders of the Series B preferred stock, voting as a single class with the shares of any other preferred stock having similar voting rights, will be entitled at the next regular or special meeting of our shareholders to elect such number of directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors. These voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the Series B preferred stock has been paid in full. The affirmative consent of holders of at least 66^{2} /3% of the outstanding Series B preferred stock, voting as a single class with any other preferred stock, will be required for the issuance of any class or series of stock (or security convertible into stock) ranking senior to, or on parity with, the Series B preferred stock and for amendments to our articles of incorporation that would adversely affect the rights of holders of the Series B preferred stock.

Preference Stock

The Board of Directors has the authority to divide the 3,000,000 shares of preference stock into series and, within the limitations set forth in the laws of the State of Michigan and in the articles of incorporation, to fix and determine the relative rights and preferences of the shares of any series so established. The preference stock ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, except to the extent that a specific series of preferred stock provides otherwise.

Series A Preference Stock. In January, 1997, the Board of Directors created a series of preference stock designated as Series A Preference Stock with the number of shares constituting such series set at 2,000,000. The Series A Preference Stock is reserved for issuance pursuant to a Shareholder Rights Plan, but no shares of Series A Preference Stock are currently outstanding. See “Anti-Takeover Provisions – Shareholder Rights Plan.”

If Series A Preference Stock was outstanding, dividends would accrue and be cumulative in an amount per share per quarter equal to the greater of (i) $10.00 or (ii) the Adjustment Number (as defined below) times the per share amount of all cash dividends, and the Adjustment Number times the per share amount (payable in kind) of all non-cash dividends or other distributions (other than a dividend payable in shares of common stock or a subdivision of the shares of common stock), declared on the common stock since the preceding quarterly dividend payment date, or, if later, since the issuance or such Series A Preference Stock. Upon our liquidation or dissolution, the holders of Series A Preference Stock are entitled to receive $100 per share plus all accrued and unpaid dividends. The Series A Preference Stock is not redeemable and ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, unless the terms of any series provides otherwise.

If Series A Preference Stock was outstanding, a holder of Series A Preference Stock would be entitled to the number of votes equal to the Adjustment Number times the number of votes to which a holder of common stock is entitled. Except as otherwise provided below or by law, Series A Preference Stock and common stock shall vote together as one class on all matters submitted to a vote of the holders of common stock.

If any dividends on Series A Preference Stock shall be in arrears for six or more quarterly dividends, a “default period” shall begin. The default period shall end when all accrued dividends shall have been paid or set apart for payment. During a default period, the holders of Series A Preference Stock shall have the right to elect two directors. This vote shall be as a class for all series of preference stock entitled to vote. Our articles of incorporation initially set the Adjustment Number at 100. If we shall (i) pay any dividend on common stock in shares of common stock; (ii) subdivide the common stock; or (iii) combine the common stock into a smaller number of shares, the Adjustment Number shall be modified by multiplying it by a fraction, the numerator of which is the number of shares of common stock outstanding immediately after such event and the denominator of which is the number of shares of common stock outstanding immediately prior to such event.

Series B Preference Stock. On March 19, 2004, the Board of Directors created a new series of preference stock designated as the "6% Series B Convertible Preference Stock" consisting of 70,000 shares. On March 15, 2005, we repurchased from K-1 GHM, LLLP, or K-1, a Delaware limited liability limited partnership and an affiliate of k1 Ventures Limited, all of the then-outstanding and issued shares (52,542.94) of the 6% Series B Convertible Preference Stock and warrants to purchase 905,565 shares of our common stock for an aggregate purchase price of $60 million.

Direct Stock and Dividend Reinvestment Plan

We sponsor a direct stock purchase and dividend reinvestment plan under which investors may purchase shares of common stock without paying brokerage fees and other expenses. Under the plan, the plan administrator may purchase common stock in the open market, through private transactions or from us. If shares are purchased on the open market, or through private transactions, the price of the shares purchased through the plan will be the weighted average price paid in the stock market for the particular investment date. If the plan administrator purchases shares from us, the price paid for those shares will be the average of the closing prices on the three trading days prior to the purchase date as quoted on the New York Stock Exchange. We initially reserved 2,000,000 shares of common stock for issuance under the plan. As of April 4, 2005, 1,479,833 shares were available for issuance under the plan.

Anti-Takeover Provisions

Articles of Incorporation. The following provisions of our articles of incorporation may delay, deter or prevent a person from acquiring us or changing control of the Board of Directors. Our articles of incorporation divide the Board into three classes with staggered terms; each director is elected for a three year term. Approximately one-third of the Board positions are filled by a shareholder vote each year. Directors may be removed but only for cause, at an annual meeting of shareholders and by the affirmative vote of a majority of the shares then entitled to vote for the election of directors. In addition to requirements imposed under Chapters 7A and 7B of the Michigan Business Corporation Act, or the MBCA, our articles of incorporation provide that a business combination cannot occur unless a written opinion is obtained from an independent investment banker that the consideration to be paid to our shareholders is fair and reasonable; provided, however, the directors may waive this requirement. Our articles of incorporation also contain provisions limiting the personal liability of directors.

Anti-Takeover Statutes. We are subject to Chapter 7A of the MBCA, which provides that business combinations subject to Chapter 7A between a covered Michigan corporation or any of its subsidiaries and a beneficial owner of shares entitled to 10% or more of the voting power of such corporation generally require the affirmative vote of 90% of the votes of each class of stock entitled to vote, and not less than $^{2}/_{3}$ of the votes of each class of stock entitled to vote (excluding voting shares owned by such 10% owner), voting as a separate class. Such requirements do not apply if (a) the corporation's Board of Directors approves the transaction prior to the time the 10% or more owner becomes such or (b) the transaction satisfies certain fairness standards, certain other conditions are met and the 10% owner has been such for at least five years. Chapter 7A business combinations include, among other transactions, mergers, significant asset transfers, certain disproportionate issuances of shares to an interested shareholder, certain reclassifications and recapitalizations disproportionately favorable to such shareholder, and the adoption of a plan of liquidation or dissolution in which such a shareholder would receive anything other than cash. Chapter 7A does not restrict the purchase of shares from other shareholders in the open market, through private transactions or acquired through a tender offer. In addition to the requirements imposed by Chapter 7A of the MBCA, a business combination subject to Chapter 7A of the MBCA may not be effected without first obtaining the written opinion of an independent investment banker to the effect that the consideration to be paid to our shareholders is fair and reasonable.

Control Share Statute. We are subject to Chapter 7B of the MBCA, which provides that control shares of a public company acquired in a control share acquisition have no voting rights except as granted by resolution approved by the shareholders of the company. The effect of the statute is to condition the acquisition of voting control of a corporation on the approval of a majority of pre-existing, disinterested

shareholders. “Control shares” are outstanding shares which, but for Chapter 7B, when added to all other shares owned by a person or in respect to which that person may exercise or direct the exercise of voting power, would entitle that person, directly or indirectly, acting alone or in a group, to exercise or direct the exercise of the voting power of the public corporation in the election of directors within any of the following ranges of voting power:

- one-fifth or more but less than one-third,
- one-third or more but less than a majority, or
- a majority.

The shareholder resolution conferring voting rights on control shares must be approved by both

- a majority of the votes cast by the holders of shares entitled to vote thereon, and if the proposed control share acquisition would, if fully carried out, result in any action which would require a vote as a class or series, by a majority of the votes cast by the holders of shares of each such class or series entitled to vote thereon; and
- a majority of the votes cast by the holders of shares entitled to vote and a majority of the votes cast by the holders of shares of each class or series entitled to vote as a class or series, excluding all interested shares (which are shares owned by the acquiror and certain officers and employee directors).

No such approval is required, however, for gifts or other transactions not involving consideration, for a merger to which the corporation is a party or for certain other transactions described in Chapter 7B. Although control shares include, for the purpose of determining whether the thresholds have been met, shares beneficially owned by persons acting as a group, the formation of a group does not constitute a control share acquisition of shares held by members of the group.

Under Chapter 7B, in the event that our shareholders approve full voting rights for the control shares acquired in a control share acquisition and the acquiring person has acquired a majority of all voting power of the corporation, our shareholders (other than the acquiring person) would have dissenters’ rights to receive the “fair value” of their shares from the corporation. In addition, upon meeting certain conditions enumerated in Article XII of our bylaws, control shares acquired in a control share acquisition are redeemable for their fair value at our option during certain periods specified in Chapter 7B. For each of these purposes, “fair value” is defined as a value not less than the highest per share price paid by the acquiring person in the control share acquisition.

Shareholder Rights Plan. In January 1997, we adopted a Shareholder’s Rights Plan pursuant to which 2,000,000 shares of Series A Preference Stock are reserved under the plan for sale to holders of common stock. The common stock currently trades with a right to purchase such Series A Preference Stock. The right is intended to protect shareholders in the event of an unsolicited attempt to acquire us and becomes exercisable upon the occurrence of certain triggering events. The right is transferred automatically with the transfer of the common stock until separate rights certificates are distributed upon the occurrence of certain events. The right could have the effect of delaying, deferring or preventing a person from acquiring us or accomplishing a change in control of the Board of Directors. See “Description of Capital Stock – Preference Stock – Series A Preference Stock.”

DESCRIPTION OF DEBT SECURITIES

General

Our senior debt securities and subordinated debt securities (collectively, for purposes of this section of the prospectus, the “Debt Securities”), consisting of notes, debentures and other evidence of indebtedness may be issued from time to time in one or more series, in the case of the Senior Debt Securities, under an indenture, dated as of October 23, 1998, as supplemented from time to time (the “Senior Indenture”)

between us and J.P. Morgan Trust Company, National Association, as trustee (the "Senior Indenture Trustee"), and in the case of the Subordinated Debentures, under an indenture, dated as of April 19, 2000, as supplemented from time to time (the "Subordinated Indenture"), between us and J.P. Morgan Trust Company, National Association, as trustee (the "Subordinated Indenture Trustee"). The term "Indenture Trustee," as used herein, shall refer to the Senior Indenture Trustee or the Subordinated Indenture Trustee, as appropriate. The Senior Indenture and the Subordinated Indenture being sometimes referred to herein collectively as the "Indentures," and individually as an "Indenture," are filed, as exhibits to the Registration Statement to which this prospectus is a part and are available for inspection at the corporate trust offices of the Senior Indenture Trustee and the Subordinated Indenture Trustee, or as described under "Available Information." The Indentures are subject to and governed by the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act" or "TIA").

The following statements relating to the Debt Securities and the Indentures are summaries of the provisions thereof and do not purport to be complete and are qualified in their entirety by reference to the Indentures and the Debt Securities. All section references herein are to sections of the Indentures, and capitalized terms used but not defined herein shall have the respective meanings set forth in the Indentures and the Debt Securities. The Subordinated Debentures are further described under "Additional Description of Subordinated Debentures to be Issued to Trust" below.

Terms

The Debt Securities will be our direct, unsecured obligations. The indebtedness represented by the Senior Debt Securities will rank on a parity with all our other unsecured and unsubordinated indebtedness. At March 31, 2005, we had approximately $456.5 million in outstanding debt that would rank equally with the Senior Debt Securities. The indebtedness represented by the Subordinated Debentures will be subordinated in right of payment to the prior payment in full of all our existing and future Senior Indebtedness, as described below under "Subordination." At March 31, 2005, we had approximately $41.2 million in outstanding debt that would rank equally with the Subordinated Debentures. On March 31, 2005, we announced that $10.3 million of Subordinated Debentures would be redeemed on April 29, 2005.

Each Indenture provides that the Debt Securities may be issued without limit as to aggregate principal amount, in one or more series, in each case as established from time to time by our Board of Directors or as established in one or more indentures supplemental to such Indenture. Debt Securities may be issued with terms different from those of Debt Securities previously issued. All Debt Securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the holders of the Debt Securities of such series, for issuances of additional Debt Securities of such series (Section 301 of each Indenture).

Each Indenture provides that there may be more than one Indenture Trustee thereunder, each with respect to one or more series of Debt Securities. Any Indenture Trustee under either Indenture may resign or be removed with respect to one or more series of Debt Securities, and a successor Indenture Trustee may be appointed to act with respect to such series (Section 608 of each Indenture). In the event that two or more persons are acting as Indenture Trustee with respect to different series of Debt Securities, each such Indenture Trustee shall be an Indenture Trustee of the trust under the applicable Indenture separate and apart from the trust administered by any other Indenture Trustee (Section 609 of each Indenture), and, except as otherwise indicated herein, any action described herein to be taken by an Indenture Trustee may be taken by each such Indenture Trustee with respect to, and only with respect to, the one or more series of Debt Securities of which it is Indenture Trustee under the applicable Indenture.

The prospectus supplement relating to the series of Debt Securities being offered will contain the specific terms thereof, including, without limitation:

(a) the title and any series of such Debt Securities and whether such Debt Securities are Senior Debt Securities or Subordinated Debentures;

(b) the aggregate principal amount of such Debt Securities and any limit on such principal amount;

(c) the percentage of the principal amount at which such Debt Securities will be issued and, if other than the principal amount thereof, the portion of the principal amount thereof payable upon declaration of acceleration of the maturity thereof;

(d) the date or dates, or the method for determining such date or dates, on which the principal of such Debt Securities will be payable and the amount of principal payable thereon;

(e) the rate or rates (which may be fixed or variable) at which such Debt Securities will bear interest, if any, or the method by which such rate or rates shall be determined, the date or dates, or the method for determining such date or dates, from which any such interest will accrue, the dates on which any such interest will be payable, the record dates for such interest payment dates, or the method by which such dates shall be determined, the persons to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;

(f) the place or places where the principal of (and premium, if any) and interest, if any, on such Debt Securities will be payable, where such Debt Securities may be surrendered for registration of transfer or exchange and where notices or demands to or upon us in respect of such Debt Securities and the applicable Indenture may be served;

(g) if applicable, whether the interest payment periods may be extended by us and, if so, the terms of any such extension;

(h) the period or periods within which, the price or prices at which, and other terms and conditions upon which such Debt Securities may be redeemed, as a whole or in part, at our option, if we are to have such an option;

(i) our obligation, if any, to redeem, repay or purchase such Debt Securities pursuant to any sinking fund or analogous provision or at the option of a holder thereof, and the period or periods within which or the date or dates on which, the price or prices at which, and other terms and conditions upon which such Debt Securities will be redeemed, repaid or purchased, as a whole or in part, pursuant to such obligation;

(j) whether the amount of payments of principal of (and premium, if any) or interest, if any, on such Debt Securities may be determined with reference to an index, formula or other method and the manner in which such amounts shall be determined;

(k) provisions, if any, granting special rights to the holders of such Debt Securities upon the occurrence of such events as may be specified;

(l) any deletions from, modifications of or additions to the Events of Default or our covenants with respect to such Debt Securities, whether or not such Events of Default or covenants are consistent with the Events of Default or covenants set forth in the applicable Indenture;

(m) whether such Debt Securities will be issued in certificated or book-entry form;

(n) whether such Debt Securities will be in registered or bearer form and, if in registered form, the denominations thereof if other than $1,000 and any integral multiple thereof and, if in bearer form, the denominations thereof and terms and conditions relating thereto;

(o) the applicability if any, of the defeasance and covenant defeasance provisions described herein, or any modification thereof;

(p) whether and under what circumstances we will pay any “Additional Amounts” as defined and contemplated in the applicable Indenture on such Debt Securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem such Debt Securities in lieu of making such payment; and

(q) any other terms of such Debt Securities not inconsistent with the provisions of the applicable Indenture (Section 301 of each Indenture).

The Debt Securities may provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof ("Original Issue Discount Securities"). Special U.S. federal income tax, accounting and other considerations applicable to Original Issue Discount Securities will be described in the applicable prospectus supplement.

Except as set forth below under "Certain Covenants" and as may be set forth in any prospectus supplement, the Indentures will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of Debt Securities protection in the event of a highly leveraged or similar transaction involving us or in the event of a change of control. You should refer to the applicable prospectus supplement for information with respect to any deletions from, modifications of, or additions to the events of default or covenants of us that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

Denominations, Interest, Registration and Transfer

Unless otherwise described in the applicable prospectus supplement, the Debt Securities of any series issued in registered form will be issuable in denominations of $1,000 and integral multiples thereof. Unless otherwise specified in the applicable prospectus supplement, the Debt Securities of any series issued in bearer form will be issuable in denominations of $5,000 (Section 302 of each Indenture).

Unless otherwise specified in the applicable prospectus supplement, the principal of (and premium if any) and interest on any series of Senior Debt Securities will be payable at the corporate trust office of the Senior Indenture Trustee, and the principal of (and premium, if any) and interest on any series of Subordinated Debentures will be payable at the corporate trust office of the Subordinated Indenture Trustee; provided that, at our option, payment of interest on any series of Debt Securities may be made by check mailed to the address of the person entitled thereto as it appears in the applicable register for such Debt Securities or by wire transfer of funds to such person at an account maintained within the United States (Sections 301, 307 and 1002 of each Indenture).

Any interest not punctually paid or duly provided for on any interest payment date with respect to a Debt Security ("Defaulted Interest") will forthwith cease to be payable to the holder on the applicable Regular Record Date and may either be paid to the person in whose name such Debt Security is registered at the close of business on a special record date (the "Special Record Date") for the payment of such Defaulted Interest to be fixed by the Indenture Trustee, notice whereof shall be given to the holder of such Debt Security not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more completely described in the applicable Indenture (Section 307 of each Indenture).

Subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series will be exchangeable for other Debt Securities of the same series and of a like aggregate principal amount and tenor of different authorized denominations upon surrender of such Debt Securities at the corporate trust office of the applicable Indenture Trustee referred to above. In addition, subject to certain limitations imposed upon Debt Securities issued in book-entry form, the Debt Securities of any series may be surrendered for registration of transfer or exchange thereof at the corporate trust office of the applicable Indenture Trustee. Every Debt Security surrendered for registration of transfer or exchange must be duly endorsed or accompanied by a written instrument of transfer. No service charge will be made for any registration of transfer or exchange of any Debt Securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith (Section 305 of each Indenture). If the applicable prospectus supplement refers to any transfer agent (in addition to the applicable Indenture Trustee) initially designated by us with respect to any series of Debt Securities, we may at any time rescind the designation of any such transfer agent or approve a change in the location through which any such transfer agent acts, except that the trust will be required to maintain

a transfer agent in each place of payment for such series. We may at any time designate additional transfer agents with respect to any series of Debt Securities (Section 1002 of each Indenture).

Neither we nor any Indenture Trustee shall be required to (a) issue, register the transfer of or exchange Debt Securities of any series during a period beginning at the opening of business 15 days before any selection of Debt Securities of that series to be redeemed and ending at the close of business on the day of mailing of the relevant notice of redemption; (b) register the transfer of or exchange any Debt Security or portion thereof, called for redemption, except the unredeemed portion of any Debt Security being redeemed in part; or (c) issue, register the transfer of or exchange any Debt Security that has been surrendered for repayment at the option of the holder, except the portion, if any, of such Debt Security not to be so repaid (Section 305 of each Indenture).

Merger, Consolidation or Sale

The Senior Indenture provides that we will be permitted to consolidate with, or sell, lease or convey all or substantially all of its assets to, or merge with or into, any other entity provided that (a) either SEMCO shall be the continuing entity, or the successor entity (if other than SEMCO) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume payment of the principal of (and premium, if any) and interest on all of the Senior Debt Securities and the due and punctual performance and observance of all of the covenants and conditions contained in the Senior Indenture; (b) immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation of SEMCO or any subsidiary as a result thereof as having been incurred by us or such subsidiary at the time of such transaction, no Event of Default under the Senior Indenture, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Indenture Trustee (Sections 801 and 803 of the Senior Indenture). The provisions of the Subordinated Indenture regarding merger, consolidation and sale are discussed in "Additional Description of Subordinated Debentures – Consolidation, Merger and Sale" below.

Certain Covenants

Limitations on Liens

The Indentures provide that we shall not, and shall not cause or permit any subsidiary to, issue, assume or guarantee any debt secured by a lien upon any of our property or assets (other than cash) or that of such subsidiary, as applicable, without effectively providing that the outstanding Debt Securities (together with, if we so determine, any other indebtedness or obligation then existing or thereafter created ranking equally with such Debt Securities) shall be secured equally and ratably with (or prior to) such debt so long as such debt shall be so secured. The foregoing restriction on liens will not, however, apply to:

(a) liens in existence on the date of original issue of such Debt Securities;

(b) (i) any lien created or arising over any property which is acquired, constructed or created by us, or any of our Subsidiaries, but only if (A) such lien secures only principal amounts (not exceeding the cost of such acquisition, construction or creation) raised for the purposes of such acquisition, construction or creation, together with any costs, expenses, interest and fees incurred relation thereto or a guarantee given in respect thereof, (B) such lien is created or arises on or before 90 days after the completion of such acquisition, construction or creation and (C) such lien is confined solely to the property so acquired, constructed or created; or (ii) any lien to secure our debt or the debt of a subsidiary incurred in connection with a specifically identifiable project where the lien relates to and is confined to a property or properties (including, without limitation, shares or other rights of ownership in the entities which own such property or project) involved in such project and acquired by us or a subsidiary after the date of original issue of the Debt Securities of any series and the recourse of the creditors in respect of such debt is limited to any or all of such project and property (including as aforesaid);

(c) any lien securing amounts not more than 90 days overdue or otherwise being contested in good faith;

(d) (i) rights of financial institutions to offset credit balances in connection with the operation of cash management programs established for our benefit or the benefit of a subsidiary or in connection with the issuance of letters of credit for the benefit of us or a subsidiary; (ii) any lien securing our debt or the debt of a subsidiary incurred in connection with the financing of accounts receivable; (iii) any lien incurred or deposits made in the ordinary course of business, including, but not limited to, (A) any mechanics', materialmens', carriers', workmens', vendors' or other like liens and (B) any liens securing amounts in connection with workers' compensation, unemployment insurance and other types of social security; (iv) any lien upon specific items of inventory or other goods and proceeds of us or a subsidiary securing obligations of us or a subsidiary in respect of bankers' acceptances issued or created for the account of such person to facilitate the purchase, shipment or storage of such inventory or other goods; (v) any lien incurred or deposits made securing the performance of tenders, bids, leases, trade contracts (other than for borrowed money), statutory obligations, surety bonds, appeal bonds, government contracts, performance bonds, return-of-money bonds and other obligations of like nature incurred in the ordinary course of business; (vi) any lien constituted by a right of set off or right over a margin call account or any form of cash or cash collateral or any similar arrangement for obligations incurred in respect of the hedging or management of risks under transactions involving any currency or interest rate swap, cap or collar arrangements, forward exchange transaction, option, warrant, forward rate agreement, futures contract or other derivative instrument of any kind; (vii) any lien arising out of title retention or like provisions in connection with the purchase of goods and equipment in the ordinary course of business; and (viii) any lien securing reimbursement obligations under letters of credit, guaranties and other forms of credit enhancement given in connection with the purchase of goods and equipment in the ordinary course of business;

(e) liens in favor of us or a subsidiary;

(f) (i) liens on any property or assets acquired from a corporation which is merged with or into us or a subsidiary, or any liens on the property or assets of any corporation or other entity existing at the time such corporation or other entity becomes a subsidiary of us and, in either such case, is not created in anticipation of any such transaction (unless such lien is created to secure or provide for the payment of any part of the purchase price of such corporation or other entity); (ii) any lien on any property or assets existing at the time of acquisition thereof and which is not created in anticipation of such acquisition (unless such lien was created to secure or provide for the payment of any part of the purchase price of such property or assets); and (iii) any lien created or outstanding on or over any asset of any person which becomes a subsidiary on or after the date of the issuance of such Debt Securities when such lien is created prior to the date on which such person becomes a subsidiary;

(g) (i) liens required by any contract or statute in order to permit us or a subsidiary to perform any contract or subcontract made by us or it with or at the request of a governmental entity or any department, agency or instrumentality thereof, or to secure partial, progress, advance or any other payments by us or a subsidiary to such governmental unit pursuant to the provisions of any contract or statute; (ii) any lien securing industrial revenue, development or similar bonds issued by or for the benefit of us or a subsidiary; provided that such industrial revenue, development or similar bonds are nonrecourse to us or such subsidiary; and (iii) any lien securing taxes or assessments or other applicable governmental charges or levies;

(h) (i) any lien which arises pursuant to any order of attachment, distrait or similar legal process arising in connection with court proceedings and any lien which secures the reimbursement obligation for any bond obtained in connection with an appeal taken in any court proceeding, so long as the execution or other enforcement of such lien arising pursuant to such legal process is effectively stayed and the claims secured thereby are being contested in good faith and, if appropriate, by appropriate legal proceedings, or any lien in favor of a plaintiff or defendant in any action before a court or tribunal as security for costs and/or other expenses; or (ii) any lien arising by operation of

law or by order of a court or tribunal or any lien arising by an agreement of similar effect, including, without limitation, judgment liens; or

(i) any extension, renewal or replacement (or successive extensions, renewals or replacements), as a whole or in part, or any liens referred to in the foregoing clauses, for amounts not exceeding the principal amount of the Debt secured by the lien so extended, renewed or replaced, provided that such extension, renewal or replacement lien is limited to all or a part of the same property or assets that were covered by the lien extended, renewed or replaced (plus improvements on such property or assets) (Section 1011 of each Indenture).

Limitations on Sale and Leaseback Transactions

The Indentures also provide that we will not, and will not permit any subsidiary to, enter into any arrangement with any person (other than us or a subsidiary), providing for the leasing to us or a subsidiary of any assets which have been or are to be sold or transferred by us or such subsidiary to such person (a "Sale and Lease-Back Transaction") unless:

(a) such transaction involves a lease for a temporary period not to exceed three years;

(b) such transaction is between us or a subsidiary and an affiliate of ours;

(c) we would be entitled to incur debt secured by a lien on the assets or property involved in such transaction at least equal in amount to the Attributable Debt with respect to such Sale and Lease-Back Transaction, without equally and ratably securing the Debt Securities, pursuant to the limitation on liens described above;

(d) such transaction is entered into within 90 days after the initial acquisition by us of the assets or property subject to such transaction;

(e) after giving effect thereto, the aggregate amount of all Attributable Debt with respect to all such Sale and Lease-Back Transactions does not exceed 10% of Consolidated Net Tangible Assets; or

(f) we or a subsidiary within the twelve months preceding the sale or transfer or the twelve months following the sale or transfer, regardless of whether such sale or transfer may have been made by us or such subsidiary, apply in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair value of the assets so leased at the time of entering into such arrangement (as determined by our Board of Directors or the Board of Directors of such subsidiary), (i) to the retirement of debt, incurred or assumed by us or a subsidiary, which by its terms matures at, or is extendible or renewable at the option of the obligor to, a date more than twelve months after the date of incurring, assuming or guaranteeing such debt or (ii) to investment in any of our assets or the assets of any subsidiary (Section 1012 of each Indenture).

Existence

Except as permitted under "Merger, Consolidation or Sale," we will be required to do or cause to be done all things necessary to preserve and keep in full force and effect our existence, rights and franchises; provided , however , that we shall not be required to preserve any right or franchise if we determine that the preservation thereof is no longer desirable in the conduct of our business (Section 1004 of each Indenture).

Maintenance of Properties

We will be required to cause all of our material properties used or useful in the conduct of our business or the business of any subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in our judgment may be necessary so that the

business carried on in connection therewith may be properly and advantageously conducted at all times (Section 1005 of each Indenture).

Insurance

We will be required to, and will be required to cause each of our Subsidiaries to, keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value with insurers of recognized responsibility and, if described in the applicable prospectus supplement, having a specified rating from a recognized insurance rating service (Section 1006 of each Indenture).

Payment of Taxes and Other Claims

We will be required to pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon us or any subsidiary or upon our income, profits or property or, that of any subsidiary, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a material lien upon our property or that of any subsidiary; provided , however , that we shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith (Section 1007 of each Indenture).

Provision of Financial Information

Whether or not we are subject to Section 13 or 15(d) of the 1934 Act, we will be required, within 15 days of each of the respective dates by which we would have been required to file annual reports, quarterly reports and other documents with the Commission if we were so subject, to (i) transmit by mail to all holders of Debt Securities, as their names and addresses appear in the applicable register for such Debt Securities, without cost to such holders, copies of the annual reports, quarterly reports and other documents that we would have been required to file with the Commission pursuant to Section 13 or 15(d) of the 1934 Act if we were subject to such sections, (ii) file with the applicable Indenture Trustee copies of the annual reports, quarterly reports and other documents that we would have been required to file with the Commission pursuant to Section 13 or 15(d) of the 1934 Act if we were subject to such Sections, and (iii) promptly upon written request and payment of the reasonable cost of duplication and delivery, supply copies of such documents to any prospective holder (Section 1008 of each Indenture).

Additional Covenants

Any of our additional covenants with respect to any series of Debt Securities will be set forth in the prospectus supplement relating thereto.

Events of Default, Notice and Waiver

Each Indenture provides that the following events are “Events of Default” with respect to any series of Debt Securities issued thereunder:

(a) default for 30 days in the payment of any installment of interest or “Additional Amounts”, or “Additional Interest”, as applicable, payable on any Debt Security of such series;

(b) default in the payment of principal of (or premium, if any, on) any Debt Security of such series at its maturity;

(c) default in making any sinking fund payment as required for any Debt Security of such series;

(d) default in the performance or breach of any other covenant or warranty of ours contained in the Indenture (other than a covenant added to the Indenture solely for the benefit of a series of Debt Securities issued thereunder other than such series), continued for 60 days after written notice as provided in the Indenture;

(e) a default under any bond, debenture, note or other evidence of indebtedness for money borrowed by us (including obligations under leases required to be capitalized on the balance sheet of the lessee under generally accepted accounting principles but not including any indebtedness or obligations for which recourse is limited to property purchased) in an aggregate principal amount in excess of $5,000,000 or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by us (including such leases, but not including such indebtedness or obligations for which recourse is limited to property purchased) in an aggregate principal amount in excess of $5,000,000, whether such indebtedness now exists or shall hereafter be created which default shall have resulted in such indebtedness becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable or such obligations being accelerated, without such acceleration having been rescinded or annulled;

(f) certain events of bankruptcy, insolvency or reorganization, or court appointment of a receiver, liquidator or trustee of us or any significant subsidiary of ours (as defined in Regulation S-X promulgated under the 1933 Act); and

(g) any other event of default provided with respect to a particular series of Debt Securities (Section 501 of each Indenture).

If an Event of Default under either Indenture with respect to Debt Securities of any series at the time outstanding occurs and is continuing, then in every such case the Indenture Trustee or the holders of not less than 25% in principal amount of the outstanding Debt Securities of that series will have the right to declare the principal amount (or, if the Debt Securities of that series are Original Issue Discount Securities, such portion of the principal amount as may be specified in the terms thereof) of, and premium, if any, on all of the Debt Securities of that series to be due and payable immediately by written notice thereof to us (and to the Indenture Trustee if given by the holders). However, at any time after such a declaration of acceleration with respect to Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) has been made, but before a judgment or decree for payment of the money due has been obtained by the Indenture Trustee, the holders of not less than a majority in principal amount of outstanding Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) may rescind and annul such declaration and its consequences if (a) we shall have deposited with the applicable Indenture Trustee all required payments of the principal of (and premium, if any) and interest, and any Additional Amounts, on the Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be), plus certain fees, expenses, disbursements and advances of such Indenture Trustee, and (b) all Events of Default, other than the non-payment of accelerated principal (or specified portion thereof and the premium, if any) or interest, with respect to Debt Securities of such series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) have been cured or waived as provided in the applicable Indenture (Section 502 of each Indenture). Each Indenture also provides that the holders of not less than a majority in principal amount of the outstanding Debt Securities of any series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) may waive any past default with respect to such series and its consequences, except a default (x) in the payment of the principal of (or premium, if any) or interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series or (y) in respect of a covenant or provision contained in the applicable Indenture that cannot be modified or amended without the consent of the holder of each outstanding Debt Security affected thereby (Section 513 of each Indenture).

Each Indenture Trustee will be required to give notice to the holders of Debt Securities within 90 days of a default under the applicable Indenture unless such default shall have been cured or waived; provided , however , that such Indenture Trustee may withhold notice to the holders of any series of Debt Securities of any default with respect to such series (except a default in the payment of the principal of (or premium, if any) or interest or Additional Amounts, or Additional Interest, as applicable, payable on any Debt Security of such series or in the payment of any sinking fund installment in respect of any

Security of such series) if specified responsible officers of such Indenture Trustee consider such withholding to be in the interest of such holders (Section 601 of each Indenture).

Each Indenture provides that no holders of Debt Securities of any series may institute any proceedings, judicial or otherwise, with respect to such Indenture or for any remedy thereunder, except in the cases of failure of the Indenture Trustee, for 60 days, to act after it has received a written request to institute proceedings in respect of an event of default from the holders of not less than 25% in principal amount of the outstanding Debt Securities of such series, as well as an offer of indemnity reasonably satisfactory to it (Section 507 of each Indenture). This provision will not prevent, however, any holder of Debt Securities from instituting suit for the enforcement of payment of the principal of (and premium, if any), interest on and Additional Amounts, or Additional Interest, as applicable, payable with respect to, such Debt Securities at the respective due dates thereof.

Subject to provisions in each Indenture relating to its duties in case of default, each Indenture Trustee will not be under any obligation to exercise any of its rights or powers under the applicable Indenture at the request or direction of any holders of any series of Debt Securities then outstanding under such Indenture, unless such holders shall have offered to the Indenture Trustee thereunder reasonable security or indemnity (Section 602 of each Indenture). The holders of not less than a majority in principal amount of the outstanding Debt Securities of any series (or of all Debt Securities then outstanding under the applicable Indenture, as the case may be) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Indenture Trustee, or of exercising any trust or power conferred upon such Indenture Trustee. However, an Indenture Trustee may refuse to follow any direction which is in conflict with any law or the Indenture, which may involve the Indenture Trustee in personal liability or which may be unduly prejudicial to the holders of Debt Securities of such series not joining therein (Section 512 of each Indenture).

Within 120 days after the close of each fiscal year, we will be required to deliver to each Indenture Trustee a certificate, signed by one of our several specified officers, stating whether or not such officer has knowledge of any default under the applicable Indenture and, if so, specifying each such default and the nature and status thereof (Section 1009 of each Indenture).

Additional provisions of the Subordinated Indenture regarding Events of Default are discussed in “Additional Description of Subordinated Debentures to be Issued to Trust – Subordinated Indenture Additional Events of Default” below.

Modification

Modifications and amendments of either Indenture will be permitted to be made only with the consent of the holders of not less than a majority in principal amount of all outstanding Debt Securities issued under each Indenture which are affected by such modification or amendment; provided , however , that no such modification or amendment may, without the consent of the holder of each such Debt Security affected thereby, (a) change the stated maturity of the principal of (or premium, if any), or any installment of principal of or interest payable on, any such Debt Security; (b) reduce the principal amount of, or the rate or amount of interest on, or any premium payable on redemption of, or Additional Amounts, or Additional Interest, as applicable, payable with respect to, any such Debt Security, or reduce the amount of principal of an Original Issue Discount Security that would be due and payable upon declaration of acceleration of the maturity thereof or would be provable in bankruptcy, or adversely affect any right of repayment of the holder of any such Debt Security; (c) change the place of payment, or currency, for payment of principal of (and premium, if any), or interest on, or any Additional Amounts, or Additional Interest, as applicable, payable with respect to, any such Debt Security; (d) impair the right to institute suit for the enforcement of any payment on or with respect to any such Debt Security; (e) reduce the above-stated percentage of outstanding Debt Securities of any series necessary to modify or amend the applicable Indenture, to waive compliance with certain provisions thereof or certain defaults and consequences thereunder or to reduce the quorum or voting requirements set forth in the Indenture; or (f) modify any of the foregoing provisions or any of the provisions relating to the waiver of certain past

defaults or certain covenants, except to increase the required percentage to effect such action or to provide that certain other provisions may not be modified or waived without the consent of the holder of such Debt Security (Section 902 of each Indenture).

The holders of not less than a majority in principal amount of outstanding Debt Securities issued under either Indenture will have the right to waive compliance by us with certain covenants in such Indenture (Section 1013 of each Indenture). Modifications and amendments of each Indenture will be permitted to be made by us and the applicable Indenture Trustee thereunder without the consent of any holder of Debt Securities for any of the following purposes:

(a) to evidence the succession of another person to us as obligor under the applicable Indenture;

(b) to add to our covenants for the benefit of the holders of all or any series of Debt Securities or to surrender a right or power conferred upon us in the applicable Indenture;

(c) to add events of default for the benefit of the holders of all or any series of Debt Securities;

(d) to add or change any provisions of the applicable Indenture to facilitate the issuance of, or to liberalize certain terms of, Debt Securities in bearer form, or to permit or facilitate the issuance of Debt Securities in uncertificated form; provided that such action shall not adversely affect the interests of the holders of the Debt Securities of any series in any material aspect;

(e) to change or eliminate any provisions of the applicable Indenture; provided that any such change or elimination shall become effective only when there are no Debt Securities outstanding of any series created prior thereto which are entitled to the benefit of such provision;

(f) to secure the Debt Securities;

(g) to establish the form or terms of Debt Securities of any series;

(h) to provide for the acceptance of appointment by a successor Indenture Trustee or facilitate the administration of the trust imposed under the applicable Indenture by more than one Indenture Trustee;

(i) to cure any ambiguity, defect or inconsistency in the applicable Indenture; provided that such action shall not adversely affect the interests of holders of Debt Securities of any series issued under such Indenture in any material respect; or

(j) to supplement any of the provisions of such Indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of such Debt Securities; provided that such action shall not adversely affect the interests of the holders of the Debt Securities of any series in any material respect (Section 901 of each Indenture).

Each Indenture provides that in determining whether the holders of the requisite principal amount of outstanding Debt Securities of a series have given any request, demand, authorization, direction, notice, consent or waiver thereunder or whether a quorum is present at a meeting of holders of Debt Securities, (a) the principal amount of an Original Issue Discount Security that shall be deemed to be outstanding shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon declaration of acceleration of the maturity thereof, and (b) Debt Securities owned by us or any other obligor upon the Debt Securities or any affiliate of us or of such other obligor shall be disregarded (Section 104 of each Indenture).

Each Indenture contains provisions for convening meetings of the holders of Debt Securities of a series (Section 1501 of each Indenture). A meeting will be permitted to be called at any time by the applicable Indenture Trustee, and also, upon request, by us or the holders of at least 10% in principal amount of the outstanding Debt Securities of such series, in any such case upon notice given as provided in the applicable Indenture (Section 1502 of each Indenture). Except for any consent that must be given by the holder of each Debt Security affected by certain modifications and amendments of the applicable Indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum

is present may be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding Debt Securities of that series; provided , however , that, except as referred to above, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the holders of a specified percentage, which is less than a majority, in principal amount of the outstanding Debt Securities of a series may be adopted at a meeting or adjourned meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the holders of such specified percentage in principal amount of the outstanding Debt Securities of that series. Any resolution passed or decision taken at any meeting of holders of Debt Securities of any series duly held in accordance with the applicable Indenture will be binding on all holders of Debt Securities of that series. The quorum at any meeting called to adopt a resolution, and at an reconvened meeting, will be persons holding or representing a majority in principal amount of the outstanding Debt Securities of a series; provided , however , that if any action is to be taken at such meeting with respect to a consent or waiver which may be given by the holders of not less than a specified percentage in principal amount of the outstanding Debt Securities of a series, the persons holding or representing such specified percentage in principal amount of the outstanding Debt Securities of such series will constitute a quorum (Section 1504 of each Indenture).

Notwithstanding the foregoing provisions, each Indenture provides that, if any action is to be taken at a meeting of holders of Debt Securities of any series with respect to any request, demand, authorization, direction, notice, consent, waiver and other action that the Indenture expressly provides may be made, given or taken by the holders of a specified percentage in principal amount of all outstanding Debt Securities affected thereby, or of the holders of such series and one or more additional series, (a) there shall be no minimum quorum requirement for such meeting, and (b) the principal amount of the outstanding Debt Securities of such series that vote in favor of such request, demand, authorization, direction, notice, consent, waiver or other action shall be taken into account in determining whether such request, demand, authorization, direction, notice, consent, waiver or other action has been made, given or taken under the Indenture (Section 1504 of each Indenture).

Subordination

Upon any distribution to our creditors in a liquidation, dissolution or reorganization, the payment of the principal of and interest on the Subordinated Debentures will be subordinated to the extent provided in the Subordinated Indenture in right of payment to the prior payment in full of all Senior Indebtedness defined below (Sections 1601 and 1602 of the Subordinated Indenture), but our obligation to make payment of the principal and interest on the Subordinated Debentures will not otherwise be affected (Section 1606 of the Subordinated Indenture). No payment of principal or interest may be made on the Subordinated Debentures at any time if (i) any Senior Indebtedness is not paid when due and any applicable grace period has ended or such default has not been waived; (ii) a default on Senior Indebtedness exists that permits the holders of such Senior Indebtedness to accelerate its maturity or (iii) notice has been given of the exercise of an option to require repayment or prepayment of Senior Indebtedness (Section 1603 of the Subordinated Indenture). After all Senior Indebtedness is paid in full and until the Subordinated Debentures are paid in full, holders will be subrogated to the rights of holders of Senior Indebtedness to the extent that distributions otherwise payable to holders have been applied to the payment of Senior Indebtedness (Section 1605 of the Subordinated Indenture). By reason of such subordination, in the event of a distribution of assets upon insolvency, certain of our general creditors may recover more, ratably, than holders of the Subordinated Debentures.

Senior Indebtedness is defined in the Subordinated Indenture as (i) any payment due in respect of indebtedness of a person, whether outstanding at the date of execution of the Subordinated Indenture or thereafter incurred, created or assumed, (a) in respect of money borrowed (including any financial derivative, hedging or futures contract or similar instrument) and (b) evidenced by securities, debentures, bonds, notes or other similar instruments issued by such person which, by their terms, are senior or senior subordinated debt securities including, without limitation, all obligations under its indentures with various trustees; (ii) all capital lease obligations; (iii) all obligations issued or assumed as the deferred purchase

price of property, all conditional sale obligations and all obligations of such person under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business and long-term purchase obligations); (iv) all obligations for the reimbursement of any letter of credit, banker's acceptance, security purchase facility or similar credit transaction; (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons the payment of which such person is responsible or liable as obligor, guarantor or otherwise; and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of such person (whether or not such obligation is assumed by such person), except for (a) any such indebtedness that is by its terms subordinated to or pari passu with the Subordinated Debentures and (b) any unsecured indebtedness between or among such person or its affiliates. At March 31, 2005, Senior Indebtedness aggregated approximately $456.5 million. There are no restrictions in the Subordinated Indenture upon the creation of additional Senior Indebtedness.

Upon payment in full of all amounts due on the Senior Indebtedness then outstanding, the rights of the holders of the Subordinated Debentures will be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions applicable to such Senior Indebtedness until all amounts owing on the Subordinated Debentures are paid in full.

Discharge, Defeasance and Covenant Defeasance

Under each Indenture, we may discharge certain obligations to holders of any series of Debt Securities issued thereunder that have not already been delivered to the applicable Indenture Trustee for cancellation and that either have become due and payable or will become due and payable within one year (or scheduled for redemption within one year) by irrevocably depositing with the applicable Indenture Trustee, in trust, funds in an amount sufficient to pay the entire indebtedness on such Debt Securities in respect of principal (and premium, if any) and interest and any Additional Amounts, or Additional Interest, as applicable, payable to the date of such deposit (if such Debt Securities have become due and payable) or to the stated maturity or redemption date, as the case may be (Section 401 of each Indenture).

Each Indenture provides that, if the provisions of Article Fourteen thereof are made applicable to the Debt Securities of or within any series pursuant to Section 301 of such Indenture, we may elect either (a) to defease and be discharged from any and all obligations with respect to such Debt Securities (except for the obligations to pay Additional Amounts, or Additional Interest, as applicable, if any, upon the occurrence of certain events of tax, assessment or governmental charge with respect to payments on such Debt Securities and the obligations to register the transfer or exchange of such Debt Securities, to replace temporary or mutilated, destroyed, lost or stolen Debt Securities, to maintain an office or agency in respect of such Debt Securities and to hold moneys for payment in trust) ("defeasance") (Section 1402 of each Indenture) or (b) to be released from our obligations with respect to such Debt Securities under Sections 1004 to 1008, inclusive, and Sections 1011 and 1012 under such Indenture (being the restrictions described under "Certain Covenants") or, if provided pursuant to such Indenture, our obligations with respect to any other covenant, and any omission to comply with such obligations shall not constitute an event of default with respect to such Debt Securities ("covenant defeasance") (Section 1403 of each Indenture), in either case upon the irrevocable deposit by us with the applicable Indenture Trustee, in trust, of an amount of money, or Government Obligations (as defined below), or both, applicable to such Debt Securities which through the scheduled payment of principal and interest in accordance with their terms will provide money in an amount sufficient to pay the principal of (and premium, if any) and interest on such Debt Securities, and any mandatory sinking fund or analogous payments thereon, on the scheduled due dates therefor (Section 1404 of each Indenture).

The trust will only be permitted to be established if, among other things, we have delivered to the applicable Indenture Trustee an opinion of counsel (as specified in each Indenture) to the effect that the holders of such Debt Securities will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such defeasance or covenant defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such

defeasance or covenant defeasance had not occurred, and such opinion of counsel, in the case of defeasance, will be required to refer to and be based upon a ruling of the Internal Revenue Service or a change in applicable United States federal income tax law occurring after the date of such Indenture (Section 1404 of each Indenture).

"Government Obligations" means securities which are (a) direct obligations of the United States of America or (b) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guarantee as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of any such Government Obligation held by such custodian for the account of the holder of a depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of the Government Obligation evidenced by such depository receipt (Section 101 of each Indenture).

In the event we effect covenant defeasance with respect to any Debt Securities and such Debt Securities are declared due and payable because of the occurrence of any Event of Default other than the Event of Default described in clause (d) under "Events of Default, Notice and Waiver" with respect to Sections 1004 to 1008, inclusive, and Sections 1011 and 1012 of either Indenture (which sections would no longer be applicable to such Debt Securities) or described in clause (g) under "Events of Default, Notice and Waiver" with respect to any other covenant as to which there has been covenant defeasance, the amount in which such Debt Securities are payable, and Government Obligations on deposit with the applicable Indenture Trustee, will be sufficient to pay amounts due on such Debt Securities at the time of their stated maturity but may not be sufficient to pay amounts due on such Debt Securities at the time of the acceleration resulting from such Event of Default. However, we would remain liable to make payment of such amounts due at the time of acceleration.

The applicable prospectus supplement may further describe the provisions, if any, permitting such defeasance or covenant defeasance, including any modifications to the provisions described above, with respect to the Debt Securities of or within a particular series.

Global Securities

The Debt Securities of a series may be issued in whole or in part in the form of one or more global securities (the "Global Securities") that will be deposited with, or on behalf of, a depositary identified in the applicable prospectus supplement relating to such series. Global Securities may be issued in either registered or bearer form and in either temporary or permanent form. The specific terms of the depositary arrangement with respect to a series of Debt Securities will be described in the applicable prospectus supplement relating to such series.

Governing Law

The Indentures, each Supplemental Indenture thereto, the Senior Debt Securities and the Subordinated Debentures will be governed by the laws of the State of New York.

DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

We may issue purchase contracts for the purchase or sale of our securities or securities of any entity unaffiliated with us, a basket of such securities, an index or indices of such securities, or any combination of the above as specified in the applicable prospectus supplement. Each purchase contract will entitle the holder thereof to purchase or sell, and obligate us to sell or purchase, on specified dates, such securities, at a purchase price that may be fixed at the time the purchase contract is issued or as may be determined by

reference to a specific formula set forth in such purchase contract, all as set forth in the applicable prospectus supplement. The applicable prospectus supplement will also specify the methods by which the holders may purchase or sell such securities, any acceleration, cancellation or termination provisions or other provisions relating to the settlement of a purchase contract, which may be a separate security. Purchase contracts may require holders to satisfy their obligations thereunder when the purchase contracts are issued. Our obligation to settle such purchase contracts on the relevant settlement date (or other obligations thereunder) may constitute indebtedness. Accordingly, the purchase contracts may be issued under an agreement that constitutes an indenture that will be qualified under the Trust Indenture Act of 1939.

The purchase contracts may be issued separately or as part of a purchase contract unit that consists of (a) a purchase contract and (b) debt securities offered pursuant to this prospectus, U.S. Treasury securities or other debt obligations of third parties, that may be used to secure the holders' obligations under a purchase contract. The purchase contracts may require us to make periodic payments to the holders of the purchase contracts or vice versa, and such payments may be unsecured or prefunded on some basis. The purchase contracts may require holders to secure their obligations under these purchase contracts in a specified manner.

A prospectus supplement will describe the terms of any purchase contracts or purchase contract units being offered. The description in the prospectus supplement will not necessarily be complete, and reference will be made to the purchase contracts and, if applicable, collateral or depositary arrangements, relating to purchase contracts or purchase contract units. Some of the important United States federal income tax considerations applicable to the purchase contract units and purchase contracts will be discussed in the related prospectus supplement.

DESCRIPTION OF TRUST PREFERRED SECURITIES

The trust may issue only one series of trust preferred securities having terms described in the prospectus supplement relating thereto. The trust agreement will be qualified as an indenture under the Trust Indenture Act and will contain the terms of trust preferred securities.

The Property Trustee will act as indenture trustee for purposes of the Trust Indenture Act. The trust preferred securities will have such terms, including distributions, redemption, voting, liquidation rights and such other preferred, deferred or other special rights or such restrictions as will be set forth in the trust agreement or made part of the trust agreement by the Trust Indenture Act and which will correspond to the terms of the Subordinated Debentures held by the trust and described in the prospectus supplement relating thereto.

The prospectus supplement relating to the trust preferred securities of the trust will include the specific terms of the series of trust preferred securities being issued, including:

- the distinctive designation of the trust preferred securities;
- the number of trust preferred securities issuable by the trust;
- the annual distribution rate (or method of determining such rate) for trust preferred securities and the date or dates upon which such distributions will be payable;
- whether distributions on trust preferred securities will be cumulative, and, in the case of trust preferred securities having such cumulative distribution rights, the date or dates or method of determining the date or dates from which distributions on trust preferred securities will be cumulative;
- the amount or amounts which will be paid out of the assets of the trust to the holders of trust preferred securities upon voluntary or involuntary dissolution, winding-up or termination of the trust;

- the obligation, if any, of the trust to purchase or redeem trust preferred securities and the price or prices at which, the period or periods within which, and the terms and conditions upon which trust preferred securities will be purchased or redeemed, in whole or in part, pursuant to such obligation;

- the voting rights, if any, of holders of trust preferred securities in addition to those required by law, including the number of votes per Trust Preferred Security and any requirement for approval by the holders of such trust preferred securities, as a condition to specified action or amendments to the trust agreement;

- the terms and conditions, if any, upon which the Subordinated Debentures owned by the trust may be distributed to holders of trust preferred securities;

- if applicable, any securities exchange upon which the trust preferred securities will be listed; and

- any other relevant rights, preferences, privileges, limitations or restrictions of trust preferred securities not inconsistent with the trust agreement or with applicable law.

We will guarantee distributions on trust preferred securities to the extent set forth below under "Description of the Trust Guarantee." Certain United States federal income tax considerations applicable to trust preferred securities will be described in a prospectus supplement relating to the trust preferred securities.

The trust will issue a series of trust common stock in connection with the issuance of trust preferred securities. Except for voting rights, the terms of trust common stock will be substantially identical to the terms of trust preferred securities. trust common stock will rank pari passu with trust preferred securities except that, upon an event of default under the trust agreement, the rights of holders of trust common stock to payments will be subordinated to the rights of holders of trust preferred securities. The trust common stock will also carry the right to vote to appoint, remove or replace any trustee of the trust. We will own all of the trust common stock.

Enforcement of Certain Rights by Holders of Trust Preferred Securities

If an Event of Default as defined and provided in the trust agreement occurs and is continuing, then the holders of trust preferred securities of the trust would rely on the enforcement by the Property Trustee of the trust of its rights as a holder of the applicable series of Subordinated Debentures against us. In addition, the holders of a majority in aggregate liquidation amount of trust preferred securities of the trust will have the right to direct the time, method and place of conducting any proceeding for any remedy available to such Property Trustee or to direct the exercise of any trust or power conferred upon such Property Trustee under the trust agreement, including the right to direct such Property Trustee to exercise the remedies available to it as a holder of Subordinated Debentures provided that such direction shall not be in conflict with any rule of law or with the trust agreement, and could not involve such Property Trustee in personal liability in circumstances where reasonable indemnity would not be adequate. If such Property Trustee fails to enforce its rights under the Subordinated Debentures held by the trust, a holder of trust preferred securities of the trust may, to the extent permitted by law, institute a legal proceeding directly against us to enforce such Property Trustee's rights under the trust agreement without first instituting any legal proceeding against such Property Trustee or any other entity or person, including the trust; it being understood and intended that no one or more of such holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of the trust agreement to affect, disturb or prejudice the rights of any other of such holders or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the trust agreement, except in the manner herein provided and for the equal and ratable benefit of all such holders. Notwithstanding the foregoing, a holder of trust preferred securities of the trust may institute a proceeding directly against us without first instituting a legal proceeding against or requesting that action be taken by such Property Trustee or any other Person for enforcement of payment to such holder of the principal of or interest on the Subordinated Debentures held by the trust having a principal amount equal to the aggregate stated liquidation amount of such trust preferred securities of such holder (a "Direct Action") on or after the due dates specified or

provided for in such Subordinated Debentures. In connection with such Direct Action, we will be subrogated to the rights of such holder of trust preferred securities under the trust agreement to the extent of any payment made by us to such holder of trust preferred securities in such Direct Action.

Description of Trust Guarantees

The following is a summary of information concerning the guarantees of the trust preferred securities of the trust, which we refer to as the Trust Guarantee. The Trust Guarantee will be executed by us for the benefit of holders of trust preferred securities. The Trust Guarantee will be qualified as an indenture under the Trust Indenture Act. A prospectus supplement with respect to the trust preferred securities will identify the indenture trustee for purposes of the Trust Indenture Act (the "Trust Guarantee Trustee").

The following summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified by its entirety by reference to, the form of Trust Guarantee, which is filed as an exhibit to the Registration Statement of which this prospectus forms a part. The Trust Guarantee will be held by the Property Trustee for the benefit of holders of trust preferred securities.

General

To the extent set forth in the Trust Guarantee, we will agree to pay in full the Guarantee Payments, described below, without duplication of amounts theretofore paid by or on behalf of the trust, as and when due regardless of defense, right of set off or counter-claim which we may have. The following payments or distributions are referred to herein as the Guarantee Payments and, with respect to trust preferred securities issued by the trust, to the extent not paid or made by the trust will be subject to the Trust Guarantee:

(a) any accrued and unpaid distributions on trust preferred securities, to the extent the trust has funds legally and immediately available therefor;

(b) the redemption price (the "Redemption Price"), to the extent the trust has funds legally and immediately available therefor with respect to trust preferred securities called for redemption; and

(c) upon voluntary or involuntary termination, dissolution or winding up of the trust (other than in connection with the distribution of Subordinated Debentures to holders of trust preferred securities or the redemption of all trust preferred securities), the lesser of:

(i) the aggregate of the liquidation amount and all accrued and unpaid distributions on such trust preferred securities to the date of payment, to the extent the trust has funds legally and immediately available therefor and

(ii) the amount of assets of the trust remaining available for distribution to holders of trust preferred securities in liquidation of the trust.

The redemption price and liquidation amount will be fixed at the time the trust preferred securities are issued. Our obligation to make a Guarantee Payment may be satisfied by direct payment of the required amounts by us to the holders of such trust preferred securities or by causing the trust to pay such amounts to such holders.

The Trust Guarantee will not apply to any payment or distribution except to the extent the trust has funds legally available therefor. If we do not make interest payments on the Subordinated Debentures purchased by the trust, the trust will not pay distributions on such trust preferred securities issued by the trust and will not have funds legally available therefor. The Trust Guarantee, when taken together with our obligations under the Subordinated Debentures, the Subordinated Indenture and the trust agreement, including our obligation to pay costs, expenses, debt, and liabilities of the trust (other than with respect to the Trust Securities), will be a full and unconditional guarantee, on a subordinated basis, by us of payments due on the trust preferred securities from the time of issuance, but will not apply to the payment of distributions and other payments on the trust preferred securities when the Property Trustee does not have sufficient funds in the Property Account of the trust to make such distributions or other payments. If

we do not make interest payments on the Subordinated Debentures held by the Property Trustee, the trust will not make distributions on the trust preferred securities and will not have funds available therefor. See "Additional Description of the Subordinated Debentures to be Issued to Trust – Certain Covenants."

Amendment of Guarantee; Assignment

Except for changes which do not materially adversely affect the rights of holders of trust preferred securities, the Trust Guarantee may be amended only with the approval of not less than 66^{2}/3% in liquidation amount of trust preferred securities issued by the trust. The manner of obtaining any such approval will be as set forth in Article Six of the trust agreement. The Trust Guarantee will bind the successors, assigns receivers, trustees and representatives of us and continue to benefit the Trust Guarantee Trustee and holders of trust preferred securities. Except in connection with a consolidation, merger, conveyance, transfer or lease involving us, permitted under Article Eight of the Subordinated Indenture, we may not assign its rights or delegate our obligations under the Trust Guarantee.

Termination of the Trust Guarantee

The Trust Guarantee will terminate as to the trust preferred securities issued by the trust (a) upon full payment of the Redemption Price of all trust preferred securities of the trust, (b) upon distribution of Subordinated Debentures held by the trust to the holders of and in exchange for trust preferred securities or (c) upon full payment of amounts payable in accordance with the trust agreement upon liquidation of the trust. See "Status of the Trust Guarantee" and "Additional Description of Subordinated Debentures to be Issued to Trust – Subordinated Indenture Additional Events of Default" for a description of the events of default and enforcement rights of the holders of Subordinated Debentures. The Trust Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any holder of trust preferred securities must repay any sums paid to them under the trust preferred securities or Trust Guarantee.

Events of Default

An event of default under a Trust Guarantee will occur if we fail to make the payments required by the Trust Guarantee. The holders of a majority in liquidation amount of trust preferred securities relating to such Trust Guarantee have the right to direct the time, method and place of conducting any proceeding for any remedy available to such Trust Guarantee Trustee or to direct the exercise of any trust or power conferred upon such Trust Guarantee Trustee under the Trust Guarantee. If the Trust Guarantee Trustee fails to enforce such Trust Guarantee, any holder of record of trust preferred securities relating to such Trust Preferred Guarantee may institute a legal proceeding directly against us to enforce the Trust Guarantee Trustee's rights, without first instituting any other legal proceeding.

Status of Trust Guarantee

The Trust Guarantee will constitute our unsecured obligation and will rank:

(a) subordinate and junior in right of payment to all of our other liabilities, including the Subordinated Debentures, except those made pari passu or subordinate by their terms;

(b) pari passu with the most senior preferred or preference stock which may now or hereafter be issued or guaranteed by us; and

(c) senior to our Common Stock.

The terms of the trust preferred securities provide that each holder of trust preferred securities issued by the trust, by acceptance thereof, agrees to the subordination provisions and other terms of the Trust Guarantee relating thereto. The Trust Guarantee will constitute a guarantee of payment and not of collection (i.e., the guaranteed party may institute a legal proceeding directly against the guarantor to enforce its rights under such Trust Guarantee without instituting a legal proceeding against any other person or entity). The Trust Guarantee will be deposited with the applicable Guarantee Trustee to be held

for the benefit of the holders of such trust preferred securities. Except as otherwise noted herein, the Guarantee Trustee has the right to enforce the Trust Guarantee on behalf of the holders of the related trust preferred securities. Except as described under "Termination of the Trust Guarantee" above, the Trust Guarantee will not be discharged except by payment of the Guarantee Payments in full (without duplication of amounts theretofore paid by the trust).

Information Concerning the Trust Guarantee

The Trust Guarantee Trustee, prior to the occurrence of a default with respect to the Trust Guarantee and after the curing of all such defaults that may have occurred, undertakes to perform only such duties as are specifically set forth in the Trust Guarantee and, during the continuance of any default, will exercise the same degree of care as a prudent individual would exercise in the conduct of such individual's own affairs. Subject to such provisions, the Trust Guarantee Trustee is under no obligation to exercise any of the powers vested in it by the Trust Guarantee at the request of any holder of trust preferred securities, unless offered reasonable indemnity against the costs, expenses and liabilities which might be incurred thereby; but the foregoing shall not relieve the Trust Guarantee Trustee, upon the occurrence of an Event of Default under such Trust Guarantee, from exercising the rights and powers vested in it by such Trust Guarantee. The Trust Guarantee Trustee also serves as Property Trustee. We and our officers and directors have no material relationship with the initial Trust Guarantee Trustee other than normal banking relationships.

Governing Law

The Trust Guarantee will be governed by the laws of the State of New York.

THE AGREEMENT AS TO EXPENSES AND LIABILITIES

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by us under the trust agreement, we will irrevocably and unconditionally guarantee to each person or entity to whom the trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of the trust other than obligations of the trust to pay to the holders of the related Trust Securities or other similar interests in the trust the amounts due such holders pursuant to the terms of the Trust Securities or such other similar interests, as the case may be.

ADDITIONAL DESCRIPTION OF SUBORDINATED DEBENTURES TO BE ISSUED TO TRUST

Set forth below is a description of the terms of the Subordinated Debentures which the trust will hold as trust assets. The general provisions of the Subordinated Debentures are set forth under "Description of Debt Securities" above. The following description does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Subordinated Indenture (as defined in "Description of Debt Securities" above), as supplemented by the Supplemental Indenture creating the Subordinated Debentures. The Subordinated Indenture is filed as an exhibit to the Registration Statement of which this Prospectus forms a part. The terms of the Subordinated Debentures will include those stated in the Subordinated Indenture and the related Supplemental Indenture and those made a part of the Subordinated Indenture by reference to the Trust Indenture Act.

Upon a dissolution of the trust, Subordinated Debentures held by the trust may be distributed to the holders of Trust Securities in liquidation of the trust.

If any Subordinated Debentures are distributed to holders of trust preferred securities, we will use our best efforts to have such Subordinated Debentures traded on the same stock exchange as the related trust preferred securities are traded.

General

Subordinated Debentures will be issued in a principal amount equal to the aggregate stated Liquidation Amount of trust preferred securities plus our investment in trust common stock.

The entire principal amount of the Subordinated Debentures held by the trust will mature and become due and payable, together with any accrued and unpaid interest thereon, including Additional Interest (as defined herein), if any, on the date set forth in the applicable prospectus supplement.

The covenants contained in the Subordinated Debenture Indenture would not necessarily afford protection to holders of the Subordinated Debentures in the event of a decline in our credit quality resulting from takeovers, recapitalizations or similar restructurings.

If Subordinated Debentures held by the trust are distributed to holders of trust preferred securities of the trust in liquidation of such holders' interests in the trust, such Subordinated Debentures will initially be issued as a Global Security. Under certain limited circumstances, Subordinated Debentures may be issued in certificated form in exchange for a Global Security. In the event Subordinated Debentures are issued in certificated form, such Subordinated Debentures will be in denominations as specified in the applicable prospectus supplement and integral multiples thereof and may be transferred or exchanged at the offices described therein. Payments on Subordinated Debentures issued as a Global Security will be made to the Depositary for the Subordinated Debentures. In the event Subordinated Debentures are issued in certificated form, principal and interest will be payable, the transfer of the Subordinated Debentures will be registrable and Subordinated Debentures will be exchangeable for Subordinated Debentures of other denominations of a like aggregate principal amount at the corporate trust office of the Debt trustee in New York, New York; provided , that payment of interest may be made at our option by check mailed to the address of the persons entitled thereto.

The Indenture does not contain provisions that afford holders of the Subordinated Debentures protection in the event we are involved in a highly leveraged transaction.

Certain Covenants

If (a) there has occurred any event that would constitute an Indenture Event of Default or (b) we are in default with respect to our payment of any obligations under the Trust Guarantee, then (i) we may not declare or pay any dividend on, make any distributions with respect to, or redeem, purchase or make a liquidation payment with respect to, any of our capital stock (other than (A) purchases or acquisitions of shares of our common stock in connection with the satisfaction by us of our obligations under any employee benefit plans or any other contractual obligation of ours (other than a contractual obligation ranking pari passu with or junior to the Subordinated Debentures); (B) as a result of a reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock; or (C) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged); (ii) we may not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees) issued by us which rank pari passu with or junior to the Subordinated Debentures; and (iii) we may not make any guarantee payments with respect to the foregoing.

Optional Redemption

We will have the right to redeem the Subordinated Debentures, in whole or in part, from time to time, without premium or penalty, on or after the date set forth in the applicable prospectus supplement, upon not less than 30 or more than 60 days' notice, at a redemption price equal to a percentage of the principal amount to be redeemed plus any accrued and unpaid interest, including Additional Interest (as defined herein), if any, to the Redemption Date, as specified in the applicable prospectus supplement. Upon the occurrence of a "Special Event", we may, upon not less than thirty (30) or more than 60 days notice, within 90 days following the occurrence thereof and subject to the terms and conditions of the

Subordinated Indenture, redeem such Subordinated Debentures, in whole, at a price equal to 100% of the principal amount to be redeemed plus any accrued but unpaid interest (including Additional Interest, if any) to the Redemption Date. In the event of redemption of such Subordinated Debentures in part only, new Subordinated Debentures for the unredeemed portion shall be issued in the name or names of the holders thereof upon the surrender thereof.

Interest

Each Subordinated Debenture will bear interest at the rate set forth in the applicable prospectus supplement from the original date of issuance, payable quarterly in arrears on dates which will be specified in the prospectus supplement (each, an "Interest Payment Date"), to the person in whose name such Subordinated Debenture is registered, subject to certain exceptions, on the record date specified in the applicable prospectus supplement.

The amount of interest payable for any period will 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 the Subordinated Debentures is not a business day, then payment of the 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.

Option to Extend Interest Payment Period

Except to the extent set forth in the applicable prospectus supplement, we will have the right at any time to defer payments of interest on Subordinated Debentures by extending the interest payment period for up to 20 consecutive quarters. At the end of such an Extension Period, we will pay all interest then accrued and unpaid (including any Additional Interest, together with interest thereon at the rate specified and to the extent permitted by applicable law). We covenant in the Supplemental Indenture for the benefit of the holders of a series of Subordinated Debentures, that, subject to the next succeeding sentence, (a) we shall not declare or pay any dividend on, or make any distributions with respect to, or redeem, purchase, acquire or make a liquidation payment with respect to, any of our capital stock, and (b) we shall not make any payment of interest, principal or premium, if any, on or repay, repurchase or redeem any debt securities (including guarantees other than the Trust Guarantee) issued by us which rank pari passu with or junior to said series of Subordinated Debentures (i) if at such time we shall have given notice of our election to extend an interest payment period for a series of Subordinated Debentures and such extension shall be continuing or (ii) if at such time an Event of Default with respect to a series of Subordinated Debentures shall have occurred and be continuing. The preceding sentence, however, shall not restrict (A) any of the actions described in the preceding sentence resulting from any reclassification of our capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock, (B) repurchases, redemptions or other acquisitions of shares of our capital stock in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers or directors or a stock purchase and dividend reinvestment plan, and (C) dividends or distributions in our capital stock, or (D) the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged.

Prior to the termination of any such Extension Period for a series of Subordinated Debentures, we may further defer payments of interest on such Subordinated Debentures, by extending the interest payment period, provided that such Extension Period together with all such previous and further extensions thereof for such series of Subordinated Debentures may not exceed 20 consecutive quarters or extend beyond the maturity of such series of Subordinated Debentures.

Upon the termination of any Extension Period for a series of Subordinated Debentures, and the payment of all accrued and unpaid interest on the Subordinated Debentures then due, we may select a

new Extension Period for such series of Subordinated Debentures, as if no Extension Period had previously been declared, subject to the above requirements. No interest on a series of Subordinated Debentures during an Extension Period, except at the end thereof, will be due and payable on such series of Subordinated Debentures.

If the Property Trustee is the sole holder of the Subordinated Debentures, we will give the Administrative Trustees and the Property Trustee notice of our selection of such Extension Period for such series of Subordinated Debentures one Business Day prior to the earlier of (i) the next succeeding date on which distributions on the related trust preferred securities are payable or (ii) the date the trust is required to give notice to the New York Stock Exchange or other applicable self-regulatory organization or to holders of such trust preferred securities on the record date or the date such distribution is payable, but in any event not less than one Business Day prior to such record date. The Administrative Trustees shall give notice of our selection of such Extension Period to the holders of such trust preferred securities. If the Property Trustee is not the sole holder of a series of Subordinated Debentures, we will give the holders of such Subordinated Debentures notice of our selection of such Extension Period ten Business Days prior to the earlier of (i) the Interest Payment Date or (ii) the date we are required to give notice to the New York Stock Exchange or other applicable self-regulatory organization or to holders of such Subordinated Debentures, but in any event at least two Business Days before such record date.

We have no present intention to defer interest payments.

Additional Interest

If the trust is required to pay any taxes, duties, assessments or other governmental charges (other than withholding taxes) imposed by the United States, or any other taxing authority, we will pay as additional interest ("Additional Interest") such additional amounts as shall be required so that the net amounts received and retained by the trust after paying any such charges will be equal to the amount the trust would have received had no such charge been imposed.

Subordinated Indenture Additional Events of Default

In addition to the Events of Default described under "Description of Debt Securities – Events of Default," the following will be an additional Event of Default: the voluntary or involuntary dissolution, winding up or termination of the trust except in connection with (a) the distribution of Subordinated Debentures to holders of Trust Securities in liquidation of the trust; (b) the redemption of all outstanding Trust Securities of the trust, or (c) certain mergers or consolidations permitted by the trust agreement.

The holders of not less than a majority in aggregate principal amount of Subordinated Debentures may waive any past default, except (a) a default in payment of principal, premium, interest or Additional Interest (unless such default has been cured and a sum sufficient to pay all installments due otherwise than by acceleration has been deposited with the Subordinated Debenture Trustee) or (b) a default in a covenant or provision which under Article Nine of the Subordinated Indenture may not be modified or amended without the consent or each holder of a Subordinate Debenture. The holders of trust preferred securities in certain circumstances have the right to direct the Property Trustee to exercise its rights as holder of Subordinated Debentures.

Payment and Paying Agents

Payment of principal and premium (if any) on Subordinated Debentures will be made only if the holder of Subordinated Debentures surrenders them to the Paying Agent of the Subordinated Debentures.

Principal of and any premium and interest, if any, on Subordinated Debentures will be payable, subject to any applicable laws and regulations, at the office of such Paying Agent or Paying Agents as we may designate from time to time pursuant to the Subordinated Debenture Indenture. Payment of interest on the Subordinated Debentures on any Interest Payment Date will be made to the person in whose name

the Subordinated Debenture (or predecessor security) is registered at the close of business on the Regular Record Date for such interest payment.

The Subordinated Indenture Trustee will act as Paying Agent with respect to the Subordinated Debentures. We may at any time designate additional Paying Agents or rescind the designation of any Paying Agent or approve a change in the office through which any Paying Agent acts, except that we will be required to maintain a Paying Agent at the place of payment.

Consolidation, Merger and Sale

The Subordinated Indenture provides that we will be permitted to consolidate with, or sell, lease or convey all or substantially all of its assets to, or merge with or into, any other entity provided that (a) either we shall be the continuing entity, or the successor entity (if other than SEMCO) formed by or resulting from any such consolidation or merger or which shall have received the transfer of such assets shall expressly assume the payment of the principal of (and premium, if any) and interest on all of the Subordinated Debentures and the due and punctual performance and observance of all of the covenants and conditions contained in the Subordinated Indenture; (b) immediately after giving effect to such transaction and treating any indebtedness that becomes an obligation ours or any subsidiary as a result thereof as having been incurred by us or such subsidiary at the time of such transaction, no Event of Default under the Subordinated Indenture, and no event which, after notice or the lapse of time, or both, would become such an Event of Default, shall have occurred and be continuing; and (c) an officer's certificate and legal opinion covering such conditions shall be delivered to the Indenture Trustee (Sections 801 and 803 of the Subordinated Indenture).

Information Concerning Subordinated Indenture Trustee

The Subordinated Indenture Trustee, prior to default and after the curing of all defaults, if any, undertakes to perform only such duties as are specifically set forth in the Subordinated Indenture and, after a default (that has not been cured or waived), will exercise the same degree of care as a prudent individual would exercise in the conduct of his or her own affairs. Subject to such provision, the Subordinated Indenture Trustee is under no obligation to exercise any of the powers vested in it by the Subordinated Indenture at the request of any holder of Subordinated Indentures, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby; but the foregoing will not relieve the Subordinated Indenture Trustee, upon the occurrence of an Indenture Event of Default, from exercising the rights and powers vested in it by the Subordinated Indenture. The Subordinated Indenture Trustee is not required to expend or risk its own funds or otherwise incur personal financial liability in the performance of its duties if the Subordinated Indenture Trustee reasonably believes that repayment or adequate indemnity is not reasonably assured to it.

Miscellaneous

We will have the right at all times to assign any of our rights or obligations under the Subordinated Indenture to a direct or indirect wholly-owned subsidiary of ours; provided that, in the event of any such assignment, we will remain liable for all of such obligations. Subject to the foregoing, the Subordinated Indenture will be binding upon and inure to the benefit of the parties thereto and their respective successors and assigns. The Subordinated Indenture provides that it may not otherwise be assigned by the parties thereto.

EFFECT OF OBLIGATIONS UNDER SUBORDINATED DEBENTURES AND TRUST PREFERRED SECURITIES GUARANTEE

As long as payments are made when due on Subordinated Debentures, the trust will have sufficient funds to be able to make all appropriate payments on Trust Securities. This is primarily because (a) the aggregate principal amount of the Subordinated Debentures will be equal to the sum of the aggregate stated liquidation amount of the Trust Securities; (b) the interest rate and interest and other payment

dates on the Subordinated Debentures will match the distribution rate and distribution and other payment dates for the Trust Securities; (c) we will pay for all costs and expenses of the trust; and (d) the trust agreement provides that the trustees may not cause or permit the trust to, among other things, engage in any activity that is not consistent with the purposes of the trust.

Payments of distributions and other payments due on the trust preferred securities (to the extent funds are available therefor) are guaranteed by us to the extent set forth under "Description of the Trust Guarantee." If we do not make interest payments on Subordinated Debentures, it is expected that the trust will not have sufficient funds to pay distributions on its trust preferred securities. The Trust Guarantee is a full and unconditional guarantee, but does not apply to any payment unless the trust has sufficient funds for such payment.

If we fail to make payments on Subordinated Debentures when due (taking into account any Extension Period), the trust agreement will provide a mechanism whereby holders of trust preferred securities may direct the Property Trustee to enforce its rights, including proceeding directly against us. If the Property Trustee fails to enforce its rights, a holder of trust preferred securities may sue us directly to enforce those rights, without first instituting legal proceedings against the trust, the Property Trustee or any other person or entity.

If we fail to make payments under the Trust Guarantee, the Trust Guarantee provides a mechanism whereby the holders of trust preferred securities may direct the Trust Guarantee Trustee to enforce its rights. If the Trust Guarantee Trustee fails to enforce its rights, any holder of trust preferred securities may institute a legal proceeding against us directly to enforce those rights without first instituting legal proceedings against the trust, the Trust Guarantee Trustee or any other person or entity.

Pursuant to an Agreement as to Expenses and Liabilities to be entered into by us under the trust agreement, we will irrevocably and unconditionally guarantee to each person or entity to whom the trust becomes indebted or liable the full payment of any indebtedness, expenses or liabilities of the trust other than obligations of the trust to pay to the holders of the related Trust Securities or other similar interests in the trust the amounts due such holders pursuant to the terms of the Trust Securities or such other similar interests, as the case may be.

The above mechanisms and obligations, taken together, are equivalent to a full and unconditional guarantee by us of payments due on trust preferred securities to the extent of funds available to the trust.

PLAN OF DISTRIBUTION

We may sell the securities offered pursuant to this prospectus in one or more series in any of three ways: (a) through underwriters or dealers; (b) through agents; or (c) directly to a limited number of purchasers or to a single purchaser, or through a combination of any of the foregoing methods of sale.

Through Underwriters or Dealers

If underwriters are used in the sale, the offered securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at the initial public offering price or at varying prices determined at the time of the sale. The offered securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more managing underwriters. The underwriter or underwriters with respect to offered securities will be named in the prospectus supplement relating to the offering and, if an underwriting syndicate is used, the managing underwriter or underwriters will be set forth on the cover page of the prospectus supplement. Unless otherwise set forth in the prospectus supplement, the obligations of the underwriters to purchase the offered securities will be subject to some conditions precedent, and the underwriters will be obligated to purchase all of the offered securities if any are purchased.

Through Agents

Offered securities may be sold through agents designated by us from time to time. A prospectus supplement will set forth the name of any agent involved in the offer or sale of the offered securities for which the prospectus supplement is delivered as well as any commissions that we will pay to that agent. Unless otherwise indicated in the prospectus supplement, that agent will be acting on a reasonable best efforts basis for the period of its appointment.

Directly

We may sell the offered securities directly to one or more purchasers. In this case, no underwriters or agents would be involved.

General Information

The prospectus supplement with respect to the offered securities will set forth the terms of the offering of the offered securities, including:

(a) the name or names of any underwriters, dealers or agents;

(b) the purchase price of the offered securities and the proceeds to us from their sale;

(c) any underwriting discounts, agents' commissions and other items constituting underwriting compensation;

(d) any initial public offering price; and

(e) any discounts or concessions allowed or re-allowed or paid to dealers.

Any initial public offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

Any underwriters utilized may engage in stabilizing transactions and syndicate covering transactions in accordance with Rule 104 of Regulation M under the 1934 Act. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the particular offered securities in the open market after the distribution has been completed in order to cover syndicate short positions. These stabilizing transactions and syndicate covering transactions may cause the price of the offered securities to be higher than it would otherwise be in the absence of such transactions.

Unless otherwise specified in a prospectus supplement, except for our common stock, which is listed on the New York Stock Exchange, the securities will not be listed on a national securities exchange or the Nasdaq Stock Market. No assurance can be given that any broker-dealer will make a market in any series of the securities, and, in any event, no assurance can be given as to the liquidity of the trading market for any of the securities. The prospectus supplement will state, if known, whether or not any broker-dealer intends to make a market in the securities. If no such determination has been made, the prospectus supplement will so state.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third parties may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment).

We or one of our affiliates may lend or pledge securities to a financial institution or other third party that in turn may sell the securities using this prospectus. Such financial institution or third party may transfer its short position to investors in our securities or in connection with a simultaneous offering of other securities offered by this prospectus or otherwise.

Agents, underwriters and dealers may be entitled under agreements entered into with us to indemnification by us against certain civil liabilities, including certain liabilities under the 1933 Act, as amended, or to contribution by us with respect to payments which those agents, underwriters and dealers may be required to make in respect thereof. Agents, dealers and underwriters may engage in transactions with or perform services for us and our affiliates in the ordinary course of business.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated by reference in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2004 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

VALIDITY

Mark Prendeville, Deputy General Counsel of SEMCO Energy, Inc. and Troutman Sanders LLP, special counsel to SEMCO Energy, Inc., will issue opinions about the legality of the offered securities for us. As of April 1, 2005, partners of Troutman Sanders LLP own less than one percent of our common stock. Certain matters relating to the formation of SEMCO Capital Trust III and the issuance of the Trust Preferred Securities under Delaware law and the Trust Agreements will be passed upon by Richards, Layton & Finger, P.A., special Delaware counsel to the Trust and SEMCO Energy, Inc. Any underwriters will be advised about other issues relating to any offering by their own legal counsel.



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SEC POWER SEARCH

Form 424B2

SEMCO ENERGY INC - SEN

Filed: August 15, 2005 (period:)

Form of prospectus filed in connection with primary offering of securities on a delayed basis

Filed pursuant to Rule 424(b)2
Registration Statement No. 333-125282

PROSPECTUS

350,000 Shares



SEMCOENERGY

SEMCO Energy, Inc.

5.00% Series B Convertible Cumulative Preferred Stock and the Shares of Common Stock Issuable Upon Conversion of the Preferred Stock

This prospectus relates to the offering for resale by selling securityholders of our 5.00% Series B Convertible Cumulative Preferred Stock and the shares of common stock issuable upon conversion of the preferred stock. On March 15, 2005 we issued 325,000 shares of our preferred stock in a private placement in reliance on an exemption from registration under the Securities Act of 1933. Subsequently, on March 18, 2005, the initial purchasers of the preferred stock exercised their option to purchase an additional 25,000 shares of the preferred stock. This prospectus will be used by selling securityholders to resell their shares of the preferred stock and the shares of our common stock issuable upon conversion of their shares of preferred stock. The selling securityholders may offer the securities at fixed prices, at prevailing market prices at the time of sale, at varying prices or at negotiated prices. We will not receive any proceeds from the sale of these securities by the selling securityholders.

When, as, and if declared by our board of directors out of legally available funds, we will pay dividends on the preferred stock quarterly in cash, in arrears, on each February 15, May 15, August 15 and November 15, beginning May 15, 2005. The preferred stock is convertible at the holder's option at any time at an initial conversion rate of 26.1438 shares of our common stock per $200 liquidation preference, which represents a conversion price of approximately $7.65 per share of common stock, subject to adjustment as described in this prospectus. In the event of a fundamental change that occurs before February 20, 2010, we will pay a make-whole premium on preferred stock converted in connection therewith, as described in this prospectus.

We may redeem the preferred stock for cash after February 20, 2010 at an initial redemption price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption. The preferred stock is mandatorily redeemable for cash on February 20, 2015 at a redemption price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption.

The preferred stock is eligible for trading in The Portal[sm] Market, a subsidiary of The Nasdaq Stock Market, Inc. The shares of preferred stock sold using this prospectus, however, will no longer be eligible for trading on PORTAL. The preferred stock is not listed on any securities exchange or included in any automated quotation system and we do not intend to apply for such listing or inclusion. Our common stock is listed on the New York Stock Exchange under the symbol "SEN." On August 9, 2005, the last reported sale price of our common stock was $6.55 per share.

The securities offered hereby involve significant risks and uncertainties. These risks are described under the caption "Risk Factors" beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 12, 2005

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SUMMARY

This summary highlights information contained elsewhere in this prospectus or incorporated by reference herein. You should read the entire prospectus and the incorporated documents carefully, including the financial statements and the notes thereto. You should read "Risk Factors" beginning on page 6 for more information about important factors that you should consider before investing in the preferred stock or the common stock issuable upon conversion of the preferred stock. References to "we," "us," "our" and "SEMCO" refer to SEMCO Energy, Inc. and its subsidiaries.

Our Company

We are a public utility company headquartered in southeastern Michigan. Our primary business is a regulated natural gas distribution business with operations in Michigan and Alaska. Founded in 1950, we have historically conducted diversified, non-utility businesses in addition to our natural gas distribution business. Beginning in 2003, our Board of Directors decided to focus our efforts on our core natural gas distribution business. This shift in strategic focus prompted efforts to market our discontinued construction services business, which was sold in September 2004. Our gas distribution business accounted for approximately 98% of our consolidated revenues in 2004.

We purchase, transport, distribute and sell natural gas to approximately 404,000 customers in Michigan and Alaska as of June 30, 2005. Our Michigan gas operations are known as SEMCO Gas and our Alaskan operations are known as ENSTAR. As of December 31, 2004, we had 160 miles and 393 miles of gas transmission pipelines and 5,529 miles and 2,527 miles of gas distribution mains and service lines in and near the SEMCO Gas and ENSTAR service areas, respectively. Our customer base includes residential, commercial and industrial customers, of which approximately 90% were residential as of June 30, 2005. Our largest customers include power plants, food production facilities, paper processing plants, furniture manufacturers, a liquefied natural gas plant, a fertilizer plant and others in a variety of industries.

Our executive offices are located at 1411 Third Street, Suite A, Port Huron, Michigan 48060, and our telephone number is (810) 987-2200.

Gas Distribution Business

Our gas distribution business has two primary components: gas sales and gas transportation. Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. Revenues from gas sales accounted for approximately 91% of consolidated operating revenues in 2004 and approximately 90% of consolidated operating revenues in both 2003 and 2002. Our gas distribution business also provides transportation services to its large-volume commercial and industrial customers. With such transportation services, those customers have the option of purchasing natural gas directly from third-party suppliers. The gas purchased by customers from third-party suppliers is then transported on our gas transmission and distribution network to the customers.

SEMCO Gas, one of our divisions, provides natural gas and associated services to a diverse customer base of, as of June 30, 2005, approximately 284,000 residential, commercial and industrial customers in Michigan. Our largest concentration of customers is in southeastern Michigan, where we had approximately 116,000 customers as of June 30, 2005.

ENSTAR's operations consist of ENSTAR Natural Gas Company (one of our divisions), Alaska Pipeline Company, or APC (one of our subsidiaries), and Norstar Pipeline Company (a subsidiary of APC). ENSTAR provides natural gas distribution services to approximately 120,000 customers in the Anchorage metropolitan and adjoining areas, and its service area encompasses over 50% of the population of Alaska, as of June 30, 2005. Our average number of customers in Alaska increased by an average of approximately 3.2% annually during the last three years. According to 2003 data supplied by the American Gas Association, ENSTAR also has one of the highest consumption levels of natural gas per residential customer among investor-owned utilities in the United States. APC's transmission system delivers natural gas from producing fields in south central Alaska to ENSTAR's Anchorage-area gas distribution system. APC's only customer is

ENSTAR. Norstar began operations in 2002 and provides pipeline management and pipeline construction management services to non-affiliate customers in Alaska.

Other Businesses

We also own and operate other businesses that generally complement our gas distribution business, consisting of information technology services, propane distribution, intrastate natural gas pipelines and natural gas storage facilities. These businesses generated approximately 2% of our consolidated revenues in 2004.

We maintain a website on the Internet at address http://www.semcoenergy.com. We make available free of charge on or through our website, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC. This reference to our Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into any of our filings with the Securities and Exchange Commission, or SEC. The information available at our Internet address is not part of this prospectus or any other report filed by us with the SEC. The information we file with the SEC can also be obtained on the SEC's website on the Internet at address http://www.sec.gov.

The Offering

This offering is a secondary offering by the selling holders of the preferred stock and shares of our common stock, as described below. The selling securityholders may offer the securities at fixed prices, at prevailing market prices at the time of sale, at varying prices or at negotiated prices. We will not receive any proceeds from the selling securityholders' sale of the shares of preferred stock or common stock.

On March 15, 2005, we sold 325,000 shares of the preferred stock to the initial purchasers. On March 22, 2005, we sold an additional 25,000 shares of the preferred stock to the initial purchasers following the exercise of the initial purchasers' over-allotment option. We entered into a registration rights agreement with the initial purchasers in the private offering in which we agreed, for the benefit of the holders of the preferred stock, to file a shelf registration statement with the SEC no later than June 13, 2005 with respect to resales of the preferred stock and common stock issued upon the conversion thereof. We also agreed to use our commercially reasonable efforts to cause the shelf registration statement to be declared effective under the Securities Act as soon as practicable, but no later than September 11, 2005, and to keep the shelf registration statement effective until the preferred stock and common stock issued upon the conversion thereof is eligible to be sold under Rule 144(k) under the Securities Act or until all shares of the preferred stock and common stock issued upon the conversion thereof have been sold pursuant to such shelf registration statement.

Issuer	SEMCO Energy, Inc.
Securities Offered	350,000 shares of 5.00% Series B Convertible Cumulative Preferred Stock and the shares of common stock issuable upon conversion of the preferred stock.
Dividends	Cumulative annual dividends of $10.00 per share payable quarterly in cash on each February 15, May 15, August 15 and November 15, beginning May 15, 2005, when, as and if declared by our Board of Directors out of legally available funds. Dividends will be paid in arrears on the basis of a 360-day year consisting of twelve 30-day months. Dividends on the preferred stock will accumulate and be cumulative from the date of issuance. Accumulated dividends on the preferred stock will compound quarterly.
Liquidation Preference	$200 per share, plus accumulated and unpaid dividends.

Ranking	The preferred stock ranks with respect to dividend rights and rights upon our liquidation, winding-up or dissolution: • senior to all of our common stock and preference stock and to each other class of capital stock or series of preferred stock issued in the future unless the terms of that stock expressly provide that it ranks senior to, or on a parity with, the preferred stock; • on parity with any class of capital stock or series of preferred stock established after the issue date which expressly provides that such class or series will rank on parity with the preferred stock; and • junior to all of our capital stock issued in the future the terms of which expressly provide that such stock will rank senior to the preferred stock.
Mandatory Redemption	We are obligated to redeem for cash all of the outstanding shares of preferred stock on February 20, 2015 at the redemption price of 100% of the liquidation preference, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption.
Optional Redemption	We may redeem the preferred stock after February 20, 2010, at an initial redemption price of 100% of the liquidation preference plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption.
Conversion Rights	The preferred stock is convertible at the holder's option at an initial conversion rate of 26.1438 shares of our common stock per $200 liquidation preference of shares (which represents a conversion price of approximately $7.65 per share of common stock) under conditions and subject to such adjustments as described under "Description of Preferred Stock — Conversion Rights."
Make-Whole Premiums upon a Fundamental Change	If a fundamental change occurs prior to February 20, 2010, we may be required to pay a make-whole premium on the preferred stock converted in connection with the fundamental change. The make-whole premium will be payable in shares of our common stock or the consideration into which our common stock has been converted or exchanged in connection with the fundamental change. The amount of the make-whole premium, if any, will be based on the stock price and the effective date of the fundamental change. A description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and effective dates is set forth under "Description of Preferred Stock — Determination of the Make-Whole Premium."
Voting Rights	Except as required by Michigan law and our articles of incorporation, which include the certificate of designation for the preferred stock, the holders of preferred stock have no voting rights unless dividends payable on the preferred stock are in arrears for eight or more quarterly periods. In that event, the holders of the preferred

	stock, voting as a single class with the shares of any other preferred stock having similar voting rights, will be entitled at the next regular or special meeting of our shareholders to elect such number of directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors. These voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the preferred stock has been paid in full. The affirmative vote of holders of at least $66^2/3\%$ of the outstanding preferred stock and any other outstanding series of preferred stock, voting as a single class, is required for the issuance of any class or series of stock (or security convertible into stock) ranking senior to, or on a parity with, the preferred stock or parity stock as to dividend rights or rights upon our liquidation, winding-up or dissolution and for amendments to our articles of incorporation that would affect adversely the rights of holders of the preferred stock.
Use of Proceeds	We will not receive any proceeds from the sale of the preferred stock or the sale of the common stock issuable upon conversion of the preferred stock. Please see “Selling Securityholders” below for a list of the persons receiving proceeds from the sale of the preferred stock or the underlying common stock.
Material U.S. Federal Income Tax Considerations	The U.S. federal income tax consequences of purchasing, owning and disposing of the preferred stock and any common stock received upon its conversion are described in “Material U.S. Federal Income Tax Considerations.” Prospective investors are urged to consult their own tax advisors regarding the tax consequences of purchasing, owning and disposing of the preferred stock and any common stock received upon its conversion in light of their personal investment circumstances, including consequences resulting from the possibility that actual or constructive distributions on the preferred stock may exceed our current and accumulated earnings and profits, as calculated for U.S. federal income tax purposes, in which case the portion of such distributions in excess of earnings and profits would not be treated as dividends for U.S. federal income tax purposes.
Registration Rights	We have agreed to file with the SEC no later than June 13, 2005, and to use our commercially reasonable efforts to cause to become effective as soon as practicable, but no later than September 11, 2005, a shelf registration statement with respect to the resale of the preferred stock and shares of common stock issuable upon conversion of the preferred stock. If we fail to comply with certain of our obligations under the registration rights agreement, additional dividends will become payable on the preferred stock. See “Description of the Preferred Stock — Registration Rights.”
DTC Eligibility	The preferred stock was issued in book-entry form and is represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the

	preferred stock will be shown on, and transfers are effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances. See “Description of Preferred Stock — Book-Entry Delivery and Form.”
Listing and Trading	The preferred stock is not listed on any securities exchange or included in any automated quotation system and we do not intend to apply for such listing or inclusion. The preferred stock is eligible for trading in PORTAL. However, any shares of preferred stock sold by means of this prospectus will no longer be eligible for trading in PORTAL. Our common stock is listed for trading on the NYSE under the symbol “SEN.”

RISK FACTORS

Investing in the preferred stock and our common stock involves a high degree of risk. You should carefully consider the following risk factors, in addition to the other information in this prospectus, before making an investment decision. Each of these risk factors could adversely affect our business, operating results and financial condition, and the value of an investment in our preferred stock or common stock.

Risks Relating to Our Preferred Stock

We may not be able to pay cash dividends on the preferred stock.

We are required to pay all declared dividends on the preferred stock in cash. Our existing credit agreement and certain indentures limit, and any indentures and other financing agreements that we enter into in the future will likely limit, our ability to pay cash dividends on our capital stock.

Certain of our existing indentures prohibit us from making payments of cash dividends on our capital stock if our fixed charge ratio (as defined therein) is lower than 2:1. We currently do not meet this ratio. However, these indentures allow us to make cash dividend payments of up to $13.5 million per year, even if we do not meet these tests.

Under our existing credit agreement, we are prohibited from paying dividends and other distributions on our capital stock unless the aggregate amount of such dividends and other restricted payments does not exceed the sum of $12.0 million plus 80% of our consolidated net income as calculated thereunder. As of June 30, 2005, we are permitted to pay dividends, including dividends on the preferred stock, in an aggregate amount of approximately $6.1 million. Our existing credit agreement expires on September 23, 2005, and there are no guarantees that we will be successful in negotiating a new credit facility with equal or more favorable terms permitting the payment of cash dividends.

There is no public market for the preferred stock.

The preferred stock is currently eligible for trading in PORTAL. Any shares of preferred stock that are sold by means of this prospectus, however, will no longer be eligible for trading in PORTAL. The preferred stock will be a new issue of securities for which there is currently no market and the preferred stock will not be listed for trading on any national securities exchange or the Nasdaq National Market. We have not applied, and do not intend to apply, to list the preferred stock on any securities exchange or include them in any other automated quotation system. As a result, we cannot assure you that any market for the preferred stock will develop or, if one does develop, that it will be maintained. If an active market for the preferred stock fails to develop or be sustained, the trading price of the preferred stock could be materially adversely affected or you may not be able to sell your preferred stock quickly.

Before conversion, holders of the preferred stock will have limited voting rights, and will be subject to changes affecting our common stock.

The affirmative vote of the holders of at least $66^{2}/3\%$ of the outstanding preferred stock and any other outstanding series of preferred stock, voting as a single class, is required for the authorization or issuance of any class or series of senior stock (or any security convertible into senior stock) or parity stock (or any security convertible into parity stock) and for amendments to our articles of incorporation that could affect adversely the rights of holders of the preferred stock. Otherwise, holders of preferred stock will not be entitled to full voting rights with respect to our common stock, but (except for the matters described in the preceding sentence) holders will be subject to all changes affecting the common stock. A holder will only be entitled to full voting rights with respect to the common stock if and when we deliver shares of common stock to the holder upon conversion of the preferred stock. For example, in the event that an amendment is proposed to our articles of incorporation or bylaws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to the conversion date, except for the matters described in the first sentence above, the holders of the preferred stock will not be entitled to vote on

the amendment, although they will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

Third parties may be deterred or prohibited from acquiring our capital stock, which could deprive our shareholders of the opportunity to gain a takeover premium and depress our stock price.

Certain provisions of our organizational documents, as well as other statutory and regulatory factors, may have the effect of discouraging or preventing others from acquiring large blocks of our common stock, or making it difficult to do so, including the following:

- our articles of incorporation divide the Board into three classes that serve staggered terms;
- our directors may be removed only for cause and by the affirmative vote of a majority of the shares entitled to vote in the election of directors; and
- our Shareholder's Rights Plan grants our common shareholders the right to purchase shares of our Series A Preference Stock upon the occurrence of certain triggering events (the purpose of the plan is to ensure that any potential purchaser of the company must negotiate with our Board before an acquisition).

In addition, the acquisition or accumulation of large blocks of our voting securities may require prior approval of the Regulatory Commission of Alaska (the RCA) and may result in the acquiring entity becoming subject to the jurisdiction of and regulation of the RCA, and notwithstanding the repeal of the Public Utility Holding Company Act of 1935, to other state or federal regulation as a public utility holding company. These consequences would result in substantial increases in that entity's administrative, legal and regulatory compliance costs and could have similar adverse consequences for us.

We may issue additional shares of common stock and thereby materially and adversely affect the price of our common stock.

We are not restricted from issuing additional common stock, and we have no obligation to consider the interests of the holders of the preferred stock in connection with any such issuance. Our issuance of additional shares of common stock may materially and adversely affect the price of our common stock and, in turn, the price of the preferred stock. On August 9, 2005, we entered into an underwriting agreement with Credit Suisse First Boston LLC, as representative of the underwriters named therein, relating to the sale of 4,300,000 shares of our common stock, which is expected to close on or about August 15, 2005. We also granted the underwriters a 30-day option to purchase an additional 645,000 shares of our common stock solely to cover over-allotments. The intended use of proceeds from our issuance of common stock is to redeem at par a like amount of our 10.25% subordinated notes and related trust preferred securities.

The preferred stock may not be rated.

We have no obligation, and do not intend, to have the preferred stock rated. If one or more rating agencies does rate the preferred stock or assigns the preferred stock a rating lower than the rating expected by investors, or subsequently reduces any such rating, the market price of the shares of the preferred stock could be harmed.

The price of our securities may be affected by the general perception of the energy and utility sectors of the economy.

Events which have occurred and may in the future occur in the United States and elsewhere could adversely affect investors' perceptions of the energy and utility sectors. A negative perception of our industry by investors could adversely affect the equity prices of companies within the energy and utility sectors. We cannot predict what news or events might affect the perceptions of investors in our industry or how such news or events might affect the market price of our common stock, but fluctuations in the market price of our common stock could be severe and any effects could be long-term.

Risks Relating to Our Indebtedness

Our existing bank credit agreement is set to expire in September 2005. To the extent we are unable to obtain a new bank credit facility, our results of operation and financial results could be adversely affected.

Our existing bank credit agreement is set to expire on September 23, 2005. At June 30, 2005, there was approximately $12.3 million in letters of credit outstanding on our credit facility and no borrowings outstanding, leaving approximately $88.5 million of our bank credit agreement unused. Historically, our borrowings under our bank credit facilities are highest during the fourth quarter. In order to continue to provide working capital to finance our operations in the future, we are in the process of negotiating a new bank credit facility. We can make no assurance that we will be able to obtain a new bank credit facility on appropriate terms. If we are unable to finalize a new bank credit facility, or do so on appropriate terms, our business, results of operations, liquidity and financial condition could be adversely affected.

Our debt indentures and current bank credit agreement governing our existing debt contain restrictive covenants that may reduce our flexibility in our business operations and limit our growth.

The terms of the indentures relating to certain of our outstanding debt securities and of our bank credit agreement impose significant restrictions on our ability and, in some cases, the ability of our subsidiaries, to take a number of actions that we may otherwise desire to take, including:

- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;
- requiring us to meet certain financial tests, which may affect our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limiting our ability to sell assets, make investments or acquire assets of, or merge or consolidate with, other companies;
- limiting our ability to repurchase or redeem our stock or enter into transactions with our stockholders or affiliates;
- limiting our ability to grant liens, incur additional indebtedness or contingent obligations or obtain additional financing for working capital, capital expenditures, acquisitions and general corporate and other activities; and
- detracting from our ability to successfully withstand a downturn in our business or the economy generally.

These covenants place constraints on our business and may adversely affect our growth, business, results of operations, liquidity and financial condition. Our failure to comply with any of the financial covenants in our current credit agreement or in any future credit facility we may negotiate may result in an event of default which, if not cured or waived, could result in the acceleration of the debt under the applicable credit facility or the indentures governing our outstanding debt issuances that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness, which could result in a material adverse effect on our business, results of operation, liquidity and financial condition.

Adverse changes in our credit ratings may limit our access to capital, increase our cost of capital, increase the cost of maintaining certain contractual relationships or otherwise have a material adverse effect on our business, results of operation, liquidity and financial condition.

Since March 2003, Moody’s Investors Service, Inc. has reduced the credit rating on our senior unsecured debt from Baa3 to Ba2. Since June 2003, Standard & Poor’s Ratings Group has lowered our corporate credit rating from BBB- to BB-. In addition, on March 10, 2005, we were informed that Moody’s Investors Service,

Inc. changed its outlook from “stable” to “negative.” These downgrades have required us to pay higher interest rates for financing, increasing our cost of capital. Any additional downgrades could further increase our capital costs and limit our pool of potential investors and funding sources, possibly increasing our costs of operations or requiring us to use a higher percentage of our available borrowing capacity for ordinary course purposes.

Further credit downgrades could also negatively affect the terms on which we can purchase gas and pipeline capacity. As a result of the prior downgrades noted above, four of the pipelines we utilize have required prepayment for their services, one gas supplier has required us to pay multiple times in the month of delivery and other gas suppliers have requested prepayment or letters of credit. We cannot assure you that customers and other suppliers will not impose additional requirements or restrictions on the conduct of our business.

We cannot assure you that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency. Any downgrade, however, could adversely affect our business, results of operations, liquidity and financial condition.

Our substantial indebtedness may reduce our profitability, limit our growth and diminish our ability to respond to changing economic conditions.

Our business is capital intensive and we have significant amounts of debt. At June 30, 2005, we had total short and long-term debt of $488.1 million. Our substantial debt may adversely affect our business, results of operations, liquidity and financial condition. For example, our substantial debt may:

- limit our ability to borrow additional funds;
- increase the cost of any future debt that we incur;
- reduce cash flow from operations available for working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage as compared to our competitors that are less highly leveraged;
- result in a downgrade in our credit ratings; or
- diminish our ability to successfully withstand a downturn in our business or the economy generally.

Our ability to meet our debt service obligations and to reduce our total indebtedness will depend upon our future performance, which will be subject to weather, general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including our bank credit agreement, our existing debt and debt securities, on commercially reasonable terms or at all.

Despite our substantial indebtedness, we may still be able to incur more debt which could further exacerbate the risks associated with our substantial debt.

Although we are presently limited in incurring additional indebtedness, we may be able to incur additional debt in the future. Restrictions applicable to us on the incurrence of additional debt contained in the indentures and bank credit agreement governing our existing debt are subject to a number of qualifications and exceptions that allow us to incur additional debt. An increase in the amount of our indebtedness may negatively affect our capital structure and credit ratings. If new debt is added to our current debt levels, the risks that we now face could intensify.

We are vulnerable to interest rate risk with respect to our debt which could lead to an increase in interest expense.

We are subject to interest rate risk in connection with the issuance of variable and fixed-rate debt. In order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed and variable-rate interest payment obligations over the life of the arrangements, without exchange of the underlying principal amounts. We cannot assure you that we will be successful in structuring such swap agreements to effectively manage our risks. If we are unable to do so, our earnings may be reduced.

Risks Relating to Our Business

Our natural gas distribution business is subject to utility rate regulation, and certain actions of the regulatory bodies may reduce our revenues and our profitability.

We are regulated by the Michigan Public Service Commission, or MPSC, the RCA and the City Commission of Battle Creek, Michigan, or CCBC. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. With regard to regulation by the MPSC and the CCBC, in March 2005 and February 2005, respectively, we entered into settlements which upon approval, authorized rate increases. With certain exceptions, we have agreed not to request a further base rate increase with the CCBC to be effective before April 1, 2008, but we are not restricted in requesting that the MPSC authorize further base rate increases. With regard to regulation by the RCA, in June 2005, the RCA issued an order that, among other things, requires our Alaska division and its pipeline subsidiary to file a depreciation study of their Alaska utility plant by June 1, 2007 (as of December 31, 2006) and a revenue requirement and cost-of-study (including rate design data) with the RCA by June 6, 2008 (using a test year ended December 31, 2007).

Approximately 98% of our revenues are generated by our regulated gas distribution business. While we currently have settlements with the MPSC and the CCBC setting our rates in those jurisdictions, there is no guarantee that we would prevail in seeking rate increases in future rate cases. We also have no guarantee that we will be successful in our rate case before the RCA after December 31, 2007. The possibility of a rate decrease, the failure to grant any requested rate increase, cost disallowances, the precise timing of any rate increase, decrease or any other action by our regulators, may reduce our revenues and our profitability.

Our operations and earnings are weather sensitive and seasonal.

Our gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers, who use natural gas mainly for space heating. Consequently, weather has a significant impact on sales and revenues. Given the impact of weather on our gas distribution business, this segment is a seasonal business. Most of our gas sales revenue is generated in the first and fourth quarters of the calendar year and we typically experience losses in the non-heating season, the second and third fiscal quarters of the year. As a result, a mild winter in one of our service areas can have a significant adverse impact on demand for natural gas and, consequently, our earnings and results of operations.

Warmer than normal weather over the last several years has adversely affected the results of operations of our gas distribution business, which has accounted for more than 98% of our consolidated operating revenues for the last three fiscal years. In our Michigan service area, the temperature was approximately 0.3% and 0.9% warmer than normal during 2004 and 2002, respectively, and approximately 4.7% colder than normal during 2003. The temperature was approximately 6.0%, 8.0% and 7.8% warmer than normal in our Alaska service area during 2004, 2003 and 2002, respectively. We estimate that the combined impact of warmer or colder than normal temperatures in Michigan and/or Alaska reduced the gas sales margin of our gas distribution business by approximately $3.9 million, $2.7 million and $5.9 million in 2004, 2003 and 2002, respectively.

Our customers may be able to acquire natural gas without using our distribution system, which would reduce our revenues.

Consistent with other gas distribution utilities, there is potential risk for industrial customers and electric generating plants, located in close proximity to interstate natural gas pipelines, to bypass us and connect directly to such pipelines, which would reduce our revenues. From time to time, customers raise the issue of bypass and we attempt to address their concerns. We can make no assurances that our customers will not bypass us or that we could successfully retain such customers by employing any special efforts.

Our earnings growth is substantially dependent on customer growth.

Many of our customers are increasingly endeavoring to conserve on energy costs through utilizing energy-efficient heating devices, increased insulation, alternative energy sources and other means. Over the past several years, average annual gas usage has been decreasing slightly because, among other things, new homes and appliances are typically more energy efficient than older homes and appliances. Accordingly, our earnings growth is substantially dependent on customer growth and may be adversely affected if we are unable to achieve customer growth within our existing service territories or add additional customers by expanding our service territories.

Our operating results may be reduced by downturns in the economy.

Our operations are affected by the conditions and overall strength of the national, regional and local economies, which impacts the amount of residential, industrial and commercial growth and actual gas use in our service territories. Many of our commercial and industrial customers use natural gas in the production of their products. During economic downturns, these customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of natural gas they require for production. In addition, during periods of slow or little economic growth, energy conservation efforts often increase. A weakening economy could also adversely impact our customer collections.

Volatility in the price of natural gas and alternative energy sources could reduce our profits.

The market price of alternative energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for our gas transportation services. Certain large industrial customers have or may acquire the capacity to be able to use one or more alternative energy sources or shift production to other facilities if the price of natural gas and delivery services increase significantly. Natural gas has typically been less expensive than these alternative energy sources. However, over the past three years, natural gas prices have been volatile, making some of these alternative energy sources more economical than natural gas. During this period, certain of our large Michigan industrial customers have periodically switched to alternative energy sources.

To lessen the possibility of fuel switching by industrial customers, we offer flexible contract terms and additional services, such as gas storage and balancing. Partially offsetting the impact of this price sensitivity among certain large industrial customers has been the use of natural gas to reduce emissions from their plants. We cannot predict the future stability of natural gas prices nor can we make any assurances that the impact of environmental legislation or any special services we offer will outweigh the negative effects of gas price volatility. Should these customers convert their requirements to another form of energy, our revenue could be reduced.

Our liquidity and earnings could be adversely affected by the MPSC's retrospective review of our gas procurement practices.

Pricing for our gas distribution services are governed in Michigan by an MPSC-approved gas cost recovery, or GCR, pricing mechanism and in Alaska by an RCA-approved gas cost adjustment, or GCA, pricing mechanism. Both of these pricing mechanisms are designed so that, in the absence of any cost disallowances, our cost of gas purchased is passed-through to our customers and, therefore, we do not recognize any income on the gas commodity charge portion of customer rates. In both jurisdictions, these

pricing mechanisms allow for the adjustment of rates charged to customers for increases and decreases in the cost of gas purchased by us for sale to customers.

In our gas distribution area regulated by the MPSC, our gas procurement practices are subject to an annual MPSC review. If costs are then disallowed, such costs would be expensed in the cost of gas but would not be recovered by us in rates. The ability of the MPSC to annually retrospectively review our gas procurement practices creates the potential for the disallowance of our recovery through the rates we charge of some or all of our costs of purchasing gas. Such a disallowance could affect our liquidity and earnings.

Declining production from the Cook Inlet gas fields may result in potential deliverability problems in ENSTAR's service area.

ENSTAR's Anchorage area gas supply system is not linked to major interstate and intrastate pipelines or natural gas supplies in other states or Canada. As a result, ENSTAR procures natural gas supplies under long-term RCA-approved contracts from producers in and near the Cook Inlet area. Production from the Cook Inlet gas fields is declining and new discoveries have been modest. As of January 1, 2004, the Cook Inlet area had approximately 2.1 trillion cubic feet, or Tcf, of total proved natural gas reserves according to the most recently available information contained in the Alaska Department of Natural Resources Division of Oil and Gas 2004 Annual Report. Based on the Department's reported 2003 net production of 208 billion cubic feet, or Bcf, there is a reserve life of approximately 10 years, although shortages of daily deliverability could occur earlier. There is ongoing exploration for natural gas in the Cook Inlet area by several parties, including producers that have supply contracts with ENSTAR. The United States Geological Survey and Minerals Management Service has estimated that the Cook Inlet area contains another approximately 2.3 Tcf of undiscovered natural gas, but there are no assurances that any of this natural gas will be discovered and, if discovered, can be produced economically.

ENSTAR has been active in efforts to extend its supply of Cook Inlet gas and to find other gas sources. In addition, preliminary activity by other energy industry participants is underway to finance, permit and build a natural gas pipeline that would extend from Alaska's North Slope, through Alaska and Canada, to the lower 48-states. Assuming this pipeline is built, the flow of natural gas through it could not be expected to begin before the middle of the next decade, at the earliest. We can provide no assurances, however, with respect to the building of this pipeline, when it will be put in service, or whether natural gas supplies transported by the pipeline would be available to ENSTAR customers.

Changes in our regulatory environment and recent events in the energy markets that are beyond our control may reduce our profitability and limit our access to capital markets.

Our rates and operations in our gas distribution business are subject to regulation by various federal, state and local regulators as well as the actions of federal, state and local legislators. As a result of the energy crisis in California during 2000 and 2001, the volatility of natural gas prices in North America, the bankruptcy filings by certain energy companies and investigations by governmental authorities into energy trading activities, the collapse in market values of energy companies and the downgrading by rating agencies of a large number of companies in the energy sector, companies in the regulated and unregulated energy businesses have generally been under an increased amount of scrutiny by federal, state and local regulators, participants in the capital markets and the rating agencies. In addition, the Financial Accounting Standards Board, or FASB, or the SEC could enact new accounting standards that could impact the way we are required to record revenues, assets and liabilities. We cannot predict or control what effect these types of events, or future actions of regulatory agencies in response to such events, may have on our business or our access to the capital markets.

We may be required to recognize additional impairment charges which would reduce our reported earnings.

Pursuant to generally accepted accounting principles, we are required to perform impairment tests on our goodwill balance annually or at any time when events occur, which could impact the value of our business segments. During the fourth quarter of 2004, it was determined that all of the goodwill associated with our IT

services business ($0.2 million) was impaired. The $0.2 million before-tax charge for impairment of goodwill is reflected in our Consolidated Statements of Operations for the year ended December 31, 2004, in operating expenses. During the third quarter of 2003, it was determined that all of the goodwill associated with our construction services business ($17.6 million) was impaired. The $17.6 million before-tax charge for impairment of goodwill is reflected in our Consolidated Statements of Operations for the year ended December 31, 2003, as part of the loss from the discontinued construction services business.

The 2005 annual impairment tests for our business units will be conducted during the third and fourth quarters of 2005. There were no adverse changes in the carrying amount of goodwill for the six-month period ended June 30, 2005. Our determination of whether an impairment has occurred is based on an estimate of discounted cash flows attributable to our reporting units that have goodwill. We must make long-term forecasts of future revenues, expenses and capital expenditures related to the reporting unit in order to make the estimate of discounted cash flows. These forecasts require assumptions about future demand, future market conditions, regulatory developments and other factors. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period that could substantially reduce our reported earnings in a period of such change, but not have any impact on our cash flow.

Our ability to use net operating loss carry-forwards may be impaired.

As of December 31, 2004, we had available approximately $111.0 million of net operating losses, or NOLs, with which to offset the imposition of federal income taxes with respect to our future taxable income. In 2004, we underwent an “ownership change” for purposes of section 382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change occurs whenever there is a more than 50% change in the ownership of the stock of a corporation, taking into account all cumulative changes in ownership over the preceding three years. As a result of the ownership change, our ability to use approximately $103 million of our total NOLs in the future is limited. However, we believe that, based on the size of the limitation and projections of future taxable income, we should be able to utilize the entire $111.0 million of NOLs before they expire.

The issuance of additional shares of our capital stock could ultimately trigger another ownership change that could further limit our ability to use such NOLs. While our March 2005 issuance of the preferred stock alone did not trigger such an ownership change, that offering when coupled with future common stock offerings and changes in the ownership of our common stock (some of which will be beyond our control) will probably lead to a future ownership change. Any such future ownership change could result in the imposition of lower limits on our utilization of the NOLs to offset future taxable income as well as our ability to use certain built-in losses and tax credits. The magnitude of such limitations and their effect on us is difficult to assess and will depend in part on our value at the time of any such ownership change and prevailing interest rates at such time.

Our operations and business are subject to extensive environmental laws and regulations that may increase our cost of operations, impact or limit our business plans or expose us to environmental liabilities.

Our operations and business are subject to extensive environmental laws and regulations that relate to the environment and health and safety, including those that impose liability for the costs of investigation and cleaning up, and for damage to natural resources from, past spills, waste disposal on and off-site and other releases of hazardous materials or regulated substances. In particular, under applicable environmental requirements, we may be responsible for the investigation and remediation of environmental conditions at currently owned or leased sites, as well as formerly owned, leased, operated or used sites. We may be subject to associated liabilities, including liabilities resulting from lawsuits brought by private litigants, related to the operations of our facilities or the land on which our facilities are located, regardless or whether we lease or own the facility, and regardless of whether such environmental conditions were created by us or by a prior owner or tenant, or by a third-party or a neighboring facility whose operations may have affected our facility or land.

Given the nature of the past operations conducted by us and others at our properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where environmental site assessments or other investigations have been conducted. Changes in existing laws or policies or their enforcement, future spills or accidents or the discovery of currently unknown contamination may give rise to environmental liabilities which may be material. Based upon the information presently available to us, we expect to incur costs associated with investigatory and remedial actions at seven of our Michigan sites that were formerly manufactured gas plant operations. Because the extent of the soil and groundwater contamination at these sites has not been fully delineated and the scope of our liability (along with other responsible parties, if any) has not been determined, it is difficult for us to estimate the full extent of our liability at this time. However, it is possible that our share of such liability could be material. To the extent not fully recoverable from our customers through regulatory rate proceedings or from insurance recoveries, these costs would reduce our earnings and could harm our business.

Compliance with the requirements and terms and conditions of the environmental licenses, permits and other approvals that are required for the operation of our business may cause us to incur substantial capital costs and operating expenses and may impose restrictions or limitations on the operation of our business, all of which could be substantial. Environmental health and safety regulations may also require us to install new or updated pollution control equipment, modify our operations or perform other corrective actions at our facilities. Existing environmental laws and regulations may be revised to become more stringent or new laws or regulations may be adopted or become applicable to us which may result in increased compliance costs or additional operating restrictions and could reduce our earnings and harm our business, particularly if those costs are not fully recoverable from our customers through regulatory rate proceedings.

Substantial operational risks are involved in operating a natural gas distribution, pipeline and storage system and such operational risks could reduce our revenues and increase our expenses.

There are substantial risks associated with the operation of a natural gas distribution, pipeline and storage system, such as operational hazards and unforeseen interruptions caused by events beyond our control. These include adverse weather conditions, accidents, the breakdown or failure of equipment or processes, the performance of pipeline facilities below expected levels of capacity and efficiency and catastrophic events such as explosions, fires, earthquakes, floods, landslides or other similar events beyond our control. These risks could result in injury or loss of life, extensive property damage, business interruption or environmental pollution, which in turn could lead to substantial financial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks. Liabilities incurred that were not fully covered by insurance could adversely affect our results of operation and financial condition. Additionally, interruptions to the operation of our gas distribution, pipeline or storage system caused by such an event could reduce revenues generated by us and increase our expenses.

Our ability to grow our businesses will be adversely affected if we are not successful in making acquisitions or in integrating the acquisitions we have made.

One of our strategies is to grow through acquisitions. There is significant competition for acquisitions in the U.S. natural gas industry and we believe that there are numerous potential acquisition candidates, some of which represent opportunities that would be material to us. We cannot assure you that we will find attractive acquisition candidates in the future, that we will be able to acquire such candidates on economically acceptable terms, that any acquisitions will not be dilutive to earnings or that any additional debt incurred to finance acquisitions will not impair our capitalization.

In addition, the restructuring of the energy markets in the United States and internationally, including the privatization of government-owned utilities and the sale of utility-owned assets, is creating opportunities for, and competition from, well-capitalized existing competitors as well as new entrants to the markets, which may affect our ability to achieve our business strategy.

To the extent we are successful in making acquisitions, such acquisitions can involve a number of risks, including the assumption of material liabilities, the terms and conditions of any state or federal regulatory

approvals required for the acquisitions, the diversion of management's attention from the management of daily operations to the integration of operations, difficulties in the assimilation and retention of employees and difficulties in the assimilation of different cultures and practices, as well as in the assimilation of broad and geographically dispersed personnel and operations. The failure to successfully make and integrate acquisitions could have an adverse affect on our business, financial condition and results of operations.

As of December 31, 2004, we had a material weakness in our internal control over financial reporting and we restated certain annual and interim financial statements to correct the amounts originally reported for basic and diluted earnings per share from continuing operations, diluted average common shares outstanding, and comprehensive income (loss) for the year 2004 as well as for the second, third and fourth quarters of 2004; other material weaknesses in our internal control over financial reporting in the future could adversely affect the market price for our common stock.

On May 6, 2005, our management, after a review of the pertinent facts with the Audit Committee of our Board of Directors, concluded that our previously issued financial statements for the year ended December 31, 2004 contained in our Annual Report on Form 10-K and our interim period financial statements for 2004 contained in the Quarterly Reports on Form 10-Q for the quarters ended June 30, 2004 and September 30, 2004, should no longer be relied upon with respect to certain matters. We determined that it was necessary to restate our earnings per share from continuing operations, the number of diluted average common shares outstanding, and comprehensive income (loss) for the 2004 periods contained in those reports. The restatement was required to correct errors arising from our accounting for dividends on our convertible preference stock in the calculation of basic and diluted earnings per share from continuing operations and in the calculation of comprehensive income (loss). The reported amounts of income from continuing operations, losses from discontinued operations, and net income (loss) available to common shareholders for the year 2004 were correct as reported and were not restated. The amounts for basic and diluted earnings per share from net income (loss) available to common shareholders for the year 2004 and the amounts for basic and diluted earnings per share from discontinued operations for the year 2004 were correct as reported in the original filing and were not restated.

We filed an amended Annual Report on Form 10-K/A and amended Quarterly Reports on Form 10-Q/A on May 10, 13 and 16, 2005, to correct the errors. In connection with the restatement, we revised our report on internal control over financial reporting, which is included in our Form 10-K/A, to disclose a material weakness as of December 31, 2004, in our internal control over financial reporting with respect to the accounting for dividends on our preference stock as it relates to the calculation of earnings per share from continuing operations and the calculation of comprehensive income (loss). As a consequence of the identification of this material weakness, we concluded that our internal control over financial reporting was not effective as of December 31, 2004.

In May 2005, we took corrective actions to remediate the material weakness identified above. These corrective actions included the design, documentation and testing of additional controls over the preparation and review of these calculations. As a result of these corrective actions, we believe we have taken steps necessary to remediate the material weakness identified above. However, we cannot assure you that there will not be any other material weaknesses in future periods. If any significant or material weaknesses exist in our internal control in the future, such weaknesses could adversely affect our ability to provide timely and reliable financial information necessary for the conduct of our business and satisfaction of our reporting obligations under federal securities laws, and could cause investors to lose confidence in our reported financial information with a resulting adverse effect on the market price of our common stock.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS

The following table sets forth the ratio of earnings to combined fixed charges and preference dividends for the periods indicated.

	Twelve Months Ended June 30, 2005		Year Ended December 31,					
Description	Pro Forma (a)	Historic	2004 Pro Forma (a)	2004 Historic	2003	2002	2001	2000
Ratio of earnings to combined fixed charges and preference dividends(b)	(c)	(d)	(e)	(f)	(g)	1.46	1.17	1.54

Notes:

(a) SEMCO Energy, Inc. (the "Company") is required to show pro forma ratios for the most recent fiscal year and latest interim period in instances when it issues debt or preference stock, uses the proceeds from that issuance to repay or retire other debt or securities (a "refinancing"), and the pro forma ratio varies from the historic ratios by 10% or more. The Company's issuance of its 5% Cumulative Convertible Preferred Stock ("Preferred Stock") on March 15, 2005 was a refinancing because the proceeds from the issuance of the Preferred Stock were used to retire all the Company's outstanding 6% Convertible Preference Stock ("CPS") on March 15, 2005 and $10.3 million of the Company's 10.25% Subordinated Debentures ("10.25% Debentures") on April 29, 2005.

The effect of the refinancing on the historical ratio of earnings to combined fixed charges and preference dividends for the interim period represented by the twelve months ended June 30, 2005 causes the pro forma ratio for the same period to vary from the historical ratio by more than 10%. As such, pro forma disclosure for the most recent fiscal year and latest interim period is presented in the table above.

The pro forma ratio for the twelve months ended June 30, 2005 was calculated assuming that the Company's Preferred Stock was issued on July 1, 2004, rather than March 15, 2005, and was outstanding for the full twelve months ended June 30, 2005. Furthermore, the pro forma ratio was calculated assuming that the proceeds from that issuance were used to retire all of the Company's outstanding CPS on July 1, 2004, rather than March 15, 2005, and $10.3 million of the Company's 10.25% Debentures on July 1, 2004, rather than April 29, 2005. "Earnings" in the pro forma ratio calculation was the same as "earnings" in the historic ratio calculation. However, "combined fixed charges and preference dividends" in the pro forma ratio calculation was $15.1 million lower than in the historic ratio calculation as detailed below (in thousands):

Historic, twelve months ended June 30, 2005	$	65,151
Add dividends on Preferred Stock		4,646
Eliminate dividends on CPS		(18,908)
Eliminate fixed charges on 10.25% Debentures		(885)
Pro Forma, twelve months ended June 30, 2005	$	50,004

The pro forma ratio for the fiscal year ended December 31, 2004 was calculated assuming that the Company's Preferred Stock was issued on January 1, 2004, rather than March 15, 2005, and was outstanding for the full twelve months ended December 31, 2004. Furthermore, the pro forma ratio was calculated assuming that the proceeds from that issuance were used to retire all of the Company's outstanding CPS on March 18, 2004 (the date the CPS was originally issued), rather than March 15, 2005, and $10.3 million of the Company's 10.25% Debentures on January 1, 2004, rather than April 29, 2005. "Earnings" in the pro forma ratio calculation was the same as "earnings" in the historic ratio calculation. However, "combined fixed charges and preference dividends" in the pro forma ratio

calculation was $39 thousand higher than in the historic ratio calculation as detailed below (in thousands):

Historic, fiscal year ended December 31, 2004	$	51,397
Add dividends on Preferred Stock		7,241
Eliminate dividends on CPS		(6,135)
Eliminate fixed charges on 10.25% Debentures		(1,067)
Pro Forma, fiscal year ended December 31, 2004	$	51,436

The variance between dividends on CPS for the twelve months ended June 30, 2005 and for the fiscal year ended December 31, 2004 is due primarily to a repurchase premium of approximately $13.6 million (tax adjusted) that was paid in March 2005 and, therefore, affected the pro forma "combined fixed charges and preference dividends" only for the twelve months ended June 30, 2005. The remainder of the variance between dividends on CPS, and the entirety of the variance between dividends on Preferred Stock and fixed charges on 10.25% Debentures, for the twelve months ended June 30, 2005 and for the fiscal year ended December 31, 2004 is due to the differing lengths of time during the respective periods that these securities were outstanding and, for the dividends on the CPS and Preferred Stock, the differing effective income tax rates applicable during the respective periods, as described below in note (b).

(b) "Earnings" is defined as Income (loss) before income taxes, dividends on trust preferred securities, discontinued operations and extraordinary items plus fixed charges as defined plus distributed earnings of equity investees less reported earnings of equity investees less preference securities dividend requirements of consolidated subsidiaries. "Fixed charges" is defined as interest expensed and capitalized plus amortization of debt costs and debt basis adjustments plus an estimate of interest within rental expense plus preference securities dividend requirements of consolidated subsidiaries. "Preference dividends" is defined as preference dividends divided by one minus the effective income tax rate applicable to continuing operations.

(c) For the twelve months ended June 30, 2005, the pro forma ratio of earnings to combined fixed charges and preference dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $0.5 million.

(d) For the twelve months ended June 30, 2005, the historic ratio of earnings to combined fixed charges and preference dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $15.7 million. Approximately $13.6 million of the required earnings was needed to cover the repurchase premium discussed in note (a).

(e) For 2004, the pro forma ratio of earnings to combined fixed charges and preference dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $3.5 million.

(f) For 2004, the historic ratio of earnings to combined fixed charges and preference dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $3.4 million.

(g) For 2003, the ratio of earnings to combined fixed charges and preference dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $8.0 million.

USE OF PROCEEDS

Although we received proceeds in connection with the private placement of the preferred stock, we will not receive any of the proceeds from the sale of the preferred stock or the underlying common stock by the selling securityholders. Of the approximately $70 million in gross proceeds we received in connection with the sale of the preferred stock to the initial purchaser, $60.0 million thereof was used to repurchase our 6% Series B Convertible Preference Stock and Warrants owned by an affiliate of k1 Ventures Limited. On April 29, 2005, we used the remaining proceeds to redeem $10,309,275 principal amount of our Series A 10.25% Subordinated Debentures held by our unconsolidated capital trust subsidiary, SEMCO Capital Trust I. The Trust, in turn, used the proceeds to redeem 400,000 shares of its 10.25% Trust Preferred Securities and 12,371 of its Trust Common Securities.

We will bear all costs, fees and expenses incurred in effecting the registration of the preferred stock and common stock issuable upon conversion of the preferred stock covered by this prospectus, including, without limitation, all registration and filing fees and fees and expenses of our counsel and our accountants. The selling securityholders will pay any underwriting discounts and commissions and expenses incurred by the selling securityholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling securityholders in disposing of the preferred stock or the underlying common stock.

DIVIDEND POLICY

General

The holders of our common stock are entitled to dividends when, as and if declared by our Board of Directors out of our surplus after full cumulative dividends on our outstanding series of preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to our preferred stock and preference stock, if any, have been satisfied. As such, our ability to pay dividends on our common stock is governed by the certificate of designation creating our Series B preferred stock, which is the only series of preferred stock or preference stock under which we have shares currently outstanding and to the resale of which this prospectus relates. Our ability to pay dividends on any series of our capital stock is also governed by the terms of certain of our indentures and our current credit agreement. We have not paid any dividends on our common stock since May, 2004.

Documents Designating our Series B Preferred Stock

Under the certificate of designation governing our Series B preferred stock, we must pay holders cumulative cash dividends at the rate per year of 5.00% per year (equivalent to $10.00 per annum per share, and we have 350,000 shares of preferred stock currently outstanding). We are prohibited from paying any dividends on our common stock until all accumulated and unpaid dividends on the preferred stock are declared and paid.

Shares of preferred stock are convertible into shares of our common stock at any time unless we have redeemed or purchased those shares. The conversion rate is initially 26.1438 shares of our common stock per share of preferred stock and is subject to adjustment in certain circumstances, including upon the payment of a cash dividend or distribution to all holders of our common stock. If we were to pay a cash dividend to holders of our common stock, the conversion rate for our preferred stock would be increased, the effect being that the holder would be entitled to more shares of common stock from us in exchange for its shares of preferred stock than it would have been before the dividend. The initial conversion price for the shares of preferred stock was $7.65 per share. Our payment of dividends on our common stock would cause the conversion price on the preferred stock to decrease.

Prior to February 20, 2010, the preferred stock is not redeemable at our option. On or after February 20, 2010, we may redeem the preferred stock in whole or in part at a purchase price equal to 100% of the liquidation preference plus accumulated and unpaid dividends to the redemption date. We are obligated to redeem for cash all outstanding shares of the preferred stock on February 20, 2015.

Documents Governing our Outstanding Debt

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements.

Our existing bank credit agreement as set forth in the Amended and Restated Credit Agreement dated as of June 25, 2004, as amended, contains a covenant in which we promise not to make any distribution to shareholders except in certain circumstances. If no event of default or unmatured event of default exists or would result therefrom, we can pay dividends, to the extent such payments or distributions are made in shares of our capital stock. In addition, subject to certain restrictions, we may pay any dividend, payment or other

distribution if the aggregate amount of such dividends, payments or other distributions under this exception made during a defined period shall not exceed the sum of $12.0 million plus, commencing on September 30, 2004, 80% of our consolidated net income for such period, as calculated in the credit facility.

Our existing bank credit agreement is set to expire on September 23, 2005. We expect that we will enter into a new credit facility which will have a restriction on our ability to pay dividends in certain circumstances.

In addition, our Indenture dated as of May 15, 2003, and our Indenture dated as of May 21, 2003, under which we have issued senior debt securities, also limit our payment of dividends. Under these documents, we are not permitted to declare or pay any dividend or make any other payment or distribution on account of our capital stock unless:

- after giving effect thereto no default or event of default has occurred and is continuing or would occur as a consequence of the payment;

- we would have, at the time of the payment and after giving pro forma effect thereto as if the payment has been made at the beginning of the applicable four-quarter period, been permitted to incur at least $1.00 of additional indebtedness other than permitted debt per the fixed charge coverage ratio tests contained in such indentures; and

- the payment, together with the aggregate amount of all other restricted payments declared or made after the date of the indentures, do not exceed the basket for such restricted payments as this is set forth in the indentures.

These prohibitions do not apply to regular quarterly dividends on our capital stock so long as no default has occurred and is continuing or would be caused thereby, if the payment of the regular quarterly dividends does not exceed $13.5 million in any twelve-month period.

Other Considerations

On June 24, 2004, we suspended the quarterly cash dividend on our common stock. This decision reflects our desire to retain cash in order to strengthen our balance sheet, enhance our financial flexibility and to become better positioned to grow our natural gas distribution business. The payment of future cash dividends will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, our future business prospects and any contractual restrictions on such payments.

DESCRIPTION OF PREFERRED STOCK

The shares of convertible preferred stock were issued under the certificate of designation. The shares of preferred stock, and the common stock shares issuable upon conversion of the preferred stock, are covered by a registration rights agreement.

The following description is a summary of the material provisions of the certificate of designation and the registration rights agreement. Copies of the certificate of designation and the registration rights agreement were filed with the SEC as exhibits to our current report on Form 8-K filed March 17, 2005, which is incorporated by reference into this prospectus and the registration statement of which it is a part. These documents, as well as the form of convertible preferred stock share certificate, are also available upon request from us at the address set forth under “Documents Incorporated by Reference.” The following summary of the terms of the convertible preferred stock does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the certificate of designation and the registration rights agreement. As used in this section, the terms “we,” “us” or “our” refer to SEMCO Energy, Inc. and not any of its subsidiaries.

General

Under our articles of incorporation, our board of directors is authorized, without further shareholder action, to issue up to 500,000 shares of preferred stock, par value $1 per share, in one or more series, with relative rights and preferences as shall be set forth in the resolutions providing therefor. Currently, 350,000 shares of preferred stock are designated as 5.00% Series B Convertible Cumulative Preferred Stock, all of which are currently outstanding.

The convertible preferred stock is, and any common stock issued upon the conversion of the convertible preferred stock will be, fully paid and nonassessable. The holders of the convertible preferred stock will have no preemptive or preferential right to purchase or subscribe to our stock, obligations, warrants or other securities of any class. The transfer agent, registrar, redemption, conversion and dividend disbursing agent for shares of both the convertible preferred stock and the common stock is National City Bank.

The convertible preferred stock is redeemable at our option as described under "— Optional Redemption."

Ranking

The convertible preferred stock, with respect to dividend rights or rights upon our liquidation, winding-up or dissolution, ranks:

- senior to all classes of our common stock, preference stock and to each other class of capital stock or series of preferred stock established after the original issue date of the convertible preferred stock (the "issue date"), the terms of which do not expressly provide that such class or series ranks senior to or on a parity with the convertible preferred stock as to dividend rights or rights upon our liquidation, winding-up or dissolution ("junior stock");

- on a parity, in all respects, with any class of capital stock or series of preferred stock established after the issue date, the terms of which expressly provide that such class or series will rank on a parity with the convertible preferred stock as to dividend rights or rights upon our liquidation, winding-up or dissolution ("parity stock"); and

- junior to each class of capital stock or series of preferred stock established after the issue date, the terms of which expressly provide that such class or series will rank senior to the convertible preferred stock as to dividend rights or rights upon our liquidation, winding-up or dissolution ("senior stock").

While any shares of convertible preferred stock are outstanding, we may not authorize or issue any class or series of senior stock (or any security convertible into senior stock) or parity stock (or any security convertible into parity stock) without the affirmative vote of the holders of at least $66^{2}/3\%$ of the outstanding shares of convertible preferred stock and any other outstanding series of preferred stock, voting as a single class. Without the consent of any holder of convertible preferred stock, however, we may authorize, increase the authorized amount of, or issue any class or series of junior stock. See "— Voting Rights" below.

Dividends

Holders of shares of convertible preferred stock are entitled to receive, when, as and if declared by our board of directors out of funds legally available for payment, cumulative cash dividends at the rate per annum of 5.00% per share on the liquidation preference of $200 per share of convertible preferred stock (equivalent to $10.00 per annum per share). Dividends on the convertible preferred stock (including additional dividends due to a registration default, if any) will be payable quarterly on February 15, May 15, August 15 and November 15 of each year, commencing May 15, 2005 (each, a "dividend payment date") at such annual rate, and shall accumulate from the most recent date as to which dividends shall have been paid or, if no dividends have been paid, from the issue date of the convertible preferred stock, whether or not in any dividend period or periods such dividends have been declared or there have been funds legally available for the payment of such dividends. Dividends will be payable to holders of record as they appear on our stock register on the immediately preceding February 1, May 1, August 1 and November 1 (each, a "record date").

Accumulations of dividends on shares of convertible preferred stock shall compound quarterly. Dividends payable on the convertible preferred stock for any period less than a full dividend period (based upon the number of days elapsed during the period) are computed on the basis of a 360-day year consisting of twelve 30-day months.

No dividend will be declared or paid upon, or any sum set apart for the payment of dividends upon any outstanding share of the convertible preferred stock with respect to any dividend period unless all dividends for all preceding dividend periods have been declared and paid or declared and a sufficient sum set apart for the payment of such dividend upon all outstanding shares of convertible preferred stock.

No dividends or other distributions (other than a dividend or distribution payable solely in shares of parity stock or junior stock (as to dividend rights), in the case of parity stock, or junior stock (as to dividend rights), in the case of junior stock, and cash in lieu of fractional shares) may be declared, made or paid, or set apart for payment upon, any parity stock or junior stock (as to dividend rights), nor may any parity stock or junior stock (as to dividend rights) be redeemed, purchased or otherwise acquired for any consideration (or any money paid to or made available for a sinking fund for the redemption of any parity stock or junior stock (as to dividend rights)) by us or on our behalf (except by conversion into or exchange for shares of parity stock or junior stock (as to dividend rights), in the case of parity stock, or junior stock (as to dividend rights), in the case of junior stock) unless all accumulated and unpaid dividends have been or contemporaneously are declared and paid, or are declared and a sum sufficient for the payment thereof is set apart for such payment, on the convertible preferred stock and any parity stock (as to dividend rights) for all dividend payment periods terminating on or prior to the date of such declaration, payment, redemption, purchase or acquisition.

Notwithstanding the foregoing, if full dividends have not been paid on the convertible preferred stock and any parity stock (as to dividend rights), dividends may be declared and paid on the convertible preferred stock and such parity stock so long as the dividends are declared and paid pro rata so that the amounts of dividends declared per share on the convertible preferred stock and such parity stock will, in all cases, bear to each other the same ratio that accumulated and unpaid dividends per share on the shares of the convertible preferred stock and such parity stock bear to each other.

Holders of shares of the convertible preferred stock are not entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends. Our ability to declare and pay cash dividends and make other distributions with respect to our capital stock, including the convertible preferred stock, is limited by the terms of our outstanding indebtedness, including the restricted payments covenants under our Indenture, dated May 15, 2003 governing our $7\frac{3}{4}$% Senior Notes due 2013, our Indenture, dated May 21, 2003, governing our $7\frac{1}{8}$% Senior Notes due 2008, and our Amended and Restated Credit Agreement, dated June 25, 2004, as amended. In addition, our ability to declare and pay dividends may be limited by applicable law. See “Risk Factors — Risks Relating to Our Preferred Stock — We may not be able to pay cash dividends on the preferred stock.”

Liquidation Preference

In the event of our voluntary or involuntary liquidation, winding-up or dissolution, each holder of convertible preferred stock would be entitled to receive and to be paid out of our assets available for distribution to our shareholders, before any payment or distribution is made to holders of junior stock with respect to liquidation preference (including common stock), a liquidation preference in the amount of $200 per share of the convertible preferred stock, plus accumulated and unpaid dividends on the shares to the date fixed for liquidation, winding-up or dissolution. If, upon our voluntary or involuntary liquidation, winding-up or dissolution, the amounts payable with respect to the liquidation preference of the convertible preferred stock and all parity stock (as to rights upon our liquidation, winding-up or dissolution) are not paid in full, the holders of the convertible preferred stock and the parity stock (as to rights upon our liquidation, winding-up or dissolution) will share equally and ratably in any distribution of our assets in proportion to the full liquidation preference and accumulated and unpaid dividends to which they are entitled. After payment of the full amount of the liquidation preference and accumulated and unpaid dividends to which they are entitled, the holders of the convertible preferred stock will have no right or claim to any of our remaining assets. Neither

the sale of all or substantially all our assets or business (other than in connection with our liquidation, winding-up or dissolution), nor our merger or consolidation into or with any other person, will be deemed to be our voluntary or involuntary liquidation, winding-up or dissolution.

The certificate of designation does not contain any provision requiring funds to be set aside to protect the liquidation preference of the convertible preferred stock even though it is substantially in excess of the par value thereof.

Voting Rights

The holders of the convertible preferred stock have no voting rights except as set forth below or as otherwise required by Michigan law from time to time.

The affirmative vote of the holders of at least $66^{2}/3\%$ of the outstanding preferred stock and any other outstanding series of preferred stock, voting as a single class, is required for the authorization or issuance of any class or series of senior stock (or any security convertible into senior stock) or parity stock (or any security convertible into parity stock) and for amendments to our articles of incorporation that could affect adversely the rights of holders of the preferred stock. The certificate of designation provides that the authorization of, the increase in the authorized amount of, or the issuance of any shares of any class of junior stock (as to rights upon our liquidation, winding-up or dissolution) does not require the consent of the holders of the convertible preferred stock, and will not be deemed to affect adversely the powers, preferences or special rights of the holders of the convertible preferred stock.

If dividends on the convertible preferred stock are in arrears and unpaid for eight or more quarterly periods (whether or not consecutive), the holders of the convertible preferred stock, voting as a single class with any other preferred stock, will be entitled at our next regular or special meeting of shareholders to elect such number of directors to our board of directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full board of directors, and such right shall continue (and may be exercised at any annual or other meeting of shareholders for the election of directors) until we shall have paid or declared and set apart for payment all accrued dividends on the preferred stock for all past quarterly dividend periods. Such voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the convertible preferred stock has been paid in full.

In all cases in which the holders of convertible preferred stock are entitled to vote, each share of convertible preferred stock is entitled to one vote.

Conversion Rights

General

A holder may convert its shares of the convertible preferred stock, in whole or in part, into shares of our common stock at any time, unless we have redeemed or purchased those shares of convertible preferred stock. The conversion rate is initially 26.1438 shares of our common stock per share of convertible preferred stock. The conversion price of a share is equal to $200 divided by the then applicable conversion rate at the time of determination. The conversion rate is subject to adjustment as described below under "— Conversion Rate Adjustments." Accordingly, an adjustment to the conversion rate will result in a corresponding adjustment to the conversion price. The initial conversion price for the shares is $7.65 per share of common stock.

The shares issuable upon conversion will be delivered through the conversion agent as soon as practicable following the conversion date. No fractional shares will be issued upon conversion. A holder that would otherwise be entitled to fractional shares of our common stock, will receive a cash amount based on the "applicable stock price" of our common stock on the "trading day" immediately before the conversion date.

A "trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange, or the NYSE, or, if our common stock is not listed on the NYSE, on the principal other national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated

Quotation System, or NASDAQ, or, if our common stock is not quoted on NASDAQ, on the principal other market on which such common stock is then traded.

The "applicable stock price," with respect to a trading day, is equal to the volume-weighted average price per share of our common stock (or any security into which our common stock has been converted in connection with a fundamental change) on such trading day. The "volume-weighted" average," with respect to a trading day, means such price per share of our common stock as displayed under the heading "Bloomberg VWAP" on Bloomberg (or any successor service) page SEN <equity> AQR (or any successor page) in respect of the period from 9:30 a.m. to 4:00 p.m., New York City time, on such trading day; or, if such price is not available, the "applicable stock price" means the market value per share of our common stock on such day as determined by a nationally recognized independent investment banking firm retained for this purpose by us.

Payment Upon Conversion Upon a Fundamental Change

We must give notice of each fundamental change (as defined below) to all record holders on a date (the "effective notice date") that is within 10 trading days after the effective date of the fundamental change (the "effective date"). If a holder converts its shares at any time beginning at the opening of business on the effective notice date and ending at the close of business on the 30th trading day immediately following the effective date, the holder will receive:

(1) common stock and cash for fractional shares, as described above under "— General" (subject to adjustment as described below under "— Conversion Rate Adjustments" in the event of (i) any reclassification of our common stock, (ii) a consolidation, merger or combination involving us or (iii) a sale or conveyance to another person of our property and assets as an entirety or substantially as an entirety, in which holders of our outstanding common stock would be entitled to other types of consideration), plus

(2) the make-whole premium, if any, described under "— Determination of the Make-Whole Premium," if the fundamental change occurs before February 20, 2010.

Upon a fundamental change, if the market value on the effective date is less than the conversion price, holders of convertible preferred stock shall have a one-time option to convert all of their outstanding shares of convertible preferred stock at an adjusted conversion price equal to the greater of (1) the market value as of the effective date and (2) $3.00. This option shall be exercisable during a period of not less than 30 days nor more than 60 days commencing on the third business day after the effective date.

The term "market value" means the average closing price of the common stock for a five consecutive trading day period ending on the trading day immediately prior to such date on the NYSE (or such other national securities exchange or automated quotation system on which the common stock is then listed or authorized for quotation or, if not so listed or authorized for quotation, an amount determined in good faith by our board of directors to be the fair value of the common stock).

A "fundamental change" will be deemed to have occurred upon the occurrence of any of the following:

(1) any "person" or "group" (other than us, our subsidiaries or our respective employee benefit plans) files a Schedule 13D or Schedule TO, or any successor schedule, form or report under the Exchange Act, disclosing, or we otherwise become aware, that such person is or has become the "beneficial owner," directly or indirectly, of shares of our voting stock representing 50% or more of the total voting power of all outstanding classes of our voting stock or has the power, directly or indirectly, to elect a majority of the members of our board of directors;

(2) we consolidate with, or merge with or into, another person or we sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of our assets, or any person consolidates with, or merges with or into, us, in any such event other than pursuant to a transaction in which the persons that "beneficially owned" directly or indirectly, the shares of our voting stock immediately prior to such transaction beneficially own, directly or indirectly, shares of voting stock representing a majority of the total voting power of all outstanding classes of voting stock of the surviving or transferee person;

(3) a majority of the members of our board of directors are not continuing directors (as defined below); or

(4) our common stock ceases to be listed on a national securities exchange or quoted on The Nasdaq National Market or another established automated over-the-counter trading market in the United States.

The term "all or substantially all" as used in the definition of fundamental change will likely be interpreted under applicable state law and will be dependent upon particular facts and circumstances. There may be a degree of uncertainty in interpreting this phrase. As a result, we cannot assure holders how a court would interpret this phrase under applicable law if holders elect to exercise their rights following the occurrence of a transaction which such holders believe constitutes a transfer of "all or substantially all" of our assets.

However, a fundamental change will not be deemed to have occurred in the case of a merger or consolidation, if (i) at least 90% of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters' appraisal rights) in the merger or consolidation consists of common stock of a U.S. company traded on a national securities exchange or quoted on The Nasdaq National Market (or which will be so traded or quoted when issued or exchanged in connection with such transaction) and (ii) as a result of such transaction or transactions the shares of convertible preferred stock become convertible solely into such common stock.

For purposes of this fundamental change definition:

(1) "person" or "group" shall have the meanings given to them for purposes of Sections 13(d) and 14(d) of the Exchange Act or any successor provisions, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act, or any successor provision;

(2) a "beneficial owner" will be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of the certificate of designation;

(3) "beneficially own" and "beneficially owned" have meanings correlative to that of beneficial owner;

(4) "board of directors" means the board of directors or other governing body charged with the ultimate management of any person;

(5) "continuing director" means, as of any date of determination, any member of our board of directors who was a member of such board of directors on the date of the certificate of designation; or was nominated for election or elected to such board of directors with the approval of: (A) a majority of the continuing directors who were members of such board at the time of such nomination or election or (B) a nominating committee, a majority of which committee were continuing directors at the time of such nomination or election;

(6) "capital stock" means: (1) in the case of a corporation, corporate stock; (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock; (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; or (4) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person; and

(7) "voting stock" means any class or classes of capital stock or other interests then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees.

Conversion Rate Adjustments

The conversion rate will be adjusted:

(1) upon the issuance of shares of our common stock as a dividend or distribution on our common stock;

(2) upon subdivisions, combinations or reclassifications of our outstanding common stock;

(3) upon the issuance to all or substantially all holders of our common stock of rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase our common stock, or securities convertible into our common stock, at a price per share or a conversion price per share less than the "current market price" (as defined in the certificate of designation) per share on the record date for the issuance, *provided* that the conversion rate for the shares will be readjusted to the extent that the rights or warrants are not exercised prior to their expiration;

(4) upon the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness or other non-cash assets, or rights or warrants, excluding:

(a) dividends, distributions and rights or warrants referred to in clause (1) or (3) above;

(b) a distribution referred to in clause (6) below; and

(c) distribution of rights pursuant to a shareholder rights plan;

(5) upon any cash dividend or distribution (other than in connection with our liquidation, dissolution or winding up) to all holders of our common stock;

(6) upon the distribution of cash or other consideration by us or any of our subsidiaries in respect of a tender offer or exchange offer for our common stock, where such cash and the value of any such other consideration per share of our common stock validly tendered or exchanged exceeds the "current market price" (as defined in the certificate of designation) per share of our common stock on the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer (the "expiration date"), in which case, immediately prior to the opening of business on the business day after the expiration date, the conversion rate shall be increased so that it equals an amount equal to the conversion rate in effect immediately before the close of business on the expiration date multiplied by a fraction:

(a) whose numerator is the sum of:

(i) the aggregate amount of cash and the aggregate value of any such other consideration distributed in connection with the tender or exchange offer; and

(ii) the product of (A) such "current market price" per share of our common stock and (B) the number of shares of our common stock outstanding as of the expiration date (excluding shares validly tendered and not withdrawn in connection with the tender or exchange offer and any shares held in our treasury); and

(b) whose denominator is the product of:

(i) such "current market price" per share of our common stock; and

(ii) the number of shares of our common stock outstanding as of the expiration date (including shares validly tendered and not withdrawn in connection with the offer, but excluding any shares held in our treasury).

Notwithstanding the foregoing, in no event will the conversion rate exceed 33.3333 shares per $200 liquidation preference of shares, as adjusted pursuant to paragraphs (1), (2), (3), (4) and (6) above, as a result of an adjustment pursuant to paragraph (5) above.

No adjustment to the conversion rate will be made if we provide that the holders of shares of the convertible preferred stock will participate in the distribution without conversion, or in certain other cases.

The conversion rate will not be adjusted:

- upon the issuance of any shares of our common stock or options or rights to purchase shares of our common stock pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;

- upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in the preceding bullet and outstanding as of the date the shares of convertible preferred stock were first issued; or

- for accumulated and unpaid dividends, including additional dividends due to a registration default, if any.

The holders will receive, upon conversion of the shares into our common stock, in addition to the common stock, the rights under our rights plan or under any future rights plan we may adopt, whether or not the rights have separated from the common stock at the time of conversion unless, prior to conversion, the rights have expired, terminated or been redeemed or exchanged. See "Description of Capital Stock."

In the event of:

- any reclassification of our common stock;

- a consolidation, merger or combination involving us; or

- a sale or conveyance to another person of all or substantially all of our consolidated property and assets,

in which holders of our outstanding common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, holders of shares of the convertible preferred stock will generally thereafter be entitled to convert their shares into the same type of consideration received by common stock holders immediately following one of these types of events.

If a taxable distribution to holders of our common shares or other transaction occurs which results in an adjustment of the conversion rate, you may in certain circumstances be deemed to have received a distribution subject to United States Federal income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common shares. See "Material U.S. Federal Income Tax Considerations" below for a relevant discussion.

No adjustment in the conversion rate will be required unless it would result in a change in the conversion rate of at least 1.0%. Any adjustment not made will be taken into account in subsequent adjustments.

Conversion Procedures

The right of conversion attaching to any share may be exercised (a) if such share is represented by a global security, by book-entry transfer to the conversion agent through the facilities of DTC, or (b) if such share is represented by a certificated security, by delivery of such share at the specified office of the conversion agent, accompanied, in either case, by a duly signed and completed conversion notice and appropriate endorsements and transfer documents if required by the conversion agent. The conversion date shall be the date on which the share and all of the items required for conversion shall have been so delivered and the requirements for conversion have been met.

No separate payment or adjustment will be made for accumulated and unpaid dividends on a converted share or for dividends or distributions on any of our common stock issued upon conversion of a share. By delivering to the holder the number of shares issuable upon conversion together with a cash payment in lieu of any fractional shares plus any other consideration due upon conversion, we will satisfy our obligation with respect to the conversion of the shares. That is, accumulated dividends (including additional dividends due to a registration default, if any) will be deemed to be paid in full rather than canceled, extinguished or forfeited. We will not adjust the conversion rate to account for any accumulated dividends (including additional dividends due to a registration default, if any).

If the holder converts after the close of business on a record date for a dividend payment but prior to the corresponding dividend payment date, such holder will receive on the dividend payment date dividend accumulated on those shares, notwithstanding the conversion of shares prior to the dividend payment date, assuming the holder was the holder of record at the close of business on the corresponding record date. Each holder, however, agrees, by accepting a share, that if the holder surrenders any shares for conversion during such period, such holder must pay us at the time such holder surrenders its share for conversion an amount equal to the dividend that will be paid on the shares being converted on the dividend payment date. The preceding sentence does not apply, however, if (1) we have specified a redemption date that is after a record date for an dividend payment but prior to the corresponding dividend payment date or (2) any overdue dividend exists at the time of conversion with respect to the shares being converted, but only to the extent of the amount of such overdue dividend. Accordingly, under the circumstances described in clause (1), a holder of shares who chooses to convert those shares on a date that is after a record date but prior to the corresponding dividend payment date, will not be required to pay us, at the time that holder surrenders those shares for conversion, the amount of regularly scheduled dividend it will receive on the dividend payment date.

Holders of shares are not required to pay any taxes or duties relating to the issuance or delivery of our common stock upon exercise of conversion rights, but they are required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than the name of the holder of the share. Certificates representing shares of our common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by the holder have been paid.

The shares will be deemed to have been converted immediately prior to the close of business on the conversion date. Delivery of shares will be accomplished by delivery to the conversion agent of certificates for the relevant number of shares, other than in the case of holders of shares in book-entry form with DTC, which shares shall be delivered in accordance with DTC customary practices. A holder will not be entitled to any rights as a holder of our common stock, including, among other things, the right to vote and receive dividends and notices of shareholder meetings, until the conversion is effective.

A certificate for the number of full shares of common stock into which the shares are converted (and cash in lieu of fractional shares) will be delivered to such holder, assuming all of the other requirements have been satisfied by such holder, as soon as practicable following the conversion date.

Determination of the Make-Whole Premium

If a fundamental change occurs prior to February 20, 2010, we will pay a make-whole premium upon certain conversions of the shares as described above under “Conversion Rights — Payment Upon Conversion Upon a Fundamental Change.” The make-whole premium will be:

- equal to a percentage of the liquidation preference of the shares converted determined by reference to the table below, based on the date on which the fundamental change becomes effective (the “effective date”), and the price (the “stock price”) paid, or deemed to be paid, per share of our common stock in the transaction constituting the fundamental change, subject to adjustment as described below; and

- in addition to, and not in substitution for, any cash, securities or other assets otherwise due to holders of shares upon conversion.

We will pay the make-whole premium solely in shares of our common stock (other than cash in lieu of fractional shares) or in the same form of consideration into which all or substantially all of the shares of our common stock have been converted or exchanged in connection with the fundamental change (other than cash paid in lieu of fractional interests in any security or pursuant to dissenters’ rights). We will pay cash in lieu of fractional interests in any security or other property delivered in connection with such fundamental change. The make-whole premium will be payable on the 35th trading day (as defined above under “Conversion — General”) following the effective date for shares converted in connection with a fundamental change. If holders of our common stock receive or have the right to receive more than one form of consideration in connection with such fundamental change, then, for purposes of the foregoing, the forms of consideration in which the make-whole premium will be paid will be in proportion to the relative value,

determined as described below, of the different forms of consideration paid to our common shareholders in connection with the fundamental change.

The stock price paid, or deemed paid, per share of our common stock in the transaction constituting the fundamental change will be calculated as follows:

(1) In the case of a fundamental change in which all or substantially all of the shares of our common stock have been, as of the effective date, converted into or exchanged for the right to receive securities or other assets or property, the consideration shall be valued as follows:

(a) securities that are traded on a U.S. national securities exchange or approved for quotation on the Nasdaq or any similar system of automated dissemination of quotations of securities prices, will be valued at the average of the applicable stock prices of such securities for the five consecutive trading days beginning on the second trading day after the effective notice date,

(b) other securities, assets or property, other than cash, that holders will have the right to receive will be valued based on the average of the fair market value of the securities, assets or property, other than cash, as determined by two independent nationally recognized investment banks, and

(c) 100% of any cash.

(2) In all other cases, the value of our shares will equal the average of the applicable stock prices of our common stock for the five consecutive trading days beginning on the second trading day after the effective notice date.

The value of our shares or other consideration for purposes of determining the number of shares or other consideration to be issued in respect of the make-whole premium will be calculated in the same manner, except that to the extent such value is calculated pursuant to clause (1)(a), (1)(b) or (2), such value shall be multiplied by 98%.

The following table sets forth the stock price paid, or deemed paid, per share of our common stock in the transaction constitutes the fundamental change, the effective date and make-whole premium (expressed as a percentage of liquidation preference) upon a conversion in connection with a fundamental change:

Make-Whole Premium

(% of Liquidation Preference)

	Effective Date					
Stock Price(1)	**March 15, 2005**	**March 15, 2006**	**March 15, 2007**	**March 15 2008**	**March 15 2009**	**February 20 2010**
$6.00	0.0	0.0	0.0	0.0	0.0	0.0
$7.00	10.4	8.4	6.1	3.5	0.3	0.0
$8.00	16.9	14.8	12.2	9.2	5.3	0.0
$9.00	15.4	13.2	10.6	7.5	3.6	0.0
$10.00	14.2	12.1	9.5	6.4	2.7	0.0
$11.00	13.3	11.1	8.7	5.8	2.4	0.0
$12.00	12.4	10.4	8.0	5.3	2.2	0.0
$13.00	11.6	9.7	7.5	5.0	2.0	0.0
$14.00	10.9	9.1	7.1	4.7	1.9	0.0
$15.00	10.3	8.6	6.7	4.4	1.8	0.0
$20.00	7.3	6.2	4.9	3.3	1.4	0.0
$25.00	4.8	4.1	3.2	2.2	0.9	0.0
$30.00	2.8	2.3	1.8	1.2	0.5	0.0
$35.00	1.2	1.0	0.7	0.4	0.1	0.0

(1) The stock prices set forth in the table will be adjusted as of any date on which the conversion rate of the shares is adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to the adjustment multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment to the conversion rate and the denominator of which is the conversion rate as so adjusted.

The exact stock price and effective dates may not be set forth on the table, in which case:

- if the stock price is between two stock prices on the table or the effective date is between two effective dates on the table, the make-whole premium will be determined by straight-line interpolation between make-whole premium amounts set forth for the higher and lower stock prices and the two effective dates, as applicable, based on a 365-day year;

- if the stock price is in excess of $35.00 per share (subject to adjustment in the same manner as the stock price) the payment corresponding to row $35.00 will be paid; and

- if the stock price is less than or equal to $6.00 per share (subject to adjustment in the same manner as the stock price), no make-whole premium will be paid.

Our obligation to pay the make-whole premium could be considered a penalty, in which case the enforceability thereof would be subject to general equitable principles of reasonableness of economic remedies.

Optional Redemption

Prior to February 20, 2010, the convertible preferred stock will not be redeemable at our option. On or after February 20, 2010, we may redeem the convertible preferred stock, in whole or in part, at a purchase price in cash equal to 100% of the liquidation preference of those shares of convertible preferred stock, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any), to the redemption date.

We will give at least 30 days' notice of redemption by mail to holders of shares. Shares called for redemption are convertible by the holder until the close of business on the business day immediately preceding the redemption date.

If we do not redeem all of the shares of convertible preferred stock, we will select the shares of convertible preferred stock to be redeemed by lot or on a pro rata basis in accordance with the applicable procedures of DTC to the extent shares of convertible preferred stock are held in book-entry form. If any shares of convertible preferred stock are to be redeemed in part only, we will issue a new share or shares with a liquidation preference equal to the unredeemed liquidation preference portion thereof. If a portion of the holder's shares of convertible preferred stock is selected for partial redemption and the holder converts a portion of its shares, the converted portion will be deemed to be taken from the portion selected for redemption.

If the dividend disbursing agent holds cash sufficient to pay the purchase price for the shares for which a redemption notice has been delivered on the redemption date in accordance with the certificate of designations, then, on and after the redemption date, the shares will cease to be outstanding and the dividends (including additional dividends due to a registration default, if any), on such shares shall cease to accrue, whether or not the shares are delivered to the dividend disbursement agent. Thereafter, all rights of the holder shall terminate, other than the right to receive the redemption price upon delivery of the shares.

Mandatory Redemption

We will be obligated to redeem for cash all outstanding shares of the convertible preferred stock on February 20, 2015. The redemption price will be equal to the $200 liquidation preference plus an amount equal to accrued and unpaid dividends from, and including, the immediately preceding dividend payment date to, but excluding, the date of redemption.

Consolidation, Merger and Sale of Assets

The certificate of designation provides that we may, without the consent of the holders of any of the outstanding convertible preferred stock (except as provided by Michigan law), consolidate with or merge into any other person or convey, transfer or lease all or substantially all our assets to any person or may permit any person to consolidate with or merge into, or transfer or lease all or substantially all its properties to, us; *provided, however*, that (a) the successor, transferee or lessee is organized under the laws of the United States or any political subdivision thereof; (b) the shares of convertible preferred stock will become shares of such successor, transferee or lessee, having in respect of such successor, transferee or lessee the same powers, preferences and relative participating, optional or other special rights and the qualification, limitations or restrictions thereon, the convertible preferred stock had immediately prior to such transaction; and (c) certain procedural conditions are met.

Under any consolidation by us with, or merger by us into, any other person or any conveyance, transfer or lease of all or substantially all our assets as described in the preceding paragraph, the successor resulting from such consolidation or into which we are merged or the transferee or lessee to which such conveyance, transfer or lease is made, will succeed to, and be substituted for, and may exercise every right and power of, ours under the shares of convertible preferred stock, and thereafter, except in the case of a lease, the predecessor (if still in existence) will be released from its obligations and covenants with respect to the convertible preferred stock. This provision does not limit the rights of holders in the event of a fundamental change, including their right to receive the make-whole premium in connection with a conversion.

SEC Reports

Whether or not we are required to file reports with the SEC, if any shares of convertible preferred stock are outstanding, we will file with the SEC all such reports and other information as we would be required to file with the SEC by Section 13(a) or 15(d) under the Exchange Act. See "Where You Can Find More Information." We will supply each holder of convertible preferred stock, upon request, without cost to such holder, copies of such reports or other information.

Registration Rights

We entered into a registration rights agreement with the initial purchasers on March 15, 2005 for the benefit of the holders of the convertible preferred stock and the common stock issued upon conversion of the convertible preferred stock (collectively, the "restricted securities"). Pursuant to the registration rights agreement, we filed with the SEC a shelf registration statement on Form S-3 (of which this prospectus is a part) to cover resales of restricted securities by holders who satisfy certain conditions and who provide certain information for use with the shelf registration statement.

Pursuant to the registration rights agreement, we agreed, at our cost to use our commercially reasonable efforts to cause the registration statement to be declared effective under the Securities Act on or prior to September 11, 2005 and to keep the shelf registration statement effective until such time as the restricted securities are eligible to be sold under Rule 144(k) under the Securities Act or until all the restricted securities have been sold pursuant to such shelf registration statement.

Holders who desire to sell their restricted securities pursuant to the shelf registration statement must deliver to us a properly completed and signed Selling Securityholder Notice and Questionnaire, a form of which appeared in Annex A to the offering circular used in conjunction with the initial private placement of the preferred stock.

We will, among other things, provide to each holder that delivered to us this form and for whom the shelf registration statement of which this prospectus is a part was filed, copies of this prospectus, notify each such holder when the shelf registration statement has become effective and take certain other actions as are required to permit unrestricted resales of such restricted securities. A holder selling such securities pursuant to the shelf registration statement generally will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the registration rights agreement which are applicable to such holder (including certain indemnification obligations).

If by September 11, 2005, the shelf registration statement has not been declared effective by the SEC, or, after the shelf registration statement has been declared effective, the shelf registration statement ceases to be effective or usable (subject to certain exceptions) in connection with resales of the restricted securities in accordance with and during the periods specified in the registration rights agreement (each a "registration default"), dividends will accumulate on the convertible preferred stock at the rate of 5.50% per annum (50 basis points above the rate shown on the cover page of this prospectus), from and including the date on which any such registration default shall occur to but excluding the date on which all registration defaults have been cured. At all other times, dividends will accumulate on the convertible preferred stock at the annual rate shown on the cover page of this prospectus. The preceding summary of certain provisions of the registration rights agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the registration rights agreement, a copy of which is available upon request to us at the address set forth under "Documents Incorporated by Reference."

Book-Entry, Delivery and Form

We initially issued the convertible preferred stock in the form of two global securities. The global securities were deposited with, or on behalf of, DTC, and registered in the name of DTC or its nominee. Except as set forth below, the global securities may be transferred, in whole and not in part, only to DTC or another nominee of DTC. Investors may hold their beneficial interests in the global securities directly through DTC if they have an account with DTC or indirectly through organizations which have accounts with DTC.

Shares of convertible preferred stock that are issued as described below under "— Certificated Convertible Preferred Stock" will be issued in definitive form. Upon the transfer of convertible preferred stock in definitive form, such convertible preferred stock will, unless the global securities have previously been exchanged for convertible preferred stock in definitive form, be exchanged for an interest in the global securities representing the liquidation preference of convertible preferred stock being transferred.

The DTC has advised us as follows: The DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The DTC was created to hold securities of institutions that have accounts with DTC ("participants") and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The DTC's participants include securities brokers and dealers (which may include the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's book-entry system is also available to others such as banks, brokers, dealers and trust companies ("indirect participants") that clear through or maintain a custodial relationship with a participant, whether directly or indirectly.

Pursuant to procedures established by DTC, upon the deposit of the global securities with, or on behalf of, DTC, DTC credited, on its book-entry registration and transfer system, the liquidation preference of the convertible preferred stock represented by such global securities to the accounts of participants. The accounts credited were designated by the initial purchasers of such convertible preferred stock. Ownership of beneficial interests in the global securities is limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the global securities is shown on, and the transfer of those ownership interests is effected only through, records maintained by DTC (with respect to participants' interests) and such participants and indirect participants (with respect to the owners of beneficial interests in the global securities other than participants). The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and laws may impair the ability to transfer or pledge beneficial interests in the global securities.

So long as DTC, or its nominee, is the registered holder and owner of the global securities, DTC or such nominee, as the case may be, will be considered the sole legal owner and holder of the convertible preferred stock evidenced by the global certificates for all purposes of such convertible preferred stock and the certificate of designation. Except as set forth below, as an owner of a beneficial interest in the global certificates, you will not be entitled to have the convertible preferred stock represented by the global securities registered in your name, will not receive or be entitled to receive physical delivery of certificated convertible preferred stock in definitive form and will not be considered to be the owner or holder of any convertible preferred stock under the global securities. We understand that under existing industry practice, in the event an owner of a beneficial interest in the global securities desires to take any action that DTC, as the holder of the global securities, is entitled to take, DTC will authorize the participants to take such action, and that the participants will authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

All payments on convertible preferred stock represented by the global securities registered in the name of and held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner and holder of the global securities.

We expect that DTC or its nominee, upon receipt of any payment on the global securities, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the liquidation preference of the global securities as shown on the records of DTC or its nominee. We also expect that payments by participants or indirect participants to owners of beneficial interest in the global securities held through such participants or indirect participants will be governed by standing instructions and customary practices and will be the responsibility of such participants or indirect participants. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global securities for any convertible preferred stock or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between DTC and its participants or indirect participants or the relationship between such participants or indirect participants and the owners of beneficial interests in the global securities owning through such participants or indirect participants.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the global securities among participants or indirect participants of DTC it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the transfer agent will have any responsibility or liability for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Convertible Preferred Stock

Subject to certain conditions, the convertible preferred stock represented by the global securities is exchangeable for certificated convertible preferred stock in definitive form of like tenor as such convertible preferred stock if (1) DTC notifies us that it is unwilling or unable to continue as DTC for the global securities or if at any time DTC ceases to be a clearing agency registered under the Exchange Act and, in either case, a successor is not appointed within 90 days or (2) we in our discretion at any time determine not to have all of the convertible preferred stock represented by the global securities. Any convertible preferred stock that is exchangeable pursuant to the preceding sentence is exchangeable for certificated convertible preferred stock issuable for such number of shares and registered in such names as DTC shall direct. Subject to the foregoing, the global securities are not exchangeable, except for global securities representing the same aggregate number of shares and registered in the name of DTC or its nominee.

DESCRIPTION OF CAPITAL STOCK

Our total authorized capital stock consists of (a) 500,000 shares cumulative preferred stock, par value of $1.00 per share, (b) 3,000,000 shares of preference stock, and (c) 100,000,000 shares of common stock, par value $1.00 per share. At August 9, 2005 there were outstanding 28,693,491 shares of common stock. This amount does not include (i) the 4,300,000 shares of common stock which are subject to an underwriting agreement between us and Credit Suisse First Boston LLC, as representatives of the underwriters named therein, dated August 9, 2005, the sale of which shares we expect to finalize on or about August 15, 2005, or the 30-day option the underwriters have to require us to sell up to an additional 645,000 shares to cover over-allotments; (ii) the 23.5 million shares that we have previously reserved for issuance, into which the 350,000 shares of our preferred stock are potentially convertible or (iii) the vested and unvested options outstanding to purchase 1.2 million shares of our common stock as of June 30, 2005. We have a series of our preferred stock designated as the 5.00% Series B Convertible Cumulative Preferred Stock, of which 350,000 shares were outstanding at August 9, 2005. We also currently have Series A Preference Stock with the number of shares constituting such series set at 2,000,000. The Series A Preference Stock is reserved for issuance pursuant to our Shareholder Rights Plan, but no shares are currently outstanding. We also have a series of preference stock designated 6% Series B Convertible Preference Stock consisting of 70,000 shares, of which none are issued and outstanding. The following description of our capital is qualified in its entirety by reference to our articles of incorporation and bylaws and the laws of the State of Michigan. You should carefully review our articles of incorporation and bylaws which are filed as exhibits to the registration statement of which this prospectus is a part for a complete description.

Common Stock

Voting Rights. The holders of common stock are entitled to one vote for each share on all matters voted upon by our shareholders and, subject to any voting rights of the holders of the preferred stock and preference stock described below, the holders of such shares currently possess all voting power. Our articles of incorporation provide for cumulative voting for the election of our directors.

Preemptive Rights. No holder of common stock has any preemptive right to subscribe to any additional securities which we may issue.

Liquidation Rights. Subject to the preferential rights of holders of our preferred stock and preference stock, upon our liquidation the holders of our common stock are entitled to share on a pro rata basis in our net assets which remain after satisfaction of all liabilities.

Listing. Our common stock is listed on the New York Stock Exchange under the symbol "SEN."

Transfer Agent and Registrar. National City Bank is the transfer agent and registrar for our common stock.

Dividend Rights. The holders of common stock are entitled to dividends when, as and if, declared by the Board of Directors out of our surplus after full cumulative dividends on the preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to each series of the preferred stock and preference stock then outstanding, if any, have been satisfied.

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements. See "Dividend Policy" for a description of these covenants.

Our credit facility as set forth in the Amended and Restated Credit Agreement dated as of June 25, 2004, as amended, contains a covenant in which we promise not to make any distribution to shareholders except in certain circumstances. If no event of default or unmatured event of default exists or would result therefrom, we can pay dividends, payments or distributions to the extent that they are payable in shares of our capital stock. In addition, we may pay any dividend, payment or other distribution if:

- the aggregate amount of such dividends, payments or other distributions under this exception made during the period from and after March 31, 2004, to and including the date of the making of the dividend, payment or other distribution in question shall not exceed the sum of $12.0 million plus, commencing on September 30, 2004, 80% of our consolidated net income for such period, as calculated in the credit facility; and

- immediately after giving effect to such dividend, payment or other distribution, no event of default or unmatured event of default exists or will have occurred and be continuing and we, after giving effect on a pro forma basis to the payment of such dividends or distributions, are in compliance with all of our financial covenants in the credit facility.

In addition, our Indenture dated as of May 15, 2003, and our Indenture dated as of May 21, 2003, under both of which we have issued senior debt securities, also limits our payment of dividends. Under these documents, we are not permitted to declare or pay any dividend or make any other payment or distribution on account of our capital stock unless:

- after giving effect thereto no default or event of default has occurred and is continuing or would occur as a consequence of the payment;

- we would have, at the time of the payment and after giving pro forma effect thereto as if the payment has been made at the beginning of the applicable four-quarter period, been permitted to incur at least $1.00 of additional indebtedness other than permitted debt per the fixed charge coverage ratio tests contained in such indentures; and the payment, together with the aggregate amount of all other restricted payments declared or made after the date of the indentures, do not exceed the basket for such restricted payments as this is set forth in the indentures.

These prohibitions do not apply to regular quarterly dividends on our capital stock so long as no default has occurred and is continuing or would be caused thereby, if the payment of the regular quarterly dividends does not exceed $13,500,000 in any twelve-month period.

Preferred Stock

The Board of Directors is authorized, without further action by shareholders, to issue preferred stock, in one or more series, from time to time, with such rights and preferences as may be provided in a resolution

adopted by the Board of Directors. The authority of the Board includes, but is not limited to, the determination or fixing of the following with respect to shares of such class or any series thereof:

(a) the rate of dividends and the extent of further participation in dividend distribution, if any;

(b) the price at and the terms and conditions on which the shares are redeemable;

(c) the amount payable upon shares in event of voluntary or involuntary liquidation;

(d) sinking fund provisions for the redemption or purchase of shares; and

(e) the terms and conditions on which shares are convertible.

The terms of each series of preferred stock may include the following:

(a) the title and stated value of such preferred stock;

(b) the number of shares of such preferred stock offered and the offering price and liquidation preference per share of such preferred stock;

(c) the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to such preferred stock;

(d) the date from which dividends on such preferred stock shall accumulate, if applicable;

(e) the provision for a sinking fund, if any, for such preferred stock;

(f) the provision for redemption, if applicable, of such preferred stock;

(g) any listing of such preferred stock on any securities exchange;

(h) a discussion of federal tax considerations applicable to such preferred stock;

(i) any voting rights of holders of such preferred stock;

(j) any other specific terms, preferences, rights, limitations or restrictions of such preferred stock;

(k) the relative ranking and preference of such preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

(l) any limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and

(m) the terms and conditions, if applicable, upon which such preferred stock will be convertible into or participate in dividends, if any, paid on the common stock, including the conversion price (or manner of calculation thereof).

In the event of our liquidation or dissolution, the holders of preferred stock are entitled to receive a fixed amount for each series before any distribution is made to the holders of common stock or preference stock.

As long as any preferred stock remains outstanding, we may not purchase any shares of our common stock or purchase or redeem any preference stock. As long as any preferred stock remains outstanding, we may not without the consent of the holders of at least two-thirds of the outstanding preferred stock authorize any class of stock having a priority or preference over or ranking on a parity with the preferred stock as to dividends or distribution of assets or amend the provisions of our articles of incorporation in a manner that would adversely affect the rights of holders of the preferred stock.

If at any time we fail to declare and pay or set apart for payment in full eight quarterly dividends (whether or not consecutive) on all of the outstanding preferred stock, then the holders of the outstanding preferred stock shall have the right, voting as a single class irrespective of series, to elect such number of our directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors, and such right shall continue (and may be exercised at any annual or other meeting of shareholders for the election of directors) until we shall have paid or declared and set apart for

payment all accrued dividends on the preferred stock for all past quarterly dividend periods. At August 3, 2005, 350,000 shares of preferred stock were outstanding.

5.00% Series B Convertible Cumulative Preferred Stock. In March 2005, the Board of Directors created a series of preferred stock designated as the "5.00% Series B Convertible Cumulative Preferred Stock" with the number of shares constituting such series at 350,000, all of which were outstanding as of August 9, 2005. See "Description of Preferred Stock."

Preference Stock

The Board of Directors has the authority to divide the 3,000,000 shares of preference stock into series and, within the limitations set forth in the laws of the State of Michigan and in the articles of incorporation, to fix and determine the relative rights and preferences of the shares of any series so established. The preference stock ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, except to the extent that a specific series of preferred stock provides otherwise.

Series A Preference Stock. In January, 1997, the Board of Directors created a series of preference stock designated as Series A Preference Stock with the number of shares constituting such series set at 2,000,000. The Series A Preference Stock is reserved for issuance pursuant to a Shareholder Rights Plan, but no shares of Series A Preference Stock are currently outstanding. See "Anti-Takeover Provisions — Shareholder Rights Plan."

If Series A Preference Stock was outstanding, dividends would accrue and be cumulative in an amount per share per quarter equal to the greater of (i) $10.00 or (ii) the Adjustment Number (as defined below) times the per share amount of all cash dividends, and the Adjustment Number times the per share amount (payable in kind) of all non-cash dividends or other distributions (other than a dividend payable in shares of common stock or a subdivision of the shares of common stock), declared on the common stock since the preceding quarterly dividend payment date, or, if later, since the issuance or such Series A Preference Stock. Upon our liquidation or dissolution, the holders of Series A Preference Stock are entitled to receive $100 per share plus all accrued and unpaid dividends. The Series A Preference Stock is not redeemable and ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, unless the terms of any series provides otherwise.

If Series A Preference Stock was outstanding, a holder of Series A Preference Stock would be entitled to the number of votes equal to the Adjustment Number times the number of votes to which a holder of common stock is entitled. Except as otherwise provided below or by law, Series A Preference Stock and common stock shall vote together as one class on all matters submitted to a vote of the holders of common stock.

If any dividends on Series A Preference Stock shall be in arrears for six or more quarterly dividends, a "default period" shall begin. The default period shall end when all accrued dividends shall have been paid or set apart for payment. During a default period, the holders of Series A Preference Stock shall have the right to elect two directors. This vote shall be as a class for all series of preference stock entitled to vote. Our articles of incorporation initially set the Adjustment Number at 100. If we shall (i) pay any dividend on common stock in shares of common stock; (ii) subdivide the common stock; or (iii) combine the common stock into a smaller number of shares, the Adjustment Number shall be modified by multiplying it by a fraction, the numerator of which is the number of shares of common stock outstanding immediately after such event and the denominator of which is the number of shares of common stock outstanding immediately prior to such event.

Series B Preference Stock. On March 19, 2004, the Board of Directors created a new series of preference stock designated as the "6% Series B Convertible Preference Stock" consisting of 70,000 shares none of which are currently outstanding.

Direct Stock and Dividend Reinvestment Plan

We sponsor a direct stock purchase and dividend reinvestment plan under which investors may purchase shares of common stock without paying brokerage fees and other expenses. Under the plan, the plan

administrator may purchase common stock in the open market, through private transactions or from us. If shares are purchased on the open market, or through private transactions, the price of the shares purchased through the plan will be the weighted average price paid in the stock market for the particular investment date. If the plan administrator purchases shares from us, the price paid for those shares will be the average of the closing prices on the three trading days prior to the purchase date as quoted on the New York Stock Exchange. We initially reserved 2,000,000 shares of common stock for issuance under the plan. As of August 9, 2005, 1,467,938 shares were available for issuance under the plan.

Anti-Takeover Provisions

Articles of Incorporation. The following provisions of our articles of incorporation may delay, deter or prevent a person from acquiring us or changing control of the Board of Directors. Our articles of incorporation divide the Board into three classes with staggered terms; each director is elected for a three year term. Approximately one-third of the Board positions are filled by a shareholder vote each year. Directors may be removed but only for cause, at an annual meeting of shareholders and by the affirmative vote of a majority of the shares then entitled to vote for the election of directors. In addition to requirements imposed under Chapters 7A and 7B of the Michigan Business Corporation Act, or the MBCA, our articles of incorporation provide that a business combination cannot occur unless a written opinion is obtained from an independent investment banker that the consideration to be paid to our shareholders is fair and reasonable; provided, however, the directors may waive this requirement. Our articles of incorporation also contain provisions limiting the personal liability of directors.

Anti-Takeover Statute. We are subject to Chapter 7A of the MBCA, which provides that business combinations subject to Chapter 7A between a covered Michigan corporation or any of its subsidiaries and a beneficial owner of shares entitled to 10% or more of the voting power of such corporation generally require the affirmative vote of 90% of the votes of each class of stock entitled to vote, and not less than 2/3 of the votes of each class of stock entitled to vote (excluding voting shares owned by such 10% or more owner), voting as a separate class. Such requirements do not apply if (a) the corporation's Board of Directors approves the transaction prior to the time the 10% or more owner becomes such or (b) the transaction satisfies certain fairness standards, certain other conditions are met and the 10% or more owner has been such for at least five years. Chapter 7A business combinations include, among other transactions, mergers, significant asset transfers, certain disproportionate issuances of shares to an interested shareholder, certain reclassifications and recapitalizations disproportionately favorable to such shareholder, and the adoption of a plan of liquidation or dissolution in which such a shareholder would receive anything other than cash. Chapter 7A does not restrict the purchase of shares from other shareholders in the open market, through private transactions or acquired through a tender offer. In addition to the requirements imposed by Chapter 7A of the MBCA, a business combination subject to Chapter 7A of the MBCA may not be effected without first obtaining the written opinion of an independent investment banker to the effect that the consideration to be paid to our shareholders is fair and reasonable.

Control Share Statute. We are subject to Chapter 7B of the MBCA, which provides that control shares of a public company acquired in a control share acquisition have no voting rights except as granted by resolution approved by the shareholders of the company. The effect of the statute is to condition the acquisition of voting control of a corporation on the approval of a majority of pre-existing, disinterested shareholders. "Control shares" are outstanding shares which, but for Chapter 7B, when added to all other shares owned by a person or in respect to which that person may exercise or direct the exercise of voting power, would entitle that person, directly or indirectly, acting alone or in a group, to exercise or direct the exercise of the voting power of the public corporation in the election of directors within any of the following ranges of voting power:

- one-fifth or more but less than one-third,
- one-third or more but less than a majority, or
- a majority.

The shareholder resolution conferring voting rights on control shares must be approved by both

- a majority of the votes cast by the holders of shares entitled to vote thereon, and if the proposed control share acquisition would, if fully carried out, result in any action which would require a vote as a class or series, by a majority of the votes cast by the holders of shares of each such class or series entitled to vote thereon; and

- a majority of the votes cast by the holders of shares entitled to vote and a majority of the votes cast by the holders of shares of each class or series entitled to vote as a class or series, excluding all interested shares (which are shares owned by the acquirer and certain officers and employee directors).

No such approval is required, however, for gifts or other transactions not involving consideration, for a merger to which the corporation is a party or for certain other transactions described in Chapter 7B. Although control shares include, for the purpose of determining whether the thresholds have been met, shares beneficially owned by persons acting as a group, the formation of a group does not constitute a control share acquisition of shares held by members of the group.

Under Chapter 7B, in the event that our shareholders approve full voting rights for the control shares acquired in a control share acquisition and the acquiring person has acquired a majority of all voting power of the corporation, our shareholders (other than the acquiring person) would have dissenters' rights to receive the "fair value" of their shares from the corporation. In addition, upon meeting certain conditions enumerated in Article XII of our bylaws, control shares acquired in a control share acquisition are redeemable for their fair value at our option during certain periods specified in Chapter 7B. For each of these purposes, "fair value" is defined as a value not less than the highest per share price paid by the acquiring person in the control share acquisition.

Shareholder Rights Plan. In January 1997, we adopted a Shareholder's Rights Plan pursuant to which 2,000,000 shares of Series A Preference Stock are reserved under the plan for sale to holders of common stock. The common stock currently trades with a right to purchase such Series A Preference Stock. The right is intended to protect shareholders in the event of an unsolicited attempt to acquire us and becomes exercisable upon the occurrence of certain triggering events. The right is transferred automatically with the transfer of the common stock until separate rights certificates are distributed upon the occurrence of certain events. The right could have the effect of delaying, deferring or preventing a person from acquiring us or accomplishing a change in control of the Board of Directors. See "Description of Capital Stock — Preference Stock — Series A Preference Stock."

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes the material U.S. federal income tax consequences to holders (as defined below) of the purchase, ownership, and disposition of the preferred stock and any common stock received upon its conversion. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the final and temporary Treasury Regulations promulgated thereunder, and administrative rulings and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect) or different interpretations. This summary does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to an investor's decision to purchase shares of preferred stock, nor any tax consequences arising under the laws of any state, locality or foreign jurisdiction. This summary is not intended to be applicable to all categories of investors, such as dealers in securities, banks, insurance companies, tax-exempt organizations, persons that hold the preferred stock or common stock as part of a straddle or conversion transaction, former U.S. citizens or long term residents, or holders subject to the alternative minimum tax, all of whom or which may be subject to special rules. In addition, this discussion is limited to persons who hold the preferred stock or common stock as "capital assets" (generally, property held

for investment) within the meaning of Section 1221 of the Code. As used in this section, a "U.S. holder" is a beneficial owner of preferred stock or common stock that is for U.S. federal income tax purposes:

- an individual U.S. citizen or resident alien;
- a corporation, or entity taxable as a corporation that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose world-wide income is subject to U.S. federal income tax; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

A "non-U.S. holder" is a beneficial owner of preferred stock or common stock that is not a U.S. holder.

If a partnership (including a limited liability company for which no election to be treated as a corporation for U.S. federal income tax purposes is in effect) holds preferred stock or common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership.

YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, CONVERSION, AND DISPOSITION OF PREFERRED STOCK AND COMMON STOCK RECEIVED AS A RESULT OF A CONVERSION OF PREFERRED STOCK.

Consequences to U.S. Holders of Preferred Stock or Common Stock

Distributions. The amount of any distribution to you with respect to preferred stock or common stock will be treated as a dividend, taxable as ordinary income to you, to the extent of our current or accumulated earnings and profits ("earnings and profits") as determined under U.S. federal income tax principles. To the extent the amount of such distribution exceeds our earnings and profits, the excess will be applied against and will reduce your adjusted tax basis (on a dollar-for-dollar basis) in the preferred stock or common stock, as the case may be. Any amount in excess of your tax basis will be treated as capital gain.

Dividends to Individual Shareholders. If you are an individual, for taxable years beginning on or before December 31, 2008, dividends on the preferred stock or common stock will be taxed at special reduced rates, the maximum U.S. federal tax rate being 15%, if the holder has held the shares of stock for more than 60 days during the 121-day period beginning 60 days before the Code section 246(c) ex-dividend date and other requirements applicable to "qualified dividend income" are satisfied. Dividends on the preferred stock attributable to a period or periods aggregating more than 366 days will qualify to be taxed as net capital gain only if holders held their shares more than 90 days during the 181-day period beginning 90 days before the ex-dividend date. You should consult your own tax advisor as to your eligibility for such reduced rates of taxation.

Dividends to Corporate Shareholders. In general, a distribution which is treated as a dividend for U.S. federal income tax purposes and is made to a corporate shareholder with respect to the preferred stock or common stock will qualify for the 70% dividends-received deduction under Section 243 of the Code. In general, the dividends-received deduction is available only if the stock in respect of which a dividend is paid has been held for more than 45 days during the 91-day period beginning on the date which is 45 days before the ex-dividend date, or at least 91 days during the 181-day period beginning on the date which is 90 days before the ex-dividend date in the case of a dividend paid with respect to preferred stock and which is attributable to a period or periods aggregating more than 366 days. A taxpayer's holding period for these purposes is reduced by periods during which the taxpayer's risk of loss with respect to the stock is considered diminished by reason of the existence of options, contracts to sell or other similar transactions. The dividends-received deduction will not be available to the extent that the taxpayer is under an obligation to make related payments with respect to positions in substantially similar or related property. The dividends-received deduction is limited to specified percentages of the holder's taxable income and may be reduced or eliminated if the holder has indebtedness "directly attributable to its investment" in the stock.

Prospective corporate purchasers of convertible preferred stock should consult their own tax advisors to determine whether these limitations might apply to them. No assurance can be given that we will have sufficient earnings and profits for federal income tax purposes to cause all or any portion of the distributions from us to be taxable as dividends. As a result, no assurance can be given that any distribution on the preferred stock or common stock will be treated as a dividend for which the dividends-received deduction will be available.

If distributions with respect to the preferred stock or common stock exceed our earnings and profits, the excess will be applied against and reduce the holder's basis in the preferred stock or common stock, as applicable. Any amount in excess of the amount of the dividend and the amount applied against basis will be treated as capital gain.

Extraordinary Dividends. If a corporate holder of preferred stock or common stock receives an "extraordinary dividend" from us with respect to stock which it has not held for more than two years before the dividend announcement date, the basis of the stock will be reduced (but not below zero) by the portion of the dividend which is not taxable because of the dividends-received deduction. If, because of the limitation on reducing basis below zero, any amount of the non-taxable portion of an extraordinary dividend has not been applied to reduce basis, such amount will be treated as gain from the sale or exchange of stock in the taxable year in which the extraordinary dividend is received. An "extraordinary dividend" on the preferred or common stock would include a dividend that (i) equals or exceeds 5%, in the case of the preferred stock, or 10%, in the case of the common stock, of the holder's adjusted basis in the stock, treating all dividends having ex-dividend dates within an 85-day period as one dividend, or (ii) exceeds 20% of the holder's adjusted basis in the stock, treating all dividends having ex-dividend dates within a 365-day period as one dividend. A holder may elect to use the fair market value of the stock rather than its adjusted basis for purposes of applying the 5%, 10% or 20% limitation if the holder is able to establish such fair market value to the satisfaction of the IRS. An "extraordinary dividend" also includes any amount treated as a dividend in the case of a redemption of the preferred stock or common stock that is not pro rata to all shareholders, irrespective of the holder's holding period of the stock.

Special rules apply with respect to "qualified preferred dividends." A qualified preferred dividend is any fixed dividend payable with respect to stock which (i) provides for fixed preferred dividends payable no less often than annually and (ii) is not in arrears as to dividends when acquired, provided the actual rate of return on such stock does not exceed 15%. For this purpose, the actual rate of return is determined solely by taking into account dividends during such holding period and by using the lesser of the adjusted basis or the liquidation preference in respect of such preferred stock. Where a qualified preferred dividend exceeds the 5% or 20% limitation described above, the extraordinary dividend rules will not apply if the taxpayer holds the stock for more than five years. If the taxpayer disposes of the stock before it has been held for more than five years, the aggregate reduction in basis will not exceed the excess of the qualified preferred dividends paid on such stock during the period held by the taxpayer over the qualified preferred dividends that would have been paid during such period on the basis of the stated rate of return as determined under section 1059(e)(3) of the Code. The length of time that a taxpayer is deemed to have held stock for this purpose is determined under principles similar to those applicable for purposes of the dividends-received deduction discussed above. Qualified preferred dividends do not include amounts treated as a dividend as a result of non-pro rata redemptions of preferred stock or common stock.

Any loss on the sale or exchange of stock with respect to which an individual holder has received an extraordinary dividend that is also qualified dividend income (see "Distributions to Individual Shareholders" above) will be treated as long-term capital loss to the extent of the dividend. The deductibility of capital losses is limited.

Sale or Other Disposition. Upon a sale or other disposition of preferred stock or common stock (other than an exchange of preferred stock for common stock pursuant to the conversion privilege), you generally will recognize capital gain or loss equal to the difference between the amount of cash and the fair market value of property you receive on the sale or other disposition and your adjusted tax basis in the preferred stock or common stock. Such capital gain or loss will be long-term capital gain or loss if your holding period for the

preferred stock or common stock, as applicable, is more than one year. Long-term capital gains are currently taxable at a maximum U.S. federal tax rate of 15% in the case of individuals and 35% in the case of corporations. The deductibility of capital losses is subject to limitations.

Redemption of Preferred Stock For Cash. A redemption of shares of preferred stock by us for cash will be treated as a distribution taxable as a dividend (and, in the case of a corporate holder, as an "extraordinary dividend") (see "Distributions", "Dividends to Individual Shareholders", "Dividends to Corporate Shareholders" and "Extraordinary Dividends" above) to redeeming shareholders to the extent of our earnings and profits (and to the extent of any portion of such distribution that is in excess of earnings and profits, as return of capital to the extent of basis, and thereafter, as capital gain) unless the redemption:

- results in a complete termination of the shareholder's interest in us (within the meaning of section 302(b)(3) of the Code);
- is "substantially disproportionate" (within the meaning of section 302(b)(2) of the Code) with respect to the holder; or
- is "not essentially equivalent to a dividend" (within the meaning of section 302(b)(1) of the Code).

In determining whether any of these tests has been met, shares considered to be owned by the holder by reason of the constructive ownership rules set forth in section 318 of the Code, as well as shares actually owned, will be taken into account. If any of the foregoing tests is met, the redemption of shares of preferred stock for cash will result in taxable gain or loss equal to the difference between the amount of cash received (except cash attributable to accrued, unpaid, declared dividends, which will be taxable as a dividend described above), and the holder's basis in the redeemed shares. Any such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period exceeds one year. Long-term capital gains are currently taxable at a maximum rate of 15% in the case of individuals and 35% in the case of corporations. The deductibility of capital losses is subject to limitations.

Conversion of Preferred Stock in Exchange for Common Stock. You generally will not recognize gain or loss by reason of receiving common stock in exchange for preferred stock upon conversion of the preferred stock, except gain or loss will be recognized with respect to any cash received in lieu of fractional shares and the fair market value of any shares of common stock attributable to dividend arrearages will be treated as a constructive distribution as described above under "Distributions." The adjusted tax basis of the common stock (including fractional share interests) so acquired (excluding any common stock received that is attributable to dividend arrearages) will be equal to the tax basis of the shares of preferred stock exchanged and the holding period of the common stock received will include the holding period of the preferred stock exchanged. The adjusted tax basis of any common stock treated as received in a constructive distribution will be equal to its fair market value on the date of the exchange and the holding period for such common stock will begin the day after the date of the exchange.

Adjustment of Conversion Price. Holders of preferred stock may, in certain circumstances, be deemed to have received constructive distributions of stock if the conversion rate for the preferred stock is adjusted. Adjustments to the conversion price made pursuant to a bona fide reasonable adjustment formula which has the effect of preventing the dilution of the interest of the holders of the preferred stock, however, generally will not be considered to result in a constructive distribution of stock. Certain of the possible adjustments provided in the anti-dilution provisions of the preferred stock, including, without limitation, adjustments in respect of stock dividends or the distribution of rights to subscribe for common stock should qualify as being pursuant to a bona fide reasonable adjustment formula and should not result in a constructive distribution. In contrast, adjustments in respect of distributions of our indebtedness or assets to our stockholders, for example, will not qualify as being pursuant to a bona fide reasonable adjustment formula. In addition, any adjustment triggered by a "fundamental change" as described under "Description of Preferred Stock" may not so qualify. If such adjustments are made, the holders generally will be deemed to have received constructive distributions in amounts based upon the increase, if any, of the value of such holders' interests in our equity resulting from such adjustments. Certain *de minimis* adjustments will not be taken into account for this purpose. The amount of the distribution will be treated as a distribution to a holder with the tax consequences specified above under "Distributions." Accordingly, you could be considered to have received distributions taxable as dividends to

the extent of our earnings and profits even though you did not receive any cash or property as a result of such adjustments.

Conversion of Preferred Stock After Dividend Record Date. If a holder exercises its right to convert the preferred stock into shares of common stock after a dividend record date but before payment of the dividend, then upon conversion, the holder generally will be required to pay to us in cash an amount equal to the portion of such dividend attributable to the current quarterly dividend period, which amount would increase the tax basis of the common stock received. When the dividend is received, the holder would recognize the dividend payment in accordance with the rules described under "— Distributions" above.

Backup Withholding. Under the backup withholding provisions of the Code and applicable Treasury Regulations, you may be subject to backup withholding with respect to dividends paid on, or the proceeds of a sale, exchange or redemption of, preferred stock or common stock unless:

- you are a corporation or come within certain other exempt categories and when required demonstrate this fact, or
- within a reasonable period of time, you provide a taxpayer identification number, certified under penalties of perjury as well as certain other information or otherwise establish an exemption from the backup withholding rules.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. Federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the Internal Revenue Service.

Consequences to Non-U.S. Holders of Preferred or Common Stock

Dividends. In general, dividends received by you with respect to our preferred stock or common stock will be subject to withholding of U.S. Federal income tax at a 30% rate, unless such rate is reduced by an applicable income tax treaty. Dividends that are effectively connected with your conduct of a trade or business in the United States (and if a tax treaty applies, dividends that are attributable to a U.S. permanent establishment) are generally subject to U.S. Federal income tax on a net income basis and are exempt from the 30% withholding tax (assuming compliance with certain certification requirements). Any such effectively connected dividends received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be applicable under an income tax treaty.

For purposes of obtaining a reduced rate of withholding under an income tax treaty, you generally will be required to provide a U.S. taxpayer identification number as well as certain information concerning your country of residence and entitlement to tax treaty benefits. Generally, this will be accomplished by providing a properly executed IRS Form W-8BEN. If you instead are claiming an exemption from withholding with respect to dividends effectively connected with the conduct of a trade or business within the United States, you will be required to provide an appropriate certification to us or our paying agent (generally by providing a properly completed IRS Form W-8ECI).

Sale or Other Disposition. As a non-U.S. Holder, you generally will not be subject to U.S. Federal income tax on any gain recognized on the sale or other disposition of preferred stock or common stock unless:

- the gain is considered effectively connected with the conduct of a trade or business by you within the United States and, where a tax treaty applies, is attributable to a U.S. permanent establishment of yours (and, in which case, if you are a foreign corporation, you may be subject to an additional branch profits tax equal to 30% or a lower rate as may be specified by an applicable income tax treaty)
- you are an individual who holds the preferred stock or common stock as a capital asset and are present in the United States for 183 or more days in the taxable year of the sale or other disposition and other conditions are met; or
- we are or have been, within a 5-year period ending on the date of your disposition of preferred stock or common stock, a "United States real property holding corporation," or a USRPHC, for U.S. federal income tax purposes.

We do not believe we are or have been in the last five years a USRPHC or that we will become a USRPHC in the future. However, there can be no assurances that the Internal Revenue Service may not take an adverse position. If the IRS determines that we are a USRPHC, then the tax consequences to certain Non-U.S. holders may be affected. In general, gain on the sale or other disposition of stock of a USRPHC that is regularly traded on an established securities market will be subject to U.S. federal income tax only in the case of a holder that owns more than 5% of that class of stock at any time during the five-year period ending on the date of disposition. If a non-regularly traded class of stock is convertible into a regularly traded class of stock, gain on the sale of that non-regularly traded stock will be subject to U.S. federal income tax only if, on any date on which such stock was acquired by the holder, the non-regularly traded stock acquired by such holder (including all previously acquired stock of the same class) had a fair market value greater than 5% of the regularly traded class of the corporation's stock into which it is convertible.

Although it is possible that, in the future, the preferred stock will be listed on an established securities market, there can be no assurance that such stock will be listed or, if listed, that it will qualify as "regularly traded" under the relevant rules. If the preferred stock is so listed and if it is considered to be "regularly traded," gain recognized by a holder that owns more than 5% of the preferred stock at any time during the five year period ending on the date of disposition would be subject to U.S. federal income tax. If the preferred stock is not listed on an established securities market, or, if listed, does not qualify as "regularly traded," gain recognized on a sale of preferred stock would be subject to U.S. federal income tax only in the case of a holder that owned, as of the date of any acquisition of such preferred stock, an amount of preferred stock having a fair market value greater than 5% of the common stock into which it is convertible.

Non-U.S. holders that may be treated as beneficially owning more than 5% of our preferred or common stock should consult their own tax advisors with respect to the United States tax consequences of the ownership and disposition of preferred or common stock.

Redemption of Preferred Stock for Cash. Upon a redemption of the preferred stock for cash, we may be required to withhold tax on the entire amount of the proceeds at a 30% rate or lower treaty rate applicable to dividends unless a Non-U.S. holder is able to demonstrate to our satisfaction that such redemption or exchange satisfies the section 302 tests discussed above with respect to such Non-U.S. holder (see "Consequences to U.S. Holders of Preferred Stock or Common Stock — Redemption of Preferred Stock for Cash" above).

Conversion of Preferred Stock in Exchange for Common Stock. You generally will not recognize any gain or loss by reason of receiving common stock in exchange for preferred stock upon conversion of the preferred stock, except gain or loss will be recognized with respect to any cash received in lieu of fractional shares, as described above under "Sale or Other Disposition," and the fair market value of any shares of common stock attributable to dividend arrearages will be treated as a constructive distribution, and will be taxable, as described above under "Dividends," to you to the extent of our earnings and profits.

Information Reporting and Backup Withholding. We must report annually to the IRS and to you the amount of dividends paid to you (including the amount of any constructive dividends) regardless of whether withholding was required, and the amount of any tax withheld with respect to those dividends. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty or other applicable agreements.

Backup withholding is generally imposed on certain payments to persons that fail to furnish the necessary identifying information to the payor. You generally will be subject to backup withholding tax with respect to dividends paid on your preferred stock or common stock unless you certify your non-U.S. status, provided we do not have actual knowledge or reason to know that you are a U.S. holder.

The payment of proceeds of a sale of preferred stock or common stock effected by or through a U.S. office of a broker is subject to both backup withholding and information reporting unless you provide the payor with your name and address and you certify under penalties of perjury as to your non-U.S. status or you otherwise establish an exemption. In general, backup withholding and information reporting will not apply to the payment of the proceeds of a sale of preferred stock or common stock by or through a foreign office of a

broker. If, however, such broker is, for U.S. federal income tax purposes, a United States person, a controlled foreign corporation, a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, or, a foreign partnership that at any time during its tax year either is engaged in the conduct of a trade or business in the United States or has as partners one or more United States persons that, in the aggregate, hold more than 50% of the income or capital interest in the partnership, such payments will be subject to information reporting, but not backup withholding, unless such broker has documentary evidence in its records that you are a non-U.S. Holder and certain other conditions are met or you otherwise establish an exemption.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished in a timely manner to the IRS.

THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO YOU IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES THAT WOULD RESULT FROM YOUR PURCHASE, OWNERSHIP AND DISPOSITION OF THE PREFERRED STOCK AND ANY COMMON STOCK RECEIVED UPON ITS CONVERSION, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

SELLING SECURITYHOLDERS

We originally issued 325,000 shares of the preferred stock in a private placement on March 15, 2005 and, pursuant to the initial purchasers' exercise of their over-allotment option, an additional 25,000 shares on March 22, 2005. The preferred stock was resold by the initial purchasers to persons they reasonably believed to be qualified institutional buyers within the meaning of Rule 144A under the Securities Act or to non U.S. persons in offshore transactions in reliance on Regulation S, in either case in transactions exempt from registration under the Securities Act.

This prospectus covers sales, by the selling securityholders named below, of preferred stock and shares of common stock issued upon conversion of the preferred stock. The selling securityholders purchased their preferred stock from the initial purchasers or from subsequent holders in transactions exempt from registration under the Securities Act. Selling securityholders who are selling common stock that was issued upon conversion of shares of the preferred stock, acquired such stock from us upon conversion of their previously acquired preferred stock or from the initial purchasers or from subsequent holders in transactions exempt from registration under the Securities Act.

The preferred stock and the shares of common stock issuable upon conversion of the preferred stock that may be offered pursuant to this prospectus will be offered by the selling securityholders, which includes their transferees, distributees, pledgees or donees or their successors. Selling securityholders may from time to time offer and sell pursuant to this prospectus any or all of the preferred stock and common stock into which the preferred stock is convertible. The following table sets forth certain information we have received as of August 9, 2005, concerning the number of shares of preferred stock beneficially owned by each selling securityholder and the number of shares of common stock that may be offered from time to time pursuant to this prospectus.

The number of shares of common stock shown in the table below assumes conversion of all shares of preferred stock held by such holder at the initial conversion rate of 26.1438 shares per $200 liquidation price. This conversion rate is subject to certain adjustments. Accordingly, the number of shares of common stock issuable upon conversion of the preferred stock may increase or decrease from time to time. Under the terms of the preferred stock, fractional shares will not be issued upon conversion of the preferred stock. Cash will be paid instead of fractional shares, if any. The selling securityholders may offer all, some or none of the preferred stock or common stock into which the preferred stock is convertible. Because the selling securityholders may offer all or some portion of the preferred stock or the shares of common stock issuable upon conversion of the preferred stock pursuant to this prospectus, no estimate can be given as to the amount of preferred stock or common stock that will be held by the selling securityholders upon completion of all sales. In addition, the selling securityholders identified below may have sold, transferred or otherwise disposed of all or a portion of their preferred stock in transactions exempt from the registration requirements of the Securities Act since the date on which they provided information to us regarding their holdings.

We have prepared this table using information furnished to us by or on behalf of the selling securityholders. We have not sought to verify such information. Except as otherwise indicated below, to our knowledge, no selling securityholder nor any of its affiliates has held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior to the date of this prospectus. Information about the selling securityholders may change over time. Any changed information given to us by the selling securityholders will be set forth in a prospectus supplement or an amendment to the registration statement of which this prospectus is a part if and when necessary.

Full Legal Name of Selling Securityholder	Number of Shares of Preferred Stock Beneficially Owned and Offered Hereby	% of Preferred Stock Outstanding	Shares of Common Stock Beneficially Owned Before Offering(2)	Conversion Shares of Common Stock Offered Hereby(3)	Common Stock Owned Upon Completion of the Offering(1)	
					Number of Shares	% of Class(4)
Akela Capital Markets Master Fund, LTD	33,000	9.43%	0	862,745	0	*
Aloha Airlines Non-Pilots Pension Trust	365	*	0	9,542	0	*
Aloha Airlines Pilots Retirement Trust	235	*	0	6,143	0	*
Bancroft Convertible Fund, Inc.	5,000	1.43%	0	130,719	0	*
BNP Paribas Equity Strategies, SNC	2,700	*	0	70,588	0	*
Boilermakers Blacksmith Pension Trust	9,285	2.65%	0	242,745	0	*
C&H Sugar Company Inc.	450	*	0	11,764	0	*
CooperNeff Convertible Strategies (Cayman) Master Fund, LP	990	*	0	25,882	0	*
Delta Airlines Master Trust	2,125	*	0	55,555	0	*
Duke Endowment	1,975	*	0	51,634	0	*
Ellsworth Convertible Growth and Income Fund, Inc.	5,000	1.43%	0	130,719	0	*
Hawaiian Airlines Employees Pension Plan IAM	130	*	0	3,398	0	*
Hawaiian Airlines Pension Plan for Salaried Employees	25	*	0	653	0	*
Hawaiian Airlines Pilots Retirement Plan	410	*	0	10,718	0	*
Highbridge International LLC	50,000	14.29%	0	1,307,190	0	*
ING Convertible Fund	9,500	2.71%	0	248,366	0	*
ING VP Convertible Portfolio	500	*	0	13,071	0	*
Lyxor/ Convertible Arbitrage Fund Limited	450	*	0	11,764	0	*
MFS Total Return, A Series of MFS Series Trust V	2,100	*	0	54,901	0	*
Pioneer High Yield Fund	60,000	17.14%	1,250,048	1,568,628	1,250,048	4.13%
Raytheon Multi Strategy Fund	1,972	*	0	51,555	0	*
Singlehedge US Convertible Arbitrage Fund	395	*	0	10,326	0	*
Sturgeon Limited	465	*	0	12,156	0	*
UBS AG London Branch F/B/O USSY	10,000	2.86%	0	261,438	0	*
Vicis Capital Master Fund	50,000	14.29%	0	1,307,190	0	*

All other holders of preferred stock (and future transferees, distributees, pledgees, donees or successors of such holders)(5)	102,928	29.41%	0(6)	2,690,929	0(6)	*
Total(7)	350,000	100%	1,250,048	9,150,330	1,250,048	3.30%

* Less than 1%.

(1) Assumes the sale of all shares of preferred stock and all shares of common stock offered pursuant to this prospectus. Percentages are based on 28,693,491 shares of our common stock outstanding as of August 9, 2005.

(2) Figures in this column are based solely on information provided to us by selling securityholders and do not include the shares of common stock issuable upon conversion of the preferred stock listed in the column entitled "Conversion Shares of Common Stock Offered Hereby."

(3) Represents shares of common stock into which the preferred stock is convertible and assumes the initial conversion rate of 26.1438 shares per $200 liquidation price. Fractions have been rounded down to the nearest whole share, as no fractional shares will be issued upon conversion of the preferred stock. The number of common stock shares issuable upon conversion is subject to increase or decrease pursuant to the terms of the preferred stock.

(4) For purposes of this calculation, the shares issuable to the specific selling securityholder upon conversion of the preferred stock have been added to the denominator, but the shares of common stock issuable to other selling securityholders upon conversion are excluded from the denominator.

(5) Information concerning other selling securityholders will be set forth in a prospectus supplement or an amendment to the registration statement of which this prospectus is a part if and when necessary. Totals in these columns may exceed the total number of shares of preferred stock and common stock offered by this prospectus as a result of selling securityholders identified above having sold, transferred or otherwise disposed of some or all of their shares of preferred stock since the date on which the information in the preceding table was provided in transactions exempt from the registration requirements of the Securities Act and without informing us of such sale(s). In no event will the number of shares of preferred stock offered by this prospectus exceed 350,000. Similarly, the total number of shares issuable upon the conversion of all the preferred stock may increase or decrease due to adjustments to the conversion rate. Pursuant to Rule 416 under the Securities Act, the registration statement of which this prospectus is a part also covers any additional shares of our common stock which become issuable in connection with such shares because of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration which results in an increase in the number of outstanding shares of our common stock.

(6) Assumes that all other holders of preferred stock (and future transferees, distributees, pledgees, donees or successors of such holders) do not beneficially own any shares of common stock other than the shares issuable upon conversion of the preferred stock.

(7) Amounts may not sum due to rounding.

PLAN OF DISTRIBUTION

The preferred stock and the underlying common stock are being registered to permit public secondary trading of these securities by the holders thereof from time to time after the date of this prospectus. We cannot assure you that the selling securityholders will sell all or any portion of the securities offered hereby. We will not receive any proceeds from the sale by selling securityholders of the preferred stock or the underlying common stock offered by this prospectus.

The preferred stock and the underlying common stock may be sold directly by selling securityholders and their successors, which include their transferees, distributees, pledgees or donees or their successors or, alternatively, through underwriters, broker-dealers or agents, in one or more transactions at:

- fixed prices;
- prevailing market prices at the time of sale;
- prices related to such prevailing market prices;

- varying prices determined at the time of sale; or
- negotiated prices.

The selling securityholders may sell the securities by one or more of the following methods, without limitation:

- on any national securities exchange or quotation service on which the preferred stock or the common stock may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on such exchanges, quotation services or in the over-the-counter market;
- block trades in which the broker or dealer so engaged will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- cross transactions in which the same broker or dealer acts as agent on both sides of the transaction;
- purchases by a broker or dealer as principal and resale by the broker or dealer for its own account pursuant to this prospectus;
- an exchange distribution in accordance with the rules of any stock exchange on which the securities are listed;
- ordinary brokerage transactions and transactions in which the broker solicits purchases;
- privately negotiated transactions;
- through the settlement of short sales;
- through the writing of options, whether or not the options are listed on an options exchange or otherwise;
- through the distribution of the securities by any selling securityholder to its partners, members or stockholders;
- one or more underwritten offerings on a firm commitment or best efforts basis; or
- any combination of any of these methods of sale.

The selling securityholders may also transfer the securities by gift. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. We do not know of any arrangements by the selling securityholders for the sale of any of the securities.

The selling securityholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the securities. These brokers, dealers or underwriters may act as principals, or as an agent of a selling securityholder. Broker-dealers may agree with a selling securityholder to sell a specified number of the securities at a stipulated price per security. If the broker-dealer is unable to sell securities acting as agent for a selling securityholder, it may purchase as principal any unsold securities at the stipulated price. Broker-dealers who acquire securities as principals may thereafter resell the securities from time to time in transactions in any stock exchange or automated interdealer quotation system on which the securities are then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above.

Underwriters, broker-dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling securityholders or the purchasers. These discounts, concessions or commissions may be in excess of those customary in the types of transactions involved.

Selling securityholders may enter into hedging or other derivative transactions with broker-dealers or other financial institutions which may in turn engage in short sales of the preferred stock or the underlying

common stock in the course of the hedging transactions they assume. A selling securityholder may enter into option or other transactions with broker-dealers that involve the delivery of the securities offered hereby to the broker-dealers, who may then resell or otherwise transfer those securities. Selling securityholders may also sell the preferred stock or the underlying common stock short and deliver these securities to close out such short positions, or loan or pledge the preferred stock or the common stock into which the preferred stock is convertible to broker-dealers that in turn may sell or otherwise transfer the pledged securities offered hereby.

From time to time, the selling stockholders may transfer, donate, or assign some or all of their securities to lenders or others, and each of such persons will be deemed to be a "selling securityholder" for purposes of this prospectus. The number of securities beneficially owned by the selling securityholders will decrease as and when they take such actions. The plan of distribution for the selling securityholders' shares of common stock sold under this prospectus will otherwise remain unchanged, except that the transferees, donees, and other successors will be selling securityholders hereunder. The selling securityholders may, from time to time, pledge or grant a security interest in some or all of the securities owned by them. If they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the securities under this prospectus, or under a supplement or an amendment to this prospectus amending the list of selling securityholders to include the pledgee, transferee or other successors-in-interest as selling securityholders under this prospectus.

The aggregate proceeds to the selling securityholders from the sale of the preferred stock or underlying common stock will be the purchase price of the preferred stock or common stock less discounts or commissions, if any. Each of the selling securityholders reserves the right to accept and, together with their agents, to reject, in whole or in part any proposed purchase of preferred stock or common stock to be made directly or through agents. We will not receive any of the proceeds from this offering. The number of a selling securityholder's securities offered under this prospectus will decrease as and when it takes such actions. The plan of distribution for that selling securityholder's securities will otherwise remain unchanged.

Our outstanding common stock is listed for trading on the New York Stock Exchange under the symbol "SEN." Any shares of preferred stock sold by means of this prospectus will no longer be eligible for trading in PORTAL. We do not intend to list the preferred stock for trading on any national securities exchange or for inclusion in any automated quotation system. Therefore, we cannot guarantee that any trading market will develop for the preferred stock. Even if a market does develop, the market may not be maintained.

The preferred stock and underlying common stock may be sold in some states only through registered or licensed brokers or dealers. In addition, in some states the preferred stock and underlying common stock may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

The selling securityholders and any underwriters, brokers, dealers or agents that participate in the sale of the preferred stock and underlying common stock may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions, fees or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. We cannot presently estimate the amount of such compensation, if any. Selling securityholders who are underwriters within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. We will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling securityholders for the purpose of satisfying the prospectus delivery requirements.

The selling securityholders have acknowledged that they understand their obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation including, but not limited to, Regulation M, and have agreed that they will not engage in any transaction in violation of such provisions. This regulation may limit the timing of purchases and sales of any of the securities by the selling securityholders and any other person. The anti-manipulation rules under the Securities Exchange Act of 1934 may apply to sales of securities in the market and to the activities of the selling securityholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making activities with respect to the particular securities being distributed for a

period of up to five business days before the distribution. These restrictions may affect the marketability of the securities and the ability of any person or entity to engage in market-making activities with respect to the securities. Based on the information provided to us by the selling securityholders, we know of no existing arrangements between any selling securityholder, any other selling securityholder, broker, dealer, underwriter or agent relating to the sale or distribution of the securities.

If required, the specific preferred stock or common stock to be sold, the names of the selling securityholders, the respective purchase prices and public offering prices, the names of any agent, broker, dealer or underwriter, and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part.

The registration rights agreement provides for cross-indemnification of the selling securityholders and us and their and our respective controlling persons against certain liabilities, including certain liabilities under the Securities Act or contribution in connection with these liabilities.

We have agreed to pay substantially all of the expenses incidental to the registration, offering and sale of the preferred stock and underlying common stock to the public other than applicable transfer taxes and commissions, fees and discounts of underwriters, brokers, dealers and agents.

LEGAL MATTERS

The validity of the preferred stock and the shares of our common stock issuable upon conversion of the preferred stock has been passed upon for us by Mark T. Prendeville, Deputy General Counsel of SEMCO Energy, Inc.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K/ A (Amendment No. 1) for the year ended December 31, 2004 have been so incorporated in reliance on the report (which contains an adverse opinion on the effectiveness of internal control over financial reporting and an explanatory paragraph relating to the restatement of our financial statements as described in Note 16 to the financial statements) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using a "shelf" registration, or continuous offering, process. Under this shelf registration process, the selling securityholders may, from time to time, sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities which may be offered by the selling securityholders. Each time a selling securityholder sells securities, the selling securityholder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling securityholder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under "Where You Can Find More Information."

For more detailed information about the securities, you can read the exhibits to the registration statement of which this prospectus is a part. Those exhibits have been either filed with the registration statement or with our other SEC filings incorporated by reference in the registration statement.

You should rely only on the information contained in, or incorporated by reference in, this prospectus and any prospectus supplement. We have not, and each selling securityholder has not, authorized anyone else to provide you with different information. We are not, and each selling securityholder is not, making an offer of these securities or soliciting offers to buy these securities in any state where the offer or solicitation is not permitted. You should not assume that the information contained in this prospectus and any prospectus supplement is accurate as of any date other than the date on the front of such document or that the information incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date of filing of that document incorporated by reference. Our business, financial position, results of operations and prospects may have changed since those dates.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this prospectus and other documents we file with the SEC that relate to future events or our expectations, projections, estimates, intentions, goals, targets and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including without limitation, statements about our outlook, beliefs, plans, goals, and expectations, are forward-looking statements. In addition, forward-looking statements generally can be identified by use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that these expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- the effects of weather and other natural phenomena;
- the economic climate and growth in the geographical areas where we do business;
- the capital intensive nature of our business;
- increased competition within the energy industry as well as from alternative forms of energy;
- the timing and extent of changes in commodity prices for natural gas and propane;
- the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates;
- the adequacy of authorized rates to compensate us for the cost of doing business, including the cost of capital, and the amount of any cost disallowances;
- our ability to procure our gas supply on reasonable credit terms;
- our ability to remain in compliance with our debt covenants and accomplish our financing objectives in a timely and cost-effective manner;
- our ability to maintain an effective system of internal control;
- our ability to execute our strategic plan effectively, including the ability to make acquisitions and investments on reasonable terms and any conditions imposed on those transactions by governmental and regulatory agencies;
- our ability to conclude litigation and other dispute resolution proceedings on reasonable terms; and
- changes in the performance of certain assets, which could impact the carrying amount of our existing goodwill.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this prospectus and our reports filed with the SEC and incorporated by reference herein that attempt to advise interested parties of the risks and factors that may affect our business.

For a detailed discussion of the important factors that affect us and that could cause actual results to differ from those expressed or implied by our forward-looking statements, please see "Risk Factors" above and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosure About Market Risk" contained in certain of the documents incorporated by reference in this prospectus.

TRADEMARKS

SEMCO® and our "Flame Design" trademark are our registered trademarks in the United States and Canada pursuant to applicable intellectual property laws and are the property of us and our subsidiaries. This prospectus also includes trademarks, service marks and trade names of other companies. Our use or display of other companies' trademarks, service marks or trade names is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, such other companies.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Such reports and other information can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including us that file electronically at http://www.sec.gov. In addition, reports and other material concerning SEMCO can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with the SEC (File No. 001-15565). This permits us to disclose important information to you by referring to these filed documents. We incorporate by reference:

- our Annual Report on Form 10-K and Form 10-K/ A for the year ended December 31, 2004, filed on March 8, 2005 and May 10, 2005, respectively;
- our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005, filed on May 10, 2005 and August 3, 2005, respectively;
- our Current Reports on Form 8-K filed on January 3, 2005, January 25, 2005, February 18, 2005, March 9, 2005, March 10, 2005, March 17, 2005, March 23, 2005, March 30, 2005, April 1, 2005, April 21, 2005, May 9, 2005, June 21, 2005, July 1, 2005, August 3, 2005 and August 10, 2005.

All documents filed by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the initial filing of the registration statement and prior to the effectiveness of the registration statement and subsequent to the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus and made a part of this prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. Information in any of our current reports on Form 8-K

furnished under “Results of Operations and Financial Condition” shall not be incorporated by reference into this prospectus.

You may request a copy of these filings at no cost by writing or telephoning us at the following address:

SEMCO Energy, Inc.
1411 Third Street, Suite A
Port Huron, Michigan 48060
(810) 987-2200
Attn: Corporate Secretary

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Form S-8

SEMCO ENERGY INC - SEN

Filed: November 07, 2005 (period:)

Securities offered to employees pursuant to employee benefit plans

As filed with the Securities and Exchange Commission on November 7, 2005

Registration No. 333-_____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-8
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SEMCO Energy, Inc.

(Exact name of registrant as specified in its charter)

Michigan	**38-2144267**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1411 Third Street, Suite A **Port Huron, Michigan** *(Address of Principal Executive Offices)*	**48060** *(Zip Code)*

SEMCO Energy, Inc.
Deferred Compensation
and
Stock Purchase Plan
for Non-Employee Directors
(Full title of the plan)

Peter F. Clark
Senior Vice President and General Counsel
SEMCO Energy, Inc.
2301 West Big Beaver Road, Suite 212
Troy, Michigan 48084
(Name and address of agent for service)

(248) 458-6152
(Telephone number, including area code, of agent for service)

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered (1)	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (2)	Amount of registration fee
Common Stock, $1.00 par value	240,171	$5.83	$1,400,196.90	$164.80

(1) Pursuant to Rule 416(a) under the Securities Act of 1933, as amended (the "1933 Act"), this Registration Statement also covers an indeterminate number of additional shares that may be offered and issued to

prevent dilution resulting from stock splits, stock dividends or similar transactions as provided in the Plan.

(2) Pursuant to Rule 457(h)(1) under the 1933 Act, the offering price is estimated solely for the purpose of calculating the registration fee and is based on the average of the high and low sales prices of the Registrant's Common Stock on November 1, 2005, as reported on the New York Stock Exchange.

Part I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSEPECTUS

Item 1. Plan Information.*

Item 2. Registrant Information and Employee Plan Annual Information.*

* The information required by Part I to be contained in the Section 10(a) prospectus is omitted from this Registration Statement in accordance with the Note to Part I of Form S-8 and Rule 428.

Part II
INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

SEMCO Energy, Inc. (the "Registrant") hereby incorporates by reference into this Registration Statement the following documents:

(a) The Registrant's Annual Report on Form 10-K and Form 10-K/A for the fiscal year ended December 31, 2004, as filed with the Securities and Exchange Commission (the "Commission") on March 8, 2005 and May 10, 2005, respectively;

(b) The Registrant's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005, filed on May 10, 2005, August 3, 2005 and November 7, 2005, respectively;

(c) The Registrant's Current Reports on Form 8-K, as filed with the Commission on January 3, 2005, January 25, 2005, February 18, 2005, March 9, 2005, March 10, 2005, March 17, 2005, March 23, 2005, March 30, 2005, April 1, 2005, April 21, 2005, May 9, 2005, June 21, 2005, July 1, 2005, August 3, 2005, August 10, 2005, September 19, 2005; October 28, 2005 and November 7, 2005; and

(d) The description of the Registrant's Common Stock, $1.00 par value, contained in the Registrant's registration statement on Form 8-A12b, as filed with the Commission on December 21, 1999 and any amendment or report filed subsequent thereto for the purpose of updating such description.

All documents filed by the Registrant subsequent to the date of this registration statement pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act") and prior to the filing of a post-effective amendment hereto which indicates that all securities offered hereby have been sold or which deregisters all such securities then remaining unsold, shall also be deemed to be incorporated by reference into this registration statement and to be a part hereof from their respective dates of filing.

Any statement contained in this registration statement shall be deemed to be modified or superseded to the extent that a statement contained in a subsequently filed document which is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this registration statement to the extent that a statement contained in any other subsequently filed document that is or is deemed to be incorporated by reference herein, modifies or supersedes such statement.

Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Mark T. Prendeville, Esq., whose legal opinion with respect to the securities registered hereunder is filed as Exhibit 5 hereto, is an employee of the Registrant and participates in other benefit plans established by the Registrant.

Item 6. Indemnification of Directors and Officers.

The Registrant's bylaws provide that its directors and officers, former directors and officers, their heirs, executors and administrators are entitled to indemnification to the extent and under the circumstances permitted by Section 561, 562 and 563 of the Michigan Business Corporation Act (“MBCA”) including, where permitted and upon satisfaction of any undertaking required, advance of expenses.

The Registrant's bylaws contain indemnification provisions concerning third party actions as well as actions in the right of the Registrant. The Registrant's bylaws provide that it shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (other than an action by or in the right of the Registrant), including any appeals, by reason of the fact that he or she is or was a director or officer of The Registrant's, or is or was serving at the Registrant's request as a director, officer, member, partner, trustee, employee, fiduciary or agent of another foreign or domestic corporation, partnership, limited liability company, joint venture, trust or other enterprise, including service with respect to employee benefit plans or public service or charitable organizations, against expenses (including attorneys' fees), judgments, penalties, fines, excise taxes and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the Registrant's or its shareholders' best interests, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

With respect to derivative actions, the bylaws, through the reference to the MBCA, provide that the Registrant shall indemnify any person who was or is a party to or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Registrant to procure a judgment in the Registrant's favor by reason of the fact that he or she is or was a director or officer of ours, or is or was serving at the Registrant's request as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, whether for profit or not, against expenses (including attorneys' fees) and amounts paid in settlement actually and reasonably incurred by him or her in connection with the action or suit, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the Registrant's or its shareholders' best interests and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person has been found liable to the Registrant unless to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all relevant circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses, but such indemnification is limited to reasonable expenses incurred.

The Registrant has in effect a directors' and officers' liability insurance policy that provides coverage for the Registrant and its directors and officers. Under this policy, the insurer agrees to pay, subject to certain exclusions and deductibles, for any claim made against a director or officer of the Registrant for a wrongful act by the director or officer, but only if and to the extent the director or officer becomes legally obligated to pay the claim.

Item 7. Exemption from Registration Claimed.

Not applicable.

Item 8. Exhibits.

An Exhibit Index appears at page 7 hereof.

Item 9. Undertakings.

The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) to include any prospectus required by Section 10(a)(3) of the 1933 Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the Registration Statement is on Form S-3, Form S-8 or Form F-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the of 1934 Act that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the 1933 Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the 1933 Act, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the 1934 Act that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant, in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether or not such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Troy, State of Michigan, on November 7, 2005.

SEMCO Energy, Inc.
(Registrant)

By: /s/ Michael V. Palmeri

Michael V. Palmeri
Senior Vice President, Chief Financial Officer and Treasurer

POWERS OF ATTORNEY
AND
SIGNATURES

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Michael V. Palmeri, Sherry L. Abbott and Mark T. Prendeville, and each of them acting alone, as his attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments, including post-effective amendments, or supplements to this Registration Statement on Form S-8, and to file the same, with all exhibits thereto and other documents (including any necessary amendments thereof) in connection therewith, with the Commission granting unto said attorneys-in-fact and agents, and each of them acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the date indicated.

Signature	Title	Date
/s/ George A. Schreiber, Jr. George A. Schreiber, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	October 18, 2005
/s/ Michael V. Palmeri Michael V. Palmeri	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	November 7, 2005

/s/ John M. Albertine John M. Albertine	Chairman and Director	October 18, 2005
/s/ John T. Ferris	Director	October 18, 2005

/s/ Harvey I. Klein Harvey I. Klein	Director	October 18, 2005
/s/ Paul F. Naughton Paul F. Naughton	Director	October 18, 2005
/s/ Edwina Rogers Edwina Rogers	Director	October 18, 2005
/s/ Ben A. Stevens Ben A. Stevens	Director	October 18, 2005
/s/ Donald W. Thomason Donald W. Thomason	Director	October 18, 2005
/s/ John C. van Roden, Jr. John C. van Roden, Jr.	Director	October 18, 2005

EXHIBIT INDEX

Exhibit No.	Description	Filed Herewith	Filed By Reference
4.1	Articles of Incorporation of SEMCO Energy, Inc., as restated June 25, 1999, and amendments thereto through May 28, 2004, including Certificate of Designation of 6% Series B Convertible Preference Stock filed March 19, 2004 *(incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 200, filed August 9, 2004).*		**x**
4.2	Bylaws - last revised June 28, 2005 *(incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed July 1, 2005)* .		**x**
5	Opinion of Mark T. Prendeville, Vice President and Deputy General Counsel, SEMCO Energy, Inc.	**x**	
23.1	Consent of Mark T. Prendeville, Vice President and Deputy General Counsel, SEMCO Energy, Inc. *(contained in Exhibit 5 hereto).*	**x**	
23.	Consent of PricewaterhouseCoopers LLP.	**x**	
24	Powers of Attorney *(included on the signature page of this registration statement).*	**x**	
99.1	SEMCO Energy, Inc. Deferred Compensation and Stock Purchase Plan for Non-Employee Directors *(incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001, filed March 27, 2002)* .		**x**
99.2	First Amendment to the SEMCO Energy, Inc. Deferred Compensation and Stock Purchase Plan for Non-Employee Directors *(incorporated by reference to Exhibit 10.2.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, filed November 7, 2005)* .		**x**

Exhibit 5

[SEMCO Letterhead]

November 7, 2005

The Board of Directors
SEMCO Energy, Inc.
1411 Third Street, Suite A
Port Huron, Michigan 48060

Registration Statement on Form S-8

Ladies and Gentlemen:

I have acted as counsel to SEMCO Energy, Inc., a Michigan corporation (the "Company"), in connection with the preparation of a registration statement on Form S-8 (the "Registration Statement") with respect to the registration with the Securities and Exchange Commission under the Securities Act of 1933, as amended, of 240,171 shares (the "Shares") of the Company's common stock, $1.00 par value, (the "Common Stock") reserved for issuance and sale in connection with the Company's Deferred Compensation and Stock Purchase Plan for Non-Employee Directors, dated as of January 1, 2005 (the "Plan").

As counsel to the Company, I have examined the Plan and certain books and records of the Company and have made such other investigations as I have deemed necessary for purposes of this opinion. In such examinations I have assumed the genuineness of all signatures on all original documents, the authenticity of all documents submitted to me as originals, the conformity to original documents of all copies submitted to me, the authenticity of the originals of documents submitted to me as copies and the due execution and delivery of all documents where due execution and delivery are prerequisite to the effectiveness thereof.

As to questions of fact material to this opinion, I have relied solely upon statements of officers of the Company. I have assumed and relied upon the accuracy and completeness of such statements, and nothing has come to my attention leading me to question the accuracy of the stated matters. I have made no independent investigation with regard thereto and, accordingly, I do not express any view or belief as to matters that might have been discovered by independent verification.

Based upon and subject to the foregoing, I am of the opinion that the Shares reserved for issuance in accordance with the Plan have been duly authorized and will, when and to the extent issued in connection with the Plan, be validly issued, fully paid and nonassessable.

In expressing the opinions set forth above, I am not passing on the laws of any jurisdiction other than the federal laws of the United States of America and the laws of the State of Michigan.

This opinion is limited to the matters expressly opined on herein, and no opinion may be implied or inferred beyond those expressly stated. This opinion is rendered as of the date hereof, and I make no undertaking and expressly disclaim any duty to supplement or update such opinion, if, after the date hereof, facts or circumstances come to my attention or changes in the law occur which could affect such opinion. This opinion is being furnished to you solely for your benefit in connection with the transactions contemplated by the Plan and, except as expressly set forth below, is not to be used, circulated, quoted or otherwise referred to for any other purpose without our prior express written consent and may not be relied upon by any other person without my express written consent.

I hereby consent to the filing of this opinion or copies thereof as an exhibit to the Registration Statement.

Very truly yours,

/s/Mark T. Prendeville

Mark T. Prendeville
Vice President and Deputy General Counsel
SEMCO Energy, Inc.

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated March 8, 2005, except for the restatement described in Note 16 to the consolidated financial statements and the matter described in the second, third and fourth paragraphs of Management's Report on Internal Control Over Financial Reporting (as restated) which appears in SEMCO Energy, Inc.'s Annual Report on Form 10-K/A (Amendment No. 1) for the year ended December 31, 2004, as to which the date is May 6, 2005, relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting.

/s/PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Detroit, Michigan
November 7, 2005

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Form 424B3

SEMCO ENERGY INC - SEN

Filed: April 05, 2006 (period:)

Form of prospectus reflecting facts events constituting substantive change from last form

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Rule 424 (b)(3)
Registration Statement No. 333-125282

PROSPECTUS

350,000 Shares



SEMCOENERGY

SEMCO Energy, Inc.

5.00% Series B Convertible Cumulative Preferred Stock and the Shares of Common Stock Issuable Upon Conversion of the Preferred Stock

This prospectus relates to the offering for resale by selling securityholders of our 5.00% Series B Convertible Cumulative Preferred Stock and the shares of common stock issuable upon conversion of the preferred stock. On March 15, 2005, we issued 325,000 shares of our preferred stock in a private placement in reliance on an exemption from registration under the Securities Act of 1933. Subsequently, on March 18, 2005, the initial purchasers of the preferred stock exercised their option to purchase an additional 25,000 shares of the preferred stock, which we issued on March 22, 2005. This prospectus will be used by selling securityholders to resell their shares of the preferred stock and the shares of our common stock issuable upon conversion of their shares of preferred stock. The selling securityholders may offer the securities at fixed prices, at prevailing market prices at the time of sale, at varying prices or at negotiated prices. We will not receive any proceeds from the sale of these securities by the selling securityholders.

When, as, and if declared by our board of directors out of legally available funds, we will pay dividends on the preferred stock quarterly in cash, in arrears, on each February 15, May 15, August 15 and November 15, beginning May 15, 2005. The preferred stock is convertible at the holder's option at any time at an initial conversion rate of 26.1438 shares of our common stock per $200 liquidation preference, which represents a conversion price of approximately $7.65 per share of common stock, subject to adjustment as described in this prospectus. In the event of a fundamental change that occurs before February 20, 2010, we will pay a make-whole premium on preferred stock converted in connection therewith, as described in this prospectus.

We may redeem the preferred stock for cash after February 20, 2010 at an initial redemption price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption. The preferred stock is mandatorily redeemable for cash on February 20, 2015 at a redemption price equal to 100% of the liquidation preference, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption.

The preferred stock is eligible for trading in The Portal[sm] Market, a subsidiary of The Nasdaq Stock Market, Inc. The shares of preferred stock sold using this prospectus, however, will no longer be eligible for trading on PORTAL. The preferred stock is not listed on any securities exchange or included in any automated quotation system and we do not intend to apply for such listing or inclusion. Our common stock is listed on the New York Stock Exchange under the symbol "SEN." On April 3, 2006, the last reported sale price of our common stock was $5.50 per share.

The securities offered hereby involve significant risks and uncertainties. These risks are described under the caption "Risk Factors" beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 5, 2006

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SUMMARY

This summary highlights information contained elsewhere in this prospectus or incorporated by reference herein. You should read the entire prospectus and the incorporated documents carefully, including the financial statements and the notes thereto. You should read "Risk Factors" beginning on page 6 for more information about important factors that you should consider before investing in the preferred stock or the common stock issuable upon conversion of the preferred stock. References to "we," "us," "our" and "SEMCO" refer to SEMCO Energy, Inc. and its subsidiaries.

Our Company

We are a public utility company headquartered in southeastern Michigan. Our primary business is a regulated natural gas distribution business with operations in Michigan and Alaska. Founded in 1950, we have historically conducted diversified, non-utility businesses in addition to our natural gas distribution business. Beginning in 2003, our Board of Directors decided to focus our efforts on our core natural gas distribution business. This shift in strategic focus prompted efforts to market our discontinued construction services business, which was sold in September 2004. Our gas distribution business accounted for approximately 99% of our consolidated revenues in 2005.

We purchase, transport, distribute and sell natural gas to approximately 409,000 customers in Michigan and Alaska as of December 31, 2005. Our Michigan gas operations are known as SEMCO Gas and our Alaskan operations are known as ENSTAR. As of December 31, 2004, we had 160 miles and 393 miles of gas transmission pipelines and 5,591 miles and 2,650 miles of gas distribution mains and service lines in and near the SEMCO Gas and ENSTAR service areas, respectively. Our customer base includes residential, commercial and industrial customers, of which approximately 90% were residential as of December 31, 2005. Our largest customers include power plants, food production facilities, paper processing plants, furniture manufacturers, a liquefied natural gas plant, a fertilizer plant, a refinery and others in a variety of industries.

Our executive offices are located at 1411 Third Street, Suite A, Port Huron, Michigan 48060, and our telephone number is (810) 987-2200.

Gas Distribution Business

Our gas distribution business has two primary components: gas sales and gas transportation. Gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers. Revenues from gas sales accounted for approximately 93% of consolidated operating revenues in 2005 and approximately 91% and 90% of consolidated operating revenues in 2004 and 2003, respectively. Our gas distribution business also provides transportation services to its large-volume commercial and industrial customers. With such transportation services, those customers have the option of purchasing natural gas directly from third-party suppliers. The gas purchased by customers from third-party suppliers is then transported on our gas transmission and distribution network to the customers.

SEMCO Gas, one of our divisions, provides natural gas and associated services to a diverse customer base of, as of December 31, 2005, approximately 286,000 residential, commercial and industrial customers in Michigan. Our largest concentration of customers is in southeastern Michigan, where we had approximately 119,000 customers as of December 31, 2005.

ENSTAR's operations consist of ENSTAR Natural Gas Company (one of our divisions), Alaska Pipeline Company, or APC (one of our subsidiaries), and Norstar Pipeline Company (a subsidiary of APC). ENSTAR provides natural gas distribution services to approximately 123,000 customers in the Anchorage metropolitan and adjoining areas, and its service area encompasses over 56% of the population of Alaska, as of December 31, 2005. Our average number of customers in Alaska increased by an average of approximately 3.3% annually during the last three years. According to 2003 data supplied by the American Gas Association, ENSTAR also has one of the highest consumption levels of natural gas per residential customer among investor-owned utilities in the United States. APC's transmission system delivers natural gas from producing fields in south central Alaska to ENSTAR's Anchorage-area gas distribution system. APC's only customer is

ENSTAR. Norstar began operations in 2002 and provides pipeline management and pipeline construction management services to non-affiliate customers in Alaska.

Other Businesses

We also own and operate other businesses that generally complement our gas distribution business, consisting of information technology services, propane distribution, intrastate natural gas pipelines and natural gas storage facilities. These businesses generated approximately 1% of our consolidated revenues in 2005.

We maintain a website on the Internet at address http://www.semcoenergy.com. We make available free of charge on or through our website, our proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the SEC. This reference to our Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into any of our filings with the Securities and Exchange Commission, or SEC. The information available at our Internet address is not part of this prospectus or any other report filed by us with the SEC. The information we file with the SEC can also be obtained on the SEC's website on the Internet at address http://www.sec.gov.

The Offering

This offering is a secondary offering by the selling holders of the preferred stock and shares of our common stock, as described below. The selling securityholders may offer the securities at fixed prices, at prevailing market prices at the time of sale, at varying prices or at negotiated prices. We will not receive any proceeds from the selling securityholders' sale of the shares of preferred stock or common stock.

On March 15, 2005, we sold 325,000 shares of the preferred stock to the initial purchasers. On March 22, 2005, we sold an additional 25,000 shares of the preferred stock to the initial purchasers following the exercise of the initial purchasers' over-allotment option. We entered into a registration rights agreement with the initial purchasers in the private offering in which we agreed, for the benefit of the holders of the preferred stock, to file a shelf registration statement with the SEC no later than June 13, 2005 with respect to resales of the preferred stock and common stock issued upon the conversion thereof. We also agreed to use our commercially reasonable efforts to cause the shelf registration statement to be declared effective under the Securities Act as soon as practicable, but no later than September 11, 2005, and to keep the shelf registration statement effective until the preferred stock and common stock issued upon the conversion thereof is eligible to be sold under Rule 144(k) under the Securities Act or until all shares of the preferred stock and common stock issued upon the conversion thereof have been sold pursuant to such shelf registration statement.

Issuer	SEMCO Energy, Inc.
Securities Offered	350,000 shares of 5.00% Series B Convertible Cumulative Preferred Stock and the shares of common stock issuable upon conversion of the preferred stock.
Dividends	Cumulative annual dividends of $10.00 per share payable quarterly in cash on each February 15, May 15, August 15 and November 15, beginning May 15, 2005, when, as and if declared by our Board of Directors out of legally available funds. Dividends will be paid in arrears on the basis of a 360-day year consisting of twelve 30-day months. Dividends on the preferred stock will accumulate and be cumulative from the date of issuance. Accumulated dividends on the preferred stock will compound quarterly.
Liquidation Preference	$200 per share, plus accumulated and unpaid dividends.

Ranking	The preferred stock ranks with respect to dividend rights and rights upon our liquidation, winding-up or dissolution: • senior to all of our common stock and preference stock and to each other class of capital stock or series of preferred stock issued in the future unless the terms of that stock expressly provide that it ranks senior to, or on a parity with, the preferred stock; • on parity with any class of capital stock or series of preferred stock established after the issue date which expressly provides that such class or series will rank on parity with the preferred stock; and • junior to all of our capital stock issued in the future the terms of which expressly provide that such stock will rank senior to the preferred stock.
Mandatory Redemption	We are obligated to redeem for cash all of the outstanding shares of preferred stock on February 20, 2015, at the redemption price of 100% of the liquidation preference, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption.
Optional Redemption	We may redeem the preferred stock after February 20, 2010, at an initial redemption price of 100% of the liquidation preference plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any) to the date of redemption.
Conversion Rights	The preferred stock is convertible at the holder's option at an initial conversion rate of 26.1438 shares of our common stock per $200 liquidation preference of shares (which represents a conversion price of approximately $7.65 per share of common stock) under conditions and subject to such adjustments as described under "Description of Preferred Stock — Conversion Rights."
Make-Whole Premiums upon a Fundamental Change	If a fundamental change occurs prior to February 20, 2010, we may be required to pay a make-whole premium on the preferred stock converted in connection with the fundamental change. The make-whole premium will be payable in shares of our common stock or the consideration into which our common stock has been converted or exchanged in connection with the fundamental change. The amount of the make-whole premium, if any, will be based on the stock price and the effective date of the fundamental change. A description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and effective dates is set forth under "Description of Preferred Stock — Determination of the Make-Whole Premium."
Voting Rights	Except as required by Michigan law and our articles of incorporation, which include the certificate of designation for the preferred stock, the holders of preferred stock have no voting rights unless dividends payable on the preferred stock are in arrears for eight or more quarterly periods. In that event, the holders of the preferred

	stock, voting as a single class with the shares of any other preferred stock having similar voting rights, will be entitled at the next regular or special meeting of our shareholders to elect such number of directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors. These voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the preferred stock has been paid in full. The affirmative vote of holders of at least $66^2/3\%$ of the outstanding preferred stock and any other outstanding series of preferred stock, voting as a single class, is required for the issuance of any class or series of stock (or security convertible into stock) ranking senior to, or on a parity with, the preferred stock or parity stock as to dividend rights or rights upon our liquidation, winding-up or dissolution and for amendments to our articles of incorporation that would affect adversely the rights of holders of the preferred stock.
Use of Proceeds	We will not receive any proceeds from the sale of the preferred stock or the sale of the common stock issuable upon conversion of the preferred stock. Please see “Selling Securityholders” below for a list of the persons receiving proceeds from the sale of the preferred stock or the underlying common stock.
Material U.S. Federal Income Tax Considerations	The U.S. federal income tax consequences of purchasing, owning and disposing of the preferred stock and any common stock received upon its conversion are described in “Material U.S. Federal Income Tax Considerations.” Prospective investors are urged to consult their own tax advisors regarding the tax consequences of purchasing, owning and disposing of the preferred stock and any common stock received upon its conversion in light of their personal investment circumstances, including consequences resulting from the possibility that actual or constructive distributions on the preferred stock may exceed our current and accumulated earnings and profits, as calculated for U.S. federal income tax purposes, in which case the portion of such distributions in excess of earnings and profits would not be treated as dividends for U.S. federal income tax purposes.
Registration Rights	We agreed to file with the SEC no later than June 13, 2005, and to use our commercially reasonable efforts to cause to become effective as soon as practicable, but no later than September 11, 2005, a shelf registration statement with respect to the resale of the preferred stock and shares of common stock issuable upon conversion of the preferred stock. We also agreed to use our commercially reasonable efforts to keep the shelf registration statement effective until such time as the restricted securities are eligible to be sold under Rule 144(K) under the Securities Act or until all the restricted securities have been sold pursuant to such shelf registration statement. If we fail to comply with certain of our obligations under the registration rights agreement, additional dividends will become payable on the preferred stock. See “Description of the Preferred Stock — Registration Rights.”
DTC Eligibility	The preferred stock was issued in book-entry form and is represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the

	preferred stock will be shown on, and transfers are effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances. See “Description of Preferred Stock — Book-Entry Delivery and Form.”
Listing and Trading	The preferred stock is not listed on any securities exchange or included in any automated quotation system and we do not intend to apply for such listing or inclusion. The preferred stock is eligible for trading in PORTAL. However, any shares of preferred stock sold by means of this prospectus will no longer be eligible for trading in PORTAL. Our common stock is listed for trading on the NYSE under the symbol “SEN.”

RISK FACTORS

Investing in the preferred stock and our common stock involves a high degree of risk. You should carefully consider the following risk factors, in addition to the other information in this prospectus, before making an investment decision. Each of these risk factors could adversely affect our business, operating results and financial condition, and the value of an investment in our preferred stock or common stock.

Risks Relating to Our Preferred Stock

We may not be able to pay cash dividends on the preferred stock.

We are required to pay all declared dividends on the preferred stock in cash. Our credit agreement and certain indentures limit, and any indentures and other financing agreements that we enter into in the future will likely restrict, our ability to pay cash dividends on our capital stock.

Our credit agreement requires us to be in compliance with certain financial covenants in order to pay dividends on our capital stock, and as of December 31, 2005, we were in compliance with those covenants. Certain of our existing indentures prohibit us from making payments of cash dividends on our capital stock if our fixed charge ratio (as defined therein) is lower than 2:1. We currently do not meet this ratio. However, these indentures allow us to make cash dividend payments of up to $13.5 million per year, even if we do not meet these tests.

There is no public market for the preferred stock.

The preferred stock is currently eligible for trading in PORTAL. Any shares of preferred stock that are sold by means of this prospectus, however, will no longer be eligible for trading in PORTAL. The preferred stock will be a new issue of securities for which there is currently no market and the preferred stock will not be listed for trading on any national securities exchange or the Nasdaq National Market. We have not applied, and do not intend to apply, to list the preferred stock on any securities exchange or include them in any other automated quotation system. As a result, we cannot assure you that any market for the preferred stock will develop or, if one does develop, that it will be maintained. If an active market for the preferred stock fails to develop or be sustained, the trading price of the preferred stock could be materially adversely affected or you may not be able to sell your preferred stock quickly.

Before conversion, holders of the preferred stock will have limited voting rights, and will be subject to changes affecting our common stock.

The affirmative vote of the holders of at least $66^{2}/3\%$ of the outstanding preferred stock and any other outstanding series of preferred stock, voting as a single class, is required for the authorization or issuance of any class or series of senior stock (or any security convertible into senior stock) or parity stock (or any security convertible into parity stock) and for amendments to our articles of incorporation that could affect adversely the rights of holders of the preferred stock. Otherwise, holders of preferred stock will not be entitled to full voting rights with respect to our common stock, but (except for the matters described in the preceding sentence) holders will be subject to all changes affecting the common stock. A holder will only be entitled to full voting rights with respect to the common stock if and when we deliver shares of common stock to the holder upon conversion of the preferred stock. For example, in the event that an amendment is proposed to our articles of incorporation or bylaws requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to the conversion date, except for the matters described in the first sentence above, the holders of the preferred stock will not be entitled to vote on

the amendment, although they will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

Our Shareholder Rights Plan and other defensive mechanisms could make it more difficult for an acquisition bid for us or a change of control transaction to succeed.

Certain provisions of our organizational documents, as well as other statutory and regulatory factors, may discourage or prevent acquisition offers that are in our and our stockholders' best interests:

- our Shareholder Rights Plan grants holders of our common stock certain rights upon the occurrence of certain triggering events unless a majority of independent directors on the Board of Directors (the "Board") determines that the takeover offer is fair and otherwise in the our and our stockholders' best interests;

- Our articles of incorporation divide the Board into three classes that serve staggered terms, and directors may be elected by stockholders only at an annual meeting of stockholders or at a special meeting called for that purpose by the Board;

- a director may be removed by stockholders but only for cause and only at an annual meeting of stockholders and by the affirmative vote of a majority of the shares then entitled to vote for the election of directors;

- holders of the preferred stock have certain rights, including the right to receive a make-whole premium in connection with exercising their conversion rights in connection with a fundamental change, which would include certain acquisition offers;

- the bank credit agreement and certain of our debt indentures include provisions whereby the acquisition of a certain percentage of our common stock would be an event of default and cause the outstanding loans to become due and payable, or would require us to make an offer to holders of notes to repurchase outstanding notes at a premium;

- unless the Board approves a business combination or the combination meets certain enumerated fairness standards, Michigan law requires the affirmative vote of 90% of the votes of each class of stock entitled to vote, and not less than two-thirds of the votes of each class of stock entitled to vote, voting as a separate class, to approve a business combination; and

- Michigan law provides that control shares of a public company acquired in a control share acquisition have no voting rights except as granted by resolution approved by the stockholders of the company, effectively conditioning the acquisition of voting control of a corporation on the approval of a majority of pre-existing, disinterested stockholders.

In addition, the acquisition or accumulation of large blocks of our voting securities may require prior approval of the RCA and may result in the acquiring entity becoming subject to the jurisdiction of and regulation of the RCA and, notwithstanding the repeal of the Public Utility Holding Company Act of 1935, to other state or federal regulation as a public utility holding company. These consequences would result in substantial increases in that entity's administrative, legal and regulatory compliance costs and could have similar adverse consequences for us.

We may issue additional shares of common stock and thereby materially and adversely affect the price of our common stock.

On August 15, 2005, we issued 4,945,000 shares of our common stock in a registered public offering. In addition and from time to time, we issue shares of our common stock to our employees, officers and directors in connection with certain of our compensation and benefit plans. We also fund our Direct Stock Purchase and Dividend Reinvestment Plan with issuances of our common stock. We are not restricted from issuing additional common stock, and we have no obligation to consider the interests of the holders of the preferred stock in connection with any such issuance. Our issuance of additional shares of common stock may materially and adversely affect the price of our common stock and, in turn, the price of the preferred stock.

The preferred stock may not be rated.

We have no obligation, and do not intend, to have the preferred stock rated. If one or more rating agencies does rate the preferred stock or assigns the preferred stock a rating lower than the rating expected by investors, or subsequently reduces any such rating, the market price of the shares of the preferred stock could be harmed.

The price of our securities may be affected by the general perception of the energy and utility sectors of the economy.

Events which have occurred and may in the future occur in the United States and elsewhere could adversely affect investors' perceptions of the energy and utility sectors. A negative perception of our industry by investors could adversely affect the equity prices of companies within the energy and utility sectors. We cannot predict what news or events might affect the perceptions of investors in our industry or how such news or events might affect the market price of our common stock, but fluctuations in the market price of our common stock could be severe and any effects could be long-term.

Risks Relating to Our Indebtedness

Our debt indentures and bank credit agreement contain restrictive covenants that may reduce our flexibility, and adversely affect our business, earnings, cash flow, liquidity and financial condition.

The terms of the indentures relating to certain of our outstanding debt securities and of our bank credit agreement impose significant restrictions on our ability and, in some cases, the ability of our subsidiaries, to take a number of actions that we may otherwise desire to take, including:

- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of cash flow for working capital, capital expenditures and other general business activities;
- requiring us to meet certain financial tests, which may affect our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- limiting our ability to sell assets, make investments or acquire assets of, or merge or consolidate with, other companies;
- limiting our ability to repurchase or redeem our stock or enter into transactions with our stockholders or affiliates; and
- limiting our ability to grant liens, incur additional indebtedness or contingent obligations or obtain additional financing for working capital, capital expenditures, acquisitions and general corporate and other activities.

These covenants place constraints on our business and may adversely affect our growth, business, earnings, cash flow, liquidity and financial condition. Our failure to comply with any of the financial covenants in our bank credit agreement may result in an event of default which, if not cured or waived, could result in the acceleration of the debt under our bank credit agreement or the indentures governing our outstanding debt issuances that contain cross-acceleration or cross-default provisions. In such a case, there can be no assurance that we would be able to refinance or otherwise repay such indebtedness, which could result in a material adverse effect on our business, earnings, cash flow, liquidity and financial condition.

Adverse changes in our credit ratings may limit our access to capital, increase our cost of capital, increase the cost of maintaining certain contractual relationships or otherwise have a material adverse effect on our business, earnings, cash flow, liquidity and financial condition.

In March 2003, Moody's Investors Service, Inc. reduced the credit rating on our senior unsecured debt from Baa3 to Ba2. Since June 2003, Standard & Poor's Ratings Group has lowered our corporate credit rating from BBB- to BB-.

These downgrades have required us to pay higher interest rates for financing, increasing our cost of capital. Any additional downgrades could further increase our capital costs (including the rates for borrowing under our bank credit agreement) and limit our pool of potential investors and funding sources, possibly increasing the costs of operations or requiring us to use a higher percentage of our available borrowing capacity for ordinary course purposes.

Further credit downgrades could also negatively affect the terms on which we can purchase gas and pipeline capacity. As a result of our non-investment grade credit rating noted above, the interstate pipelines we utilize require prepayment for their services. In addition, certain of our gas suppliers may require us to prepay or provide letters of credit for gas purchases over and above the levels of credit they may have extended to us. We can provide no assurance that suppliers will not impose additional requirements or restrictions on the conduct of our business.

We can provide no assurance that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency. Any downgrade or other adverse action could adversely affect our business, earnings, cash flow, liquidity and financial condition.

Our substantial indebtedness may limit our ability to borrow additional funds at all, or on reasonable terms, limit our growth and diminish our ability to respond to changing business and economic conditions and, thereby, may adversely affect our business, earnings, cash flow, liquidity and financial condition.

Our business is capital intensive and we have significant amounts of debt. At December 31, 2005, we had total short and long-term debt of $520.6 million. Our substantial debt may adversely affect our business, earnings, cash flow, liquidity and financial condition. For example, our substantial debt may, among other things:

- limit our ability to borrow additional funds;
- increase the cost of any future debt that we incur;
- reduce cash flow from operations available for working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage as compared to our competitors that are less highly leveraged;
- result in a downgrade in our credit ratings; or
- diminish our ability to successfully withstand a downturn in our business or the economy generally.

Our ability to meet our debt service obligations and to reduce our total indebtedness will depend upon our future performance, which will be subject to weather, general economic conditions, industry cycles and financial, business and other factors affecting our operations, many of which are beyond our control. No assurance can be provided that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness on or before maturity. No assurance can be provided that we will be able to refinance any of our indebtedness, including our bank credit agreement, our existing debt and debt securities, on commercially reasonable terms or at all.

Despite our substantial indebtedness, we may still be able to incur more debt, which could further exacerbate the risks associated with our substantial debt.

Although we are presently limited in incurring additional indebtedness, we may be able to incur additional debt in the future. Restrictions applicable to us on the incurrence of additional debt contained in the indentures and bank credit agreement governing our existing debt are subject to a number of qualifications and exceptions that allow us to incur additional debt. An increase in the amount of our indebtedness may negatively affect our capital structure and credit ratings. If new debt is added to our current debt levels, the risks that we now face could intensify.

We are vulnerable to interest rate risk with respect to our debt which could lead to an increase in interest expense and a corresponding decrease in earnings and cash flow.

Our ability to finance capital expenditures and to refinance our maturing debt will depend in part on conditions in the capital markets, including rising interest rates. Our cost of borrowing under our bank credit agreement is also dependent on interest rates. In addition, in order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed and variable-rate interest payment obligations over the life of the arrangements, without exchange of the underlying principal amounts. No assurance can be provided that we will be successful in structuring such swap agreements to effectively manage our risks. If we are unable to do so, our earnings and cash flow may be reduced.

Risks Relating to Our Business

Our natural gas distribution business is subject to rate regulation, and certain actions of these regulatory bodies may reduce our revenues, earnings and cash flow.

We are currently regulated by the Michigan Public Service Commission, or MPSC and the City Commission of Battle Creek, Michigan, or CCBC in Michigan and the RCA in Alaska. These regulatory bodies have jurisdiction over, among other things, rates, accounting procedures and standards of service. With regard to regulation by the MPSC and the CCBC, in March 2005 and February 2005, respectively, we entered into settlements which, upon approval, authorized rate increases for customers in these jurisdictions. With certain exceptions, we have agreed not to request a further base rate increase with the CCBC to be effective before April 1, 2008, but we are not restricted in requesting that the MPSC authorize further base rate increases. In addition, on October 5, 2005, we and the CCBC announced that they will ask the MPSC to assume jurisdiction over the CCBC service area. We and the CCBC plan to file a joint application with the MPSC in 2006 asking for approval of this jurisdictional change. We cannot predict when the MPSC will assume jurisdiction, if at all. We believe that this proposed change will not have a material impact on the natural gas rates we charge in our CCBC service area, but we cannot assure that this change in jurisdiction will not affect the rates we charge or other aspects of the terms and conditions of service. With regard to regulation by the RCA, in June 2005, the RCA issued an order that, among other things, requires ENSTAR and APC to file a depreciation study of their Alaska utility plant by June 1, 2007 (as of December 31, 2006) and a revenue requirement and cost-of-service study (including rate design data) with the RCA by June 6, 2008 (using a test year ended December 31, 2007).

Approximately 98% of our 2005 consolidated operating revenues were generated by our regulated gas distribution business. While we currently have settlements with the MPSC and the CCBC setting our rates in those jurisdictions, there is no guarantee that we would prevail in seeking rate increases in future rate cases. We also have no guarantee that we will be successful in our rate case to be filed with the RCA after December 31, 2007. The possibility of a rate decrease, the failure to grant any requested rate increase, cost disallowances, the precise timing of any rate increase, decrease or any other action by our regulators, may reduce our revenues, earnings and cash flow.

The increased cost of purchasing natural gas during periods in which natural gas prices are rising significantly could adversely impact our liquidity and earnings.

One component of the regulation of our rates is the ability to recover the cost of purchasing natural gas. In general, the costs of natural gas purchased for customers are recovered on a dollar-for-dollar basis (in the absence of disallowances), without a profit component. The recovery of these gas costs is accomplished through regulatory body-approved GCR pricing mechanisms whereby customer rates are periodically adjusted for increases and decreases in the cost of gas purchased by us for sale to our customers. Under the GCR pricing mechanisms, the gas commodity charge portion of customers' gas rates (which is also referred to as the "GCR rate") in Alaska and our Michigan service area regulated by the MPSC is generally adjusted annually to reflect the estimated cost of gas purchased for the upcoming 12-month GCR period. The GCR rate may be adjusted more frequently than annually if it is determined that there are significant variances from the estimates used in the annual determination. The GCR rate for our CCBC service territory can be adjusted monthly.

The price of natural gas has increased substantially since mid-2005 and natural gas purchases for customers in our Michigan gas service areas since then have, and future purchases are expected to, cost significantly more than in the past. The price of natural gas purchased under long-term contracts for our Alaska service area customers have also increased, and future purchases are expected to cost us more than in the past, as the indexes used to determine the prices we pay for natural gas under these contracts reflect market price increases.

These increases in natural gas prices and corresponding increases in GCR rates may contribute, in varying amounts, depending on the way in which these costs are recovered in customer rates in each jurisdiction in which we do business, to: (1) increased costs associated with lost and unaccounted-for gas; (2) higher customer bad debt expense for uncollectible accounts; (3) higher working capital requirements; and (4) reduced sales volumes and related margins due to lower customer consumption.

Our liquidity and earnings could be adversely affected by the MPSC's disallowance of costs after retrospective reviews of our gas procurement practices.

In our gas distribution area regulated by the MPSC, our gas procurement practices are subject to an annual retrospective MPSC review. If costs are disallowed in this review process, such costs would be expensed in the cost of gas but would not be recovered by us in rates. The ability of the MPSC to annually retrospectively review our gas procurement practices creates the potential for the disallowance of our recovery, through our GCR rates, of some of our costs of purchasing gas. Such disallowances could affect our liquidity and earnings.

Our earnings and cash flow are sensitive to decreases in customer consumption resulting from warmer than normal temperatures and customer conservation.

Our gas sales revenue is generated primarily through the sale and delivery of natural gas to residential and commercial customers who use natural gas mainly for space heating. Consequently, weather has a significant impact on sales and revenues. Given the impact

of weather on our gas distribution business, this segment is a seasonal business. Most of our gas sales revenue is generated in the first and fourth quarters of the calendar year and we typically experience losses in the non-heating season, which occurs in the second and third fiscal quarters of the year. In addition, conservation has continued to reduce demand for natural gas from our customers.

Warmer than normal weather over the last several years has adversely affected the earnings and cash flow of our gas distribution business, which has accounted for more than 98% of our consolidated operating revenues for the last three fiscal years. In our Michigan service area, the temperature was approximately 0.1% and 0.3% warmer than normal during 2005 and 2004, respectively, and approximately 4.7% colder than normal during 2003. The temperature was approximately 5.7%, 6.0% and 8.0% warmer than normal in our Alaska service area during 2005, 2004 and 2003, respectively. In addition, the average annual natural gas consumption of customers has been decreasing because, among other things, new homes and appliances are typically more energy efficient than older homes and appliances, and customers appear to be continuing a pattern of conserving energy by utilizing energy efficient heating systems, insulation, alternative energy sources, and other energy saving devices and techniques. A mild winter, as well as continued or increased conservation, in any our service areas can have a significant adverse impact on demand for natural gas and, consequently, earnings and cash flow.

Our customers may be able to acquire natural gas without using our distribution system, which would reduce our revenues and earnings.

There is potential risk that industrial customers and electric generating plants located in close proximity to interstate natural gas pipelines will bypass our distribution system and connect directly to such pipelines, which would reduce our revenues and earnings. From time to time, customers raise the issue of bypass and we attempt to address their concerns. We can make no assurances that our customers will not bypass our distribution system or that we could successfully retain such customers.

Our earnings are substantially dependent on our current customers maintaining a certain level of consumption as well as customer growth.

As discussed above, many of our customers appear to be continuing a pattern of conserving energy by utilizing energy efficient heating systems, insulation, alternative energy sources, and other energy savings devices and techniques. During the past several years, average annual gas consumption has been decreasing. In addition, increases in natural gas prices appear to have increased conservation efforts by customers. We expect this conservation trend to continue as an era of higher and more volatile natural gas prices influences customer consumption. Our rates are currently based on certain levels of consumption by its customers. Continued and significant declines in consumption by our current customers, without an adjustment to its rates or rate design, may negatively impact our earnings.

In addition, our earnings growth is substantially dependent on customer growth. The average number of gas sales customers in Michigan and Alaska combined (excluding customers acquired in the acquisition of Peninsular Gas Company ("Peninsular Gas")) has increased by an average of 2.0% annually during the past three years. If we are unable to achieve sufficient customer growth within our existing service territories or add additional customers by expanding service territories, our earnings growth may be negatively impacted.

Earnings and cash flow may be adversely affected by downturns in the economy.

Our operations are affected by the conditions and overall strength of the national, regional and local economies, which impact the amount of residential, industrial and commercial growth and actual gas consumption in our service territories. Many of our commercial and industrial customers use natural gas in the production of their products. During economic downturns, these customers may see a decrease in demand for their products, which in turn may lead to a decrease in the amount of natural gas they require for production. In addition, during periods of slow or little economic growth, energy conservation efforts often increase and the amount of uncollectible customer accounts often increases. These factors may reduce earnings and cash flow.

Volatility in the price of natural gas could result in large industrial customers switching to alternative energy sources and reduced revenues, earnings and cash flow.

The market price of alternative energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for our gas transportation services. Certain large industrial customers have, or may acquire, the capacity to be able to use one or more alternative energy sources or shift production to facilities outside our service area if the price of natural gas and delivery services increases significantly. Natural gas has typically been less expensive than these alternative energy sources. However, generally over the past three years and recently in a more significant way, natural gas prices have been higher and more volatile, making some of these alternative energy sources more economical or, for other reasons, more attractive than natural gas. During this period, certain of our large Michigan industrial customers have periodically switched to alternative energy sources.

To lessen the possibility of fuel switching by industrial customers, we offer flexible contract terms and additional services, such as gas storage and balancing. Partially offsetting the impact of this price sensitivity among certain large industrial customers has been the use of natural gas to reduce emissions from their plants. We cannot predict the future stability of natural gas prices; nor can we make any assurances that the impact of environmental legislation or any special services we offer will outweigh the negative effects of natural gas price increases and volatility. Should these customers convert their requirements to another form of energy, our revenues, earnings and cash flow would be adversely affected.

Declining production from the Cook Inlet gas fields may result in potential deliverability problems in ENSTAR's service area.

ENSTAR's gas distribution system, including the APC pipeline system, is not linked to major interstate and intrastate pipelines or natural gas supplies in the United States or in Canada. As a result, ENSTAR procures natural gas supplies under long-term RCA-approved contracts from producers in and near the Cook Inlet area. Production from the Cook Inlet area gas fields is declining and new discoveries have been modest. As of January 1, 2004, the Cook Inlet area had approximately 2.1 Tcf of total proven natural gas reserves according to the most recently available information contained in the Alaska Department of Natural Resources Division of Oil and Gas 2004 Annual Report. Based on the Department's reported 2003 net production of 208 Bcf there was a reserve life at January 1, 2004 of approximately 10 years in the Cook Inlet area, although shortages of daily deliverability have occurred resulting in curtailment of some industrial loads during cold weather periods. There is ongoing exploration for natural gas in the Cook Inlet area by several parties, including producers that have supply contracts with ENSTAR. The United States Geological Survey and Minerals Management Service has estimated that the Cook Inlet area contains another approximately 2.3 Tcf of undiscovered natural gas, but there are no assurances that any of this natural gas will be discovered and, if discovered, can be produced economically and secured by ENSTAR on terms and conditions that would be acceptable to the RCA.

ENSTAR has been active in efforts to extend its supply of Cook Inlet gas and to find other gas sources. In addition, preliminary activity by other energy industry participants is underway to finance, permit and build a natural gas pipeline that would extend from Alaska's North Slope, through Alaska and Canada, to the lower 48-states in the United States. Assuming this pipeline is built, the flow of natural gas through it could not be expected to begin before the middle of the next decade, at the earliest. ENSTAR is engaged in an effort to make customers and public officials aware of the importance of the North Slope natural gas pipeline and the need to make North Slope natural gas available in the Cook Inlet area. We can provide no assurances, however, with respect to the building of this pipeline, when it will be put in service, or whether natural gas supplies transported by the pipeline would be available to ENSTAR customers and secured by ENSTAR on terms and conditions that would be acceptable to the RCA.

Changes in the regulatory environment and events in the energy markets that are beyond our control may reduce our earnings and limit our access to capital markets.

Our gas distribution business is subject to regulation by various federal, state and local regulators as well as the actions of federal, state and local legislators. As a result of the energy crisis in California during 2000 and 2001, the recent volatility of natural gas prices in North America, the bankruptcy filings by certain energy companies, investigations by governmental authorities into energy trading activities, the collapse in market values of energy companies and the downgrading by rating agencies of a large number of companies in the energy sector, companies in the regulated and unregulated energy businesses have generally been under an increased amount of scrutiny by federal, state and local regulators, participants in the capital markets and debt rating agencies. In addition, the Financial Accounting Standards Board, or FASB, or the SEC could enact new accounting standards that could impact the way we are required to record revenues, expenses, assets and liabilities. We cannot predict or control what effect these types of events, or future actions of regulatory agencies in response to such events, may have on our earnings or our access to the capital markets.

We may be required to recognize additional impairment charges which would reduce our earnings.

Pursuant to generally accepted accounting principles, we are required to perform impairment tests on our goodwill balance annually or at any time when events occur that could impact the value of our business segments. The 2005 annual goodwill impairment test for our propane business was performed during the third quarter of 2005 and showed that there was no impairment of goodwill. The 2005 annual impairment test for our gas distribution business was performed during the fourth quarter of 2005 and showed that there was no impairment of goodwill. There were no adverse changes in the carrying amount of goodwill for 2005. During the fourth quarter of 2004, it was determined that all of the goodwill associated with our IT

services business ($0.2 million) was impaired. The $0.2 million before-tax charge for impairment of goodwill is reflected in our Consolidated Statements of Operations for the year ended December 31, 2004, in operating expenses. During the third quarter of 2003, it was determined that all of the goodwill associated with our construction services business ($17.6 million) was impaired. The $17.6 million before-tax charge for impairment of goodwill is reflected in our Consolidated Statements of Operations for the year ended December 31, 2003, as part of the loss from the discontinued construction services business.

Our determination of whether an impairment has occurred is based on an estimate of discounted cash flows attributable to our reporting units that have goodwill. We must make long-term forecasts of future revenues, expenses and capital expenditures related to the reporting unit in order to make the estimate of discounted cash flows. These forecasts require assumptions about future demand, future market conditions, regulatory developments and other factors. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period that could substantially reduce our reported earnings in a period of such change, but not have any impact on our cash flow.

Our ability to use net operating loss carry-forwards may be impaired.

As of December 31, 2005, we had available approximately $96 million of net operating losses, or NOLs, with which to offset federal income taxes with respect to our future taxable income. In 2004, we underwent an “ownership change” for purposes of Section 382 of the Internal Revenue Code of 1986, as amended. In general, an ownership change occurs whenever there is a more than 50% change in the ownership of the stock of a corporation, taking into account all cumulative changes in ownership over the preceding three years. As a result of the ownership change, our ability to use approximately $86 million of our total NOLs in the future is limited. However, we believe that, based on the size of the limitation and projections of future taxable income, we should be able to utilize all of the NOLs before they expire.

The issuance of additional shares of our capital stock could ultimately trigger another ownership change that could further limit our ability to use such NOLs. While our March 2005 issuance of the preferred stock and the August 2005 common stock offering did not trigger such an ownership change, these offerings when coupled with future capital stock offerings and changes in the ownership of our capital stock (some of which will be beyond our control) will probably lead to a future ownership change. Any such future ownership change could result in the imposition of lower limits on our utilization of the NOLs to offset future taxable income as well as our ability to use certain losses and tax credits. The magnitude of such limitations and their effect on us is difficult to assess and will depend in part on our value at the time of any such ownership change and prevailing interest rates at that time.

Our operations and business are subject to environmental laws and regulations that may increase our cost of operations, impact or limit our business plans or expose us to environmental liabilities.

Our operations and business are subject to environmental laws and regulations that relate to the environment and health and safety, including those that impose liability for the costs of investigation and remediation, and for damage to natural resources from, past spills, waste disposal on and off-site and other releases of hazardous materials or regulated substances. In particular, under applicable environmental requirements, we may be responsible for the investigation and remediation of environmental conditions at currently owned or leased sites, as well as formerly owned, leased, operated or used sites. We may be subject to associated liabilities, including liabilities resulting from lawsuits brought by private litigants, related to the operations of our facilities or the land on which such facilities are located, regardless or whether we lease or own the facility, and regardless of whether such environmental conditions were created by us or by a prior owner or tenant, or by a third-party or a neighboring facility whose operations may have affected our facility or land.

Given the nature of the past operations conducted by us and others at our properties, there can be no assurance that all potential instances of soil or groundwater contamination have been identified, even for those properties where environmental site assessments or other investigations have been conducted. Changes in existing laws or policies or their enforcement, future spills or accidents or the discovery of currently unknown contamination may give rise to environmental liabilities which may be material. Based upon the information presently available to us, we expect to incur costs associated with investigatory and remedial actions at seven of our Michigan sites that formerly housed manufactured gas plant operations. Because the extent of the soil and groundwater contamination at these sites has not been fully delineated and the scope of our liability (along with other responsible parties, if any) has not been determined, it is difficult for us to estimate our liability at this time. However, it is possible that our share of such liability could be material. To the extent not fully recoverable from customers through regulatory proceedings or from insurance, these costs would reduce our earnings and results of operations.

Compliance with the requirements and terms and conditions of the environmental licenses, permits and other approvals that are required for the operation of our business may cause us to incur substantial capital costs and operating expenses and may impose restrictions or limitations on the operation of our business, all of which could be substantial. Environmental health and safety regulations may also require us to install new or updated pollution control equipment, modify our operations or perform other corrective actions at our facilities. Existing environmental laws and regulations may be revised to become more stringent or new laws or regulations may be adopted or become applicable to us which may result in increased compliance costs or additional operating restrictions and could reduce our earnings and harm our business, particularly if those costs are not fully recoverable from our customers through regulatory proceedings.

Substantial operational risks are involved in operating a natural gas distribution, pipeline and storage system and such operational risks could adversely affect our revenues, earnings, cash flow and financial condition.

There are substantial risks associated with the operation of a natural gas distribution, pipeline and storage system, such as operational hazards and unforeseen interruptions caused by events beyond our control. These include adverse weather conditions, accidents, the breakdown or failure of equipment or processes, the performance of pipeline facilities below expected levels of capacity and efficiency and catastrophic events such as explosions, fires, earthquakes, floods, landslides or other similar events beyond our control. These risks could result in injury or loss of life, property damage, business interruption or environmental pollution, which in turn could lead to substantial financial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks. Liabilities incurred that were not fully covered by insurance could adversely affect our earnings, cash flow and financial condition. Additionally, interruptions to the operation of our gas distribution, pipeline or storage system caused by such an event could reduce revenues generated by us and, consequently, earnings and cash flow.

Our ability to grow our businesses will be adversely affected if we are not successful in making acquisitions or in integrating the acquisitions we make.

One of our strategies is to grow through acquisitions. There is growing and significant competition for acquisitions in the U.S. natural gas industry, and we believe that there are numerous potential acquisition candidates, some of which represent opportunities that would be material to us. We cannot assure that we will find attractive acquisition candidates in the future, that we will be able to acquire such candidates on economically acceptable terms, that any acquisitions will not be dilutive to earnings or that any additional debt incurred to finance acquisitions will not impair our capitalization. Our bank credit agreement also limits the consideration we may pay in connection with any one acquisition to $50 million and in connection with all acquisitions occurring after September 15, 2005, to $150 million. These limitations will not apply to acquisitions occurring after we reach certain investment grade debt ratings.

In addition, the restructuring of the energy markets in the U.S. and internationally, including the privatization of government-owned utilities and the sale of utility-owned assets, is creating opportunities for, and competition from, well-capitalized existing competitors as well as new entrants to the markets, which may affect our ability to achieve this aspect of our business strategy.

To the extent we are successful in making acquisitions, such acquisitions can involve a number of risks, including the assumption of material liabilities, the terms and conditions of any state or federal regulatory

approvals required for the acquisitions, the diversion of management's attention from the management of daily operations to the integration of operations, difficulties in the assimilation and retention of employees and difficulties in the assimilation of different cultures and practices, as well as in the assimilation of broad and geographically dispersed personnel and operations. The failure to successfully make and integrate acquisitions could have an adverse effect on our ability to grow our business.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth the ratio of earnings to combined fixed charges and preferred stock dividends for the periods indicated.

	Year Ended December 31,					
Description	2005 Pro Forma (a)	2005 Historic	2004	2003	2002	2001
Ratio of earnings to combined fixed charges and preferred stock dividends(b)	1.24	(c)	(d)	(e)	1.46	1.17

Notes:

(a) SEMCO Energy, Inc. (the "Company") is required to show pro forma ratios for the most recent fiscal year and latest interim period in instances when it issues debt or preferred stock, uses the proceeds from that issuance to repay or retire other debt or securities (a "refinancing"), and the pro forma ratio varies from the historic ratios by 10% or more. The Company's issuance of its 5% Cumulative Convertible Preferred Stock ("Preferred Stock") on March 15, 2005 and March 22, 2005 was a refinancing because the proceeds from the issuance of the Preferred Stock were used to retire all the Company's outstanding 6% Convertible Preference Stock ("CPS") on March 15, 2005 and $10.3 million of the Company's 10.25% Subordinated Debentures ("10.25% Debentures") on April 29, 2005.

The effect of the refinancing on the historical ratio of earnings to combined fixed charges and preferred stock dividends for the year ended December 31, 2005 causes the pro forma ratio for the same period to vary from the historical ratio by more than 10%. As such, pro forma disclosure for the most recent fiscal year is presented in the table above.

The pro forma ratio for the fiscal year ended December 31, 2005 was calculated assuming that the Company's Preferred Stock was issued on January 1, 2005, rather than March 15, 2005 and March 22, 2005, and was outstanding for the full twelve months ended December 31, 2005. Furthermore, the pro forma ratio was calculated assuming that the proceeds from that issuance were used to retire all of the Company's outstanding CPS on January 1, 2005, rather than March 15, 2005, and $10.3 million of the Company's 10.25% Debentures on January 1, 2005, rather than April 29, 2005. "Earnings" in the pro forma ratio calculation was the same as "earnings" in the historic ratio calculation. However, "combined fixed charges and preferred stock dividends" in the pro forma ratio

calculation was $12.9 million lower than in the historic ratio calculation as detailed below (in thousands):

Historic, fiscal year ended December 31, 2005	$	62,315
Add dividends on Preferred Stock		1,230
Eliminate dividends on CPS		(13,786)
Eliminate fixed charges on 10.25% Debentures		(349)
Pro Forma, fiscal year ended December 31, 2005	$	49,410

(b) "Earnings" is defined as Income (loss) before income taxes, dividends on trust preferred securities, discontinued operations and extraordinary items plus fixed charges as defined plus distributed earnings of equity investees less reported earnings of equity investees less preference securities dividend requirements of consolidated subsidiaries. "Fixed charges" is defined as interest expensed and capitalized plus amortization of debt costs and debt basis adjustments plus an estimate of interest within rental expense plus preference securities dividend requirements of consolidated subsidiaries. "Preferred stock dividends" is defined as preferred stock dividends divided by one minus the effective income tax rate applicable to continuing operations.

(c) For 2005, the historic ratio of earnings to combined fixed charges and preferred stock dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $0.9 million. Approximately $12.4 million of the earnings were required to cover a repurchase premium related to the repurchase of our 6% Series B Convertible Preference Stock in March of 2005.

(d) For 2004, the ratio of earnings to combined fixed charges and preferred stock dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $3.4 million.

(e) For 2003, the ratio of earnings to combined fixed charges and preferred stock dividends was less than 1:1. The amount of earnings that would be required to attain a ratio of 1:1 was approximately $8.0 million.

USE OF PROCEEDS

Although we received proceeds in connection with the private placement of the preferred stock, we will not receive any of the proceeds from the sale of the preferred stock or the underlying common stock by the selling securityholders. Of the approximately $70 million in gross proceeds we received in connection with the sale of the preferred stock to the initial purchaser, $60.0 million thereof was used to repurchase our 6% Series B Convertible Preference Stock and Warrants owned by an affiliate of k1 Ventures Limited. On April 29, 2005, we used the remaining proceeds to redeem $10,309,275 principal amount of our Series A 10.25% Subordinated Debentures held by our unconsolidated capital trust subsidiary, SEMCO Capital Trust I. The Trust, in turn, used the proceeds to redeem 400,000 shares of its 10.25% Trust Preferred Securities and 12,371 of its Trust Common Securities.

We will bear all costs, fees and expenses incurred in effecting the registration of the preferred stock and common stock issuable upon conversion of the preferred stock covered by this prospectus, including, without limitation, all registration and filing fees and fees and expenses of our counsel and our accountants. The selling securityholders will pay any underwriting discounts and commissions and expenses incurred by the selling securityholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling securityholders in disposing of the preferred stock or the underlying common stock.

DIVIDEND POLICY

General

The holders of our common stock are entitled to dividends when, as and if declared by our Board of Directors out of our surplus after full cumulative dividends on our outstanding series of preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to our preferred stock and preference stock, if any, have been satisfied. As such, our ability to pay dividends on our common stock is governed by the certificate of designation creating our Series B preferred stock, which is the only series of preferred stock or preference stock under which we have shares currently outstanding and to the resale of which this prospectus relates. Our ability to pay dividends on any series of our capital stock is also governed by the terms of certain of our indentures. We have not paid any dividends on our common stock since May, 2004.

Documents Designating our Series B Preferred Stock

Under the certificate of designation governing our Series B preferred stock, we must pay holders cumulative cash dividends at the rate per year of 5.00% per year (equivalent to $10.00 per annum per share, and we have 350,000 shares of preferred stock currently outstanding). We are prohibited from paying any dividends on our common stock until all accumulated and unpaid dividends on the preferred stock are declared and paid.

Shares of preferred stock are convertible into shares of our common stock at any time unless we have redeemed or purchased those shares. The conversion rate is initially 26.1438 shares of our common stock per share of preferred stock and is subject to adjustment in certain circumstances, including upon the payment of a cash dividend or distribution to all holders of our common stock. If we were to pay a cash dividend to holders of our common stock, the conversion rate for our preferred stock would be increased, the effect being that the holder would be entitled to more shares of common stock from us in exchange for its shares of preferred stock than it would have been before the dividend. The initial conversion price for the shares of preferred stock was $7.65 per share. Our payment of dividends on our common stock would cause the conversion price on the preferred stock to decrease.

Prior to February 20, 2010, the preferred stock is not redeemable at our option. On or after February 20, 2010, we may redeem the preferred stock in whole or in part at a purchase price equal to 100% of the liquidation preference plus accumulated and unpaid dividends to the redemption date. We are obligated to redeem for cash all outstanding shares of the preferred stock on February 20, 2015.

Documents Governing our Outstanding Debt

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements.

Our bank credit agreement as set forth in the Second Amended and Restated Credit Agreement dated as of September 15, 2005, contains a covenant in which we promise not to make any distribution to shareholders except if no event of default or unmatured event of default exists or would result therefrom and we are in compliance with our financial covenants, including maintaining a minimum interest coverage ratio, a maximum leverage ratio and a minimum net worth test.

In addition, our Indenture dated as of May 15, 2003, and our Indenture dated as of May 21, 2003, under which we have issued senior debt securities, also limit our payment of dividends. Under these documents, we are not permitted to declare or pay any dividend or make any other payment or distribution on account of our capital stock unless:

- after giving effect thereto no default or event of default has occurred and is continuing or would occur as a consequence of the payment;
- we would have, at the time of the payment and after giving pro forma effect thereto as if the payment has been made at the beginning of the applicable four-quarter period, been permitted to incur at least $1.00 of additional indebtedness other than permitted debt per the fixed charge coverage ratio tests contained in such indentures; and
- the payment, together with the aggregate amount of all other restricted payments declared or made after the date of the indentures, do not exceed the basket for such restricted payments as this is set forth in the indentures.

These prohibitions do not apply to regular quarterly dividends on our capital stock so long as no default has occurred and is continuing or would be caused thereby, if the payment of the regular quarterly dividends does not exceed $13.5 million in any twelve-month period.

Other Considerations

On June 24, 2004, we suspended the quarterly cash dividend on our common stock. This decision reflects our desire to retain cash in order to strengthen our balance sheet, enhance our financial flexibility and to become better positioned to grow our natural gas distribution business. The payment of future cash dividends will depend upon, among other things, our financial condition, funds from operations, the level of our capital and development expenditures, our future business prospects and any contractual restrictions on such payments.

DESCRIPTION OF PREFERRED STOCK

The shares of convertible preferred stock were issued under the certificate of designation. The shares of preferred stock, and the common stock shares issuable upon conversion of the preferred stock, are covered by a registration rights agreement.

The following description is a summary of the material provisions of the certificate of designation and the registration rights agreement. Copies of the certificate of designation and the registration rights agreement were filed with the SEC as exhibits to our current report on Form 8-K filed March 17, 2005, which is incorporated by reference into this prospectus and the registration statement of which it is a part. These documents, as well as the form of convertible preferred stock share certificate, are also available upon request from us at the address set forth under “Documents Incorporated by Reference.” The following summary of the terms of the convertible preferred stock does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the certificate of designation and the registration rights agreement. As used in this section, the terms “we,” “us” or “our” refer to SEMCO Energy, Inc. and not any of its subsidiaries.

General

Under our articles of incorporation, our board of directors is authorized, without further shareholder action, to issue up to 500,000 shares of preferred stock, par value $1 per share, in one or more series, with relative rights and preferences as shall be set forth in the resolutions providing therefor. Currently, 350,000 shares of preferred stock are designated as 5.00% Series B Convertible Cumulative Preferred Stock, all of which are currently outstanding.

The convertible preferred stock is, and any common stock issued upon the conversion of the convertible preferred stock will be, fully paid and nonassessable. The holders of the convertible preferred stock will have no preemptive or preferential right to purchase or subscribe to our stock, obligations, warrants or other securities of any class. The transfer agent, registrar, redemption, conversion and dividend disbursing agent for shares of both the convertible preferred stock and the common stock is National City Bank.

The convertible preferred stock is redeemable at our option as described under "— Optional Redemption."

Ranking

The convertible preferred stock, with respect to dividend rights or rights upon our liquidation, winding-up or dissolution, ranks:

- senior to all classes of our common stock, preference stock and to each other class of capital stock or series of preferred stock established after the original issue date of the convertible preferred stock (the "issue date"), the terms of which do not expressly provide that such class or series ranks senior to or on a parity with the convertible preferred stock as to dividend rights or rights upon our liquidation, winding-up or dissolution ("junior stock");

- on a parity, in all respects, with any class of capital stock or series of preferred stock established after the issue date, the terms of which expressly provide that such class or series will rank on a parity with the convertible preferred stock as to dividend rights or rights upon our liquidation, winding-up or dissolution ("parity stock"); and

- junior to each class of capital stock or series of preferred stock established after the issue date, the terms of which expressly provide that such class or series will rank senior to the convertible preferred stock as to dividend rights or rights upon our liquidation, winding-up or dissolution ("senior stock").

While any shares of convertible preferred stock are outstanding, we may not authorize or issue any class or series of senior stock (or any security convertible into senior stock) or parity stock (or any security convertible into parity stock) without the affirmative vote of the holders of at least $66^{2}/3\%$ of the outstanding shares of convertible preferred stock and any other outstanding series of preferred stock, voting as a single class. Without the consent of any holder of convertible preferred stock, however, we may authorize, increase the authorized amount of, or issue any class or series of junior stock. See "— Voting Rights" below.

Dividends

Holders of shares of convertible preferred stock are entitled to receive, when, as and if declared by our board of directors out of funds legally available for payment, cumulative cash dividends at the rate per annum of 5.00% per share on the liquidation preference of $200 per share of convertible preferred stock (equivalent to $10.00 per annum per share). Dividends on the convertible preferred stock (including additional dividends due to a registration default, if any) will be payable quarterly on February 15, May 15, August 15 and November 15 of each year, commencing May 15, 2005 (each, a "dividend payment date") at such annual rate, and shall accumulate from the most recent date as to which dividends shall have been paid or, if no dividends have been paid, from the issue date of the convertible preferred stock, whether or not in any dividend period or periods such dividends have been declared or there have been funds legally available for the payment of such dividends. Dividends will be payable to holders of record as they appear on our stock register on the immediately preceding February 1, May 1, August 1 and November 1 (each, a "record date").

Accumulations of dividends on shares of convertible preferred stock shall compound quarterly. Dividends payable on the convertible preferred stock for any period less than a full dividend period (based upon the number of days elapsed during the period) are computed on the basis of a 360-day year consisting of twelve 30-day months.

No dividend will be declared or paid upon, or any sum set apart for the payment of dividends upon any outstanding share of the convertible preferred stock with respect to any dividend period unless all dividends for all preceding dividend periods have been declared and paid or declared and a sufficient sum set apart for the payment of such dividend upon all outstanding shares of convertible preferred stock.

No dividends or other distributions (other than a dividend or distribution payable solely in shares of parity stock or junior stock (as to dividend rights), in the case of parity stock, or junior stock (as to dividend rights), in the case of junior stock, and cash in lieu of fractional shares) may be declared, made or paid, or set apart for payment upon, any parity stock or junior stock (as to dividend rights), nor may any parity stock or junior stock (as to dividend rights) be redeemed, purchased or otherwise acquired for any consideration (or any money paid to or made available for a sinking fund for the redemption of any parity stock or junior stock (as to dividend rights)) by us or on our behalf (except by conversion into or exchange for shares of parity stock or junior stock (as to dividend rights), in the case of parity stock, or junior stock (as to dividend rights), in the case of junior stock) unless all accumulated and unpaid dividends have been or contemporaneously are declared and paid, or are declared and a sum sufficient for the payment thereof is set apart for such payment, on the convertible preferred stock and any parity stock (as to dividend rights) for all dividend payment periods terminating on or prior to the date of such declaration, payment, redemption, purchase or acquisition.

Notwithstanding the foregoing, if full dividends have not been paid on the convertible preferred stock and any parity stock (as to dividend rights), dividends may be declared and paid on the convertible preferred stock and such parity stock so long as the dividends are declared and paid pro rata so that the amounts of dividends declared per share on the convertible preferred stock and such parity stock will, in all cases, bear to each other the same ratio that accumulated and unpaid dividends per share on the shares of the convertible preferred stock and such parity stock bear to each other.

Holders of shares of the convertible preferred stock are not entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends. Our ability to declare and pay cash dividends and make other distributions with respect to our capital stock, including the convertible preferred stock, is limited by the terms of our outstanding indebtedness, including the restricted payments covenants under our Indenture, dated May 15, 2003 governing our $7\frac{3}{4}$% Senior Notes due 2013, our Indenture, dated May 21, 2003, governing our $7\frac{1}{8}$% Senior Notes due 2008, and our Amended and Restated Credit Agreement, dated June 25, 2004, as amended. In addition, our ability to declare and pay dividends may be limited by applicable law. See “Risk Factors — Risks Relating to Our Preferred Stock — We may not be able to pay cash dividends on the preferred stock.”

Liquidation Preference

In the event of our voluntary or involuntary liquidation, winding-up or dissolution, each holder of convertible preferred stock would be entitled to receive and to be paid out of our assets available for distribution to our shareholders, before any payment or distribution is made to holders of junior stock with respect to liquidation preference (including common stock), a liquidation preference in the amount of $200 per share of the convertible preferred stock, plus accumulated and unpaid dividends on the shares to the date fixed for liquidation, winding-up or dissolution. If, upon our voluntary or involuntary liquidation, winding-up or dissolution, the amounts payable with respect to the liquidation preference of the convertible preferred stock and all parity stock (as to rights upon our liquidation, winding-up or dissolution) are not paid in full, the holders of the convertible preferred stock and the parity stock (as to rights upon our liquidation, winding-up or dissolution) will share equally and ratably in any distribution of our assets in proportion to the full liquidation preference and accumulated and unpaid dividends to which they are entitled. After payment of the full amount of the liquidation preference and accumulated and unpaid dividends to which they are entitled, the holders of the convertible preferred stock will have no right or claim to any of our remaining assets. Neither

the sale of all or substantially all our assets or business (other than in connection with our liquidation, winding-up or dissolution), nor our merger or consolidation into or with any other person, will be deemed to be our voluntary or involuntary liquidation, winding-up or dissolution.

The certificate of designation does not contain any provision requiring funds to be set aside to protect the liquidation preference of the convertible preferred stock even though it is substantially in excess of the par value thereof.

Voting Rights

The holders of the convertible preferred stock have no voting rights except as set forth below or as otherwise required by Michigan law from time to time.

The affirmative vote of the holders of at least $66^{2}/3\%$ of the outstanding preferred stock and any other outstanding series of preferred stock, voting as a single class, is required for the authorization or issuance of any class or series of senior stock (or any security convertible into senior stock) or parity stock (or any security convertible into parity stock) and for amendments to our articles of incorporation that could affect adversely the rights of holders of the preferred stock. The certificate of designation provides that the authorization of, the increase in the authorized amount of, or the issuance of any shares of any class of junior stock (as to rights upon our liquidation, winding-up or dissolution) does not require the consent of the holders of the convertible preferred stock, and will not be deemed to affect adversely the powers, preferences or special rights of the holders of the convertible preferred stock.

If dividends on the convertible preferred stock are in arrears and unpaid for eight or more quarterly periods (whether or not consecutive), the holders of the convertible preferred stock, voting as a single class with any other preferred stock, will be entitled at our next regular or special meeting of shareholders to elect such number of directors to our board of directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full board of directors, and such right shall continue (and may be exercised at any annual or other meeting of shareholders for the election of directors) until we shall have paid or declared and set apart for payment all accrued dividends on the preferred stock for all past quarterly dividend periods. Such voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the convertible preferred stock has been paid in full.

In all cases in which the holders of convertible preferred stock are entitled to vote, each share of convertible preferred stock is entitled to one vote.

Conversion Rights

General

A holder may convert its shares of the convertible preferred stock, in whole or in part, into shares of our common stock at any time, unless we have redeemed or purchased those shares of convertible preferred stock. The conversion rate is initially 26.1438 shares of our common stock per share of convertible preferred stock. The conversion price of a share is equal to $200 divided by the then applicable conversion rate at the time of determination. The conversion rate is subject to adjustment as described below under "— Conversion Rate Adjustments." Accordingly, an adjustment to the conversion rate will result in a corresponding adjustment to the conversion price. The initial conversion price for the shares is $7.65 per share of common stock.

The shares issuable upon conversion will be delivered through the conversion agent as soon as practicable following the conversion date. No fractional shares will be issued upon conversion. A holder that would otherwise be entitled to fractional shares of our common stock, will receive a cash amount based on the "applicable stock price" of our common stock on the "trading day" immediately before the conversion date.

A "trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange, or the NYSE, or, if our common stock is not listed on the NYSE, on the principal other national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated

Quotation System, or NASDAQ, or, if our common stock is not quoted on NASDAQ, on the principal other market on which such common stock is then traded.

The "applicable stock price," with respect to a trading day, is equal to the volume-weighted average price per share of our common stock (or any security into which our common stock has been converted in connection with a fundamental change) on such trading day. The "volume-weighted" average," with respect to a trading day, means such price per share of our common stock as displayed under the heading "Bloomberg VWAP" on Bloomberg (or any successor service) page SEN <equity> AQR (or any successor page) in respect of the period from 9:30 a.m. to 4:00 p.m., New York City time, on such trading day; or, if such price is not available, the "applicable stock price" means the market value per share of our common stock on such day as determined by a nationally recognized independent investment banking firm retained for this purpose by us.

Payment Upon Conversion Upon a Fundamental Change

We must give notice of each fundamental change (as defined below) to all record holders on a date (the "effective notice date") that is within 10 trading days after the effective date of the fundamental change (the "effective date"). If a holder converts its shares at any time beginning at the opening of business on the effective notice date and ending at the close of business on the 30th trading day immediately following the effective date, the holder will receive:

(1) common stock and cash for fractional shares, as described above under "— General" (subject to adjustment as described below under "— Conversion Rate Adjustments" in the event of (i) any reclassification of our common stock, (ii) a consolidation, merger or combination involving us or (iii) a sale or conveyance to another person of our property and assets as an entirety or substantially as an entirety, in which holders of our outstanding common stock would be entitled to other types of consideration), plus

(2) the make-whole premium, if any, described under "— Determination of the Make-Whole Premium," if the fundamental change occurs before February 20, 2010.

Upon a fundamental change, if the market value on the effective date is less than the conversion price, holders of convertible preferred stock shall have a one-time option to convert all of their outstanding shares of convertible preferred stock at an adjusted conversion price equal to the greater of (1) the market value as of the effective date and (2) $3.00. This option shall be exercisable during a period of not less than 30 days nor more than 60 days commencing on the third business day after the effective date.

The term "market value" means the average closing price of the common stock for a five consecutive trading day period ending on the trading day immediately prior to such date on the NYSE (or such other national securities exchange or automated quotation system on which the common stock is then listed or authorized for quotation or, if not so listed or authorized for quotation, an amount determined in good faith by our board of directors to be the fair value of the common stock).

A "fundamental change" will be deemed to have occurred upon the occurrence of any of the following:

(1) any "person" or "group" (other than us, our subsidiaries or our respective employee benefit plans) files a Schedule 13D or Schedule TO, or any successor schedule, form or report under the Exchange Act, disclosing, or we otherwise become aware, that such person is or has become the "beneficial owner," directly or indirectly, of shares of our voting stock representing 50% or more of the total voting power of all outstanding classes of our voting stock or has the power, directly or indirectly, to elect a majority of the members of our board of directors;

(2) we consolidate with, or merge with or into, another person or we sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of our assets, or any person consolidates with, or merges with or into, us, in any such event other than pursuant to a transaction in which the persons that "beneficially owned" directly or indirectly, the shares of our voting stock immediately prior to such transaction beneficially own, directly or indirectly, shares of voting stock representing a majority of the total voting power of all outstanding classes of voting stock of the surviving or transferee person;

(3) a majority of the members of our board of directors are not continuing directors (as defined below); or

(4) our common stock ceases to be listed on a national securities exchange or quoted on The Nasdaq National Market or another established automated over-the-counter trading market in the United States.

The term "all or substantially all" as used in the definition of fundamental change will likely be interpreted under applicable state law and will be dependent upon particular facts and circumstances. There may be a degree of uncertainty in interpreting this phrase. As a result, we cannot assure holders how a court would interpret this phrase under applicable law if holders elect to exercise their rights following the occurrence of a transaction which such holders believe constitutes a transfer of "all or substantially all" of our assets.

However, a fundamental change will not be deemed to have occurred in the case of a merger or consolidation, if (i) at least 90% of the consideration (excluding cash payments for fractional shares and cash payments pursuant to dissenters' appraisal rights) in the merger or consolidation consists of common stock of a U.S. company traded on a national securities exchange or quoted on The Nasdaq National Market (or which will be so traded or quoted when issued or exchanged in connection with such transaction) and (ii) as a result of such transaction or transactions the shares of convertible preferred stock become convertible solely into such common stock.

For purposes of this fundamental change definition:

(1) "person" or "group" shall have the meanings given to them for purposes of Sections 13(d) and 14(d) of the Exchange Act or any successor provisions, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act, or any successor provision;

(2) a "beneficial owner" will be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of the certificate of designation;

(3) "beneficially own" and "beneficially owned" have meanings correlative to that of beneficial owner;

(4) "board of directors" means the board of directors or other governing body charged with the ultimate management of any person;

(5) "continuing director" means, as of any date of determination, any member of our board of directors who was a member of such board of directors on the date of the certificate of designation; or was nominated for election or elected to such board of directors with the approval of: (A) a majority of the continuing directors who were members of such board at the time of such nomination or election or (B) a nominating committee, a majority of which committee were continuing directors at the time of such nomination or election;

(6) "capital stock" means: (1) in the case of a corporation, corporate stock; (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock; (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; or (4) any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing person; and

(7) "voting stock" means any class or classes of capital stock or other interests then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees.

Conversion Rate Adjustments

The conversion rate will be adjusted:

(1) upon the issuance of shares of our common stock as a dividend or distribution on our common stock;

(2) upon subdivisions, combinations or reclassifications of our outstanding common stock;

(3) upon the issuance to all or substantially all holders of our common stock of rights or warrants entitling them for a period of not more than 60 days to subscribe for or purchase our common stock, or securities convertible into our common stock, at a price per share or a conversion price per share less than the "current market price" (as defined in the certificate of designation) per share on the record date for the issuance, *provided* that the conversion rate for the shares will be readjusted to the extent that the rights or warrants are not exercised prior to their expiration;

(4) upon the distribution to all or substantially all holders of our common stock of shares of our capital stock, evidences of indebtedness or other non-cash assets, or rights or warrants, excluding:

(a) dividends, distributions and rights or warrants referred to in clause (1) or (3) above;

(b) a distribution referred to in clause (6) below; and

(c) distribution of rights pursuant to a shareholder rights plan;

(5) upon any cash dividend or distribution (other than in connection with our liquidation, dissolution or winding up) to all holders of our common stock;

(6) upon the distribution of cash or other consideration by us or any of our subsidiaries in respect of a tender offer or exchange offer for our common stock, where such cash and the value of any such other consideration per share of our common stock validly tendered or exchanged exceeds the "current market price" (as defined in the certificate of designation) per share of our common stock on the last date on which tenders or exchanges may be made pursuant to the tender or exchange offer (the "expiration date"), in which case, immediately prior to the opening of business on the business day after the expiration date, the conversion rate shall be increased so that it equals an amount equal to the conversion rate in effect immediately before the close of business on the expiration date multiplied by a fraction:

(a) whose numerator is the sum of:

(i) the aggregate amount of cash and the aggregate value of any such other consideration distributed in connection with the tender or exchange offer; and

(ii) the product of (A) such "current market price" per share of our common stock and (B) the number of shares of our common stock outstanding as of the expiration date (excluding shares validly tendered and not withdrawn in connection with the tender or exchange offer and any shares held in our treasury); and

(b) whose denominator is the product of:

(i) such "current market price" per share of our common stock; and

(ii) the number of shares of our common stock outstanding as of the expiration date (including shares validly tendered and not withdrawn in connection with the offer, but excluding any shares held in our treasury).

Notwithstanding the foregoing, in no event will the conversion rate exceed 33.3333 shares per $200 liquidation preference of shares, as adjusted pursuant to paragraphs (1), (2), (3), (4) and (6) above, as a result of an adjustment pursuant to paragraph (5) above.

No adjustment to the conversion rate will be made if we provide that the holders of shares of the convertible preferred stock will participate in the distribution without conversion, or in certain other cases.

The conversion rate will not be adjusted:

- upon the issuance of any shares of our common stock or options or rights to purchase shares of our common stock pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;

- upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in the preceding bullet and outstanding as of the date the shares of convertible preferred stock were first issued; or

- for accumulated and unpaid dividends, including additional dividends due to a registration default, if any.

The holders will receive, upon conversion of the shares into our common stock, in addition to the common stock, the rights under our rights plan or under any future rights plan we may adopt, whether or not the rights have separated from the common stock at the time of conversion unless, prior to conversion, the rights have expired, terminated or been redeemed or exchanged. See "Description of Capital Stock."

In the event of:

- any reclassification of our common stock;

- a consolidation, merger or combination involving us; or

- a sale or conveyance to another person of all or substantially all of our consolidated property and assets,

in which holders of our outstanding common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, holders of shares of the convertible preferred stock will generally thereafter be entitled to convert their shares into the same type of consideration received by common stock holders immediately following one of these types of events.

If a taxable distribution to holders of our common shares or other transaction occurs which results in an adjustment of the conversion rate, you may in certain circumstances be deemed to have received a distribution subject to United States Federal income tax as a dividend. In certain other circumstances, the absence of an adjustment may result in a taxable dividend to the holders of our common shares. See "Material U.S. Federal Income Tax Considerations" below for a relevant discussion.

No adjustment in the conversion rate will be required unless it would result in a change in the conversion rate of at least 1.0%. Any adjustment not made will be taken into account in subsequent adjustments.

Conversion Procedures

The right of conversion attaching to any share may be exercised (a) if such share is represented by a global security, by book-entry transfer to the conversion agent through the facilities of DTC, or (b) if such share is represented by a certificated security, by delivery of such share at the specified office of the conversion agent, accompanied, in either case, by a duly signed and completed conversion notice and appropriate endorsements and transfer documents if required by the conversion agent. The conversion date shall be the date on which the share and all of the items required for conversion shall have been so delivered and the requirements for conversion have been met.

No separate payment or adjustment will be made for accumulated and unpaid dividends on a converted share or for dividends or distributions on any of our common stock issued upon conversion of a share. By delivering to the holder the number of shares issuable upon conversion together with a cash payment in lieu of any fractional shares plus any other consideration due upon conversion, we will satisfy our obligation with respect to the conversion of the shares. That is, accumulated dividends (including additional dividends due to a registration default, if any) will be deemed to be paid in full rather than canceled, extinguished or forfeited. We will not adjust the conversion rate to account for any accumulated dividends (including additional dividends due to a registration default, if any).

If the holder converts after the close of business on a record date for a dividend payment but prior to the corresponding dividend payment date, such holder will receive on the dividend payment date dividend accumulated on those shares, notwithstanding the conversion of shares prior to the dividend payment date, assuming the holder was the holder of record at the close of business on the corresponding record date. Each holder, however, agrees, by accepting a share, that if the holder surrenders any shares for conversion during such period, such holder must pay us at the time such holder surrenders its share for conversion an amount equal to the dividend that will be paid on the shares being converted on the dividend payment date. The preceding sentence does not apply, however, if (1) we have specified a redemption date that is after a record date for an dividend payment but prior to the corresponding dividend payment date or (2) any overdue dividend exists at the time of conversion with respect to the shares being converted, but only to the extent of the amount of such overdue dividend. Accordingly, under the circumstances described in clause (1), a holder of shares who chooses to convert those shares on a date that is after a record date but prior to the corresponding dividend payment date, will not be required to pay us, at the time that holder surrenders those shares for conversion, the amount of regularly scheduled dividend it will receive on the dividend payment date.

Holders of shares are not required to pay any taxes or duties relating to the issuance or delivery of our common stock upon exercise of conversion rights, but they are required to pay any tax or duty which may be payable relating to any transfer involved in the issuance or delivery of the common stock in a name other than the name of the holder of the share. Certificates representing shares of our common stock will be issued or delivered only after all applicable taxes and duties, if any, payable by the holder have been paid.

The shares will be deemed to have been converted immediately prior to the close of business on the conversion date. Delivery of shares will be accomplished by delivery to the conversion agent of certificates for the relevant number of shares, other than in the case of holders of shares in book-entry form with DTC, which shares shall be delivered in accordance with DTC customary practices. A holder will not be entitled to any rights as a holder of our common stock, including, among other things, the right to vote and receive dividends and notices of shareholder meetings, until the conversion is effective.

A certificate for the number of full shares of common stock into which the shares are converted (and cash in lieu of fractional shares) will be delivered to such holder, assuming all of the other requirements have been satisfied by such holder, as soon as practicable following the conversion date.

Determination of the Make-Whole Premium

If a fundamental change occurs prior to February 20, 2010, we will pay a make-whole premium upon certain conversions of the shares as described above under “Conversion Rights — Payment Upon Conversion Upon a Fundamental Change.” The make-whole premium will be:

- equal to a percentage of the liquidation preference of the shares converted determined by reference to the table below, based on the date on which the fundamental change becomes effective (the “effective date”), and the price (the “stock price”) paid, or deemed to be paid, per share of our common stock in the transaction constituting the fundamental change, subject to adjustment as described below; and

- in addition to, and not in substitution for, any cash, securities or other assets otherwise due to holders of shares upon conversion.

We will pay the make-whole premium solely in shares of our common stock (other than cash in lieu of fractional shares) or in the same form of consideration into which all or substantially all of the shares of our common stock have been converted or exchanged in connection with the fundamental change (other than cash paid in lieu of fractional interests in any security or pursuant to dissenters’ rights). We will pay cash in lieu of fractional interests in any security or other property delivered in connection with such fundamental change. The make-whole premium will be payable on the 35th trading day (as defined above under “Conversion — General”) following the effective date for shares converted in connection with a fundamental change. If holders of our common stock receive or have the right to receive more than one form of consideration in connection with such fundamental change, then, for purposes of the foregoing, the forms of consideration in which the make-whole premium will be paid will be in proportion to the relative value,

determined as described below, of the different forms of consideration paid to our common shareholders in connection with the fundamental change.

The stock price paid, or deemed paid, per share of our common stock in the transaction constituting the fundamental change will be calculated as follows:

(1) In the case of a fundamental change in which all or substantially all of the shares of our common stock have been, as of the effective date, converted into or exchanged for the right to receive securities or other assets or property, the consideration shall be valued as follows:

(a) securities that are traded on a U.S. national securities exchange or approved for quotation on the Nasdaq or any similar system of automated dissemination of quotations of securities prices, will be valued at the average of the applicable stock prices of such securities for the five consecutive trading days beginning on the second trading day after the effective notice date,

(b) other securities, assets or property, other than cash, that holders will have the right to receive will be valued based on the average of the fair market value of the securities, assets or property, other than cash, as determined by two independent nationally recognized investment banks, and

(c) 100% of any cash.

(2) In all other cases, the value of our shares will equal the average of the applicable stock prices of our common stock for the five consecutive trading days beginning on the second trading day after the effective notice date.

The value of our shares or other consideration for purposes of determining the number of shares or other consideration to be issued in respect of the make-whole premium will be calculated in the same manner, except that to the extent such value is calculated pursuant to clause (1)(a), (1)(b) or (2), such value shall be multiplied by 98%.

The following table sets forth the stock price paid, or deemed paid, per share of our common stock in the transaction constitutes the fundamental change, the effective date and make-whole premium (expressed as a percentage of liquidation preference) upon a conversion in connection with a fundamental change:

Make-Whole Premium

(% of Liquidation Preference)

	Effective Date					
Stock Price(1)	**March 15, 2005**	**March 15, 2006**	**March 15, 2007**	**March 15 2008**	**March 15 2009**	**February 20 2010**
$6.00	0.0	0.0	0.0	0.0	0.0	0.0
$7.00	10.4	8.4	6.1	3.5	0.3	0.0
$8.00	16.9	14.8	12.2	9.2	5.3	0.0
$9.00	15.4	13.2	10.6	7.5	3.6	0.0
$10.00	14.2	12.1	9.5	6.4	2.7	0.0
$11.00	13.3	11.1	8.7	5.8	2.4	0.0
$12.00	12.4	10.4	8.0	5.3	2.2	0.0
$13.00	11.6	9.7	7.5	5.0	2.0	0.0
$14.00	10.9	9.1	7.1	4.7	1.9	0.0
$15.00	10.3	8.6	6.7	4.4	1.8	0.0
$20.00	7.3	6.2	4.9	3.3	1.4	0.0
$25.00	4.8	4.1	3.2	2.2	0.9	0.0
$30.00	2.8	2.3	1.8	1.2	0.5	0.0
$35.00	1.2	1.0	0.7	0.4	0.1	0.0

(1) The stock prices set forth in the table will be adjusted as of any date on which the conversion rate of the shares is adjusted. The adjusted stock prices will equal the stock prices applicable immediately prior to the adjustment multiplied by a fraction, the numerator of which is the conversion rate immediately prior to the adjustment to the conversion rate and the denominator of which is the conversion rate as so adjusted.

The exact stock price and effective dates may not be set forth on the table, in which case:

- if the stock price is between two stock prices on the table or the effective date is between two effective dates on the table, the make-whole premium will be determined by straight-line interpolation between make-whole premium amounts set forth for the higher and lower stock prices and the two effective dates, as applicable, based on a 365-day year;

- if the stock price is in excess of $35.00 per share (subject to adjustment in the same manner as the stock price) the payment corresponding to row $35.00 will be paid; and

- if the stock price is less than or equal to $6.00 per share (subject to adjustment in the same manner as the stock price), no make-whole premium will be paid.

Our obligation to pay the make-whole premium could be considered a penalty, in which case the enforceability thereof would be subject to general equitable principles of reasonableness of economic remedies.

Optional Redemption

Prior to February 20, 2010, the convertible preferred stock will not be redeemable at our option. On or after February 20, 2010, we may redeem the convertible preferred stock, in whole or in part, at a purchase price in cash equal to 100% of the liquidation preference of those shares of convertible preferred stock, plus accumulated and unpaid dividends (including additional dividends due to a registration default, if any), to the redemption date.

We will give at least 30 days' notice of redemption by mail to holders of shares. Shares called for redemption are convertible by the holder until the close of business on the business day immediately preceding the redemption date.

If we do not redeem all of the shares of convertible preferred stock, we will select the shares of convertible preferred stock to be redeemed by lot or on a pro rata basis in accordance with the applicable procedures of DTC to the extent shares of convertible preferred stock are held in book-entry form. If any shares of convertible preferred stock are to be redeemed in part only, we will issue a new share or shares with a liquidation preference equal to the unredeemed liquidation preference portion thereof. If a portion of the holder's shares of convertible preferred stock is selected for partial redemption and the holder converts a portion of its shares, the converted portion will be deemed to be taken from the portion selected for redemption.

If the dividend disbursing agent holds cash sufficient to pay the purchase price for the shares for which a redemption notice has been delivered on the redemption date in accordance with the certificate of designations, then, on and after the redemption date, the shares will cease to be outstanding and the dividends (including additional dividends due to a registration default, if any), on such shares shall cease to accrue, whether or not the shares are delivered to the dividend disbursement agent. Thereafter, all rights of the holder shall terminate, other than the right to receive the redemption price upon delivery of the shares.

Mandatory Redemption

We will be obligated to redeem for cash all outstanding shares of the convertible preferred stock on February 20, 2015. The redemption price will be equal to the $200 liquidation preference plus an amount equal to accrued and unpaid dividends from, and including, the immediately preceding dividend payment date to, but excluding, the date of redemption.

Consolidation, Merger and Sale of Assets

The certificate of designation provides that we may, without the consent of the holders of any of the outstanding convertible preferred stock (except as provided by Michigan law), consolidate with or merge into any other person or convey, transfer or lease all or substantially all our assets to any person or may permit any person to consolidate with or merge into, or transfer or lease all or substantially all its properties to, us; *provided, however*, that (a) the successor, transferee or lessee is organized under the laws of the United States or any political subdivision thereof; (b) the shares of convertible preferred stock will become shares of such successor, transferee or lessee, having in respect of such successor, transferee or lessee the same powers, preferences and relative participating, optional or other special rights and the qualification, limitations or restrictions thereon, the convertible preferred stock had immediately prior to such transaction; and (c) certain procedural conditions are met.

Under any consolidation by us with, or merger by us into, any other person or any conveyance, transfer or lease of all or substantially all our assets as described in the preceding paragraph, the successor resulting from such consolidation or into which we are merged or the transferee or lessee to which such conveyance, transfer or lease is made, will succeed to, and be substituted for, and may exercise every right and power of, ours under the shares of convertible preferred stock, and thereafter, except in the case of a lease, the predecessor (if still in existence) will be released from its obligations and covenants with respect to the convertible preferred stock. This provision does not limit the rights of holders in the event of a fundamental change, including their right to receive the make-whole premium in connection with a conversion.

SEC Reports

Whether or not we are required to file reports with the SEC, if any shares of convertible preferred stock are outstanding, we will file with the SEC all such reports and other information as we would be required to file with the SEC by Section 13(a) or 15(d) under the Exchange Act. See "Where You Can Find More Information." We will supply each holder of convertible preferred stock, upon request, without cost to such holder, copies of such reports or other information.

Registration Rights

We entered into a registration rights agreement with the initial purchasers on March 15, 2005 for the benefit of the holders of the convertible preferred stock and the common stock issued upon conversion of the convertible preferred stock (collectively, the "restricted securities"). Pursuant to the registration rights agreement, we filed with the SEC a shelf registration statement on Form S-3 (of which this prospectus is a part) to cover resales of restricted securities by holders who satisfy certain conditions and who provide certain information for use with the shelf registration statement.

Pursuant to the registration rights agreement, we agreed, at our cost to use our commercially reasonable efforts to cause the registration statement to be declared effective under the Securities Act on or prior to September 11, 2005 and to keep the shelf registration statement effective until such time as the restricted securities are eligible to be sold under Rule 144(k) under the Securities Act or until all the restricted securities have been sold pursuant to such shelf registration statement.

Holders who desire to sell their restricted securities pursuant to the shelf registration statement must deliver to us a properly completed and signed Selling Securityholder Notice and Questionnaire, a form of which appeared in Annex A to the offering circular used in conjunction with the initial private placement of the preferred stock.

We will, among other things, provide to each holder that delivered to us this form and for whom the shelf registration statement of which this prospectus is a part was filed, copies of this prospectus, notify each such holder when the shelf registration statement has become effective and take certain other actions as are required to permit unrestricted resales of such restricted securities. A holder selling such securities pursuant to the shelf registration statement generally will be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the registration rights agreement which are applicable to such holder (including certain indemnification obligations).

If the shelf registration statement ceases to be effective or usable (subject to certain exceptions) in connection with resales of the restricted securities in accordance with and during the periods specified in the registration rights agreement (a "registration default"), dividends will accumulate on the convertible preferred stock at the rate of 5.50% per annum (50 basis points above the rate shown on the cover page of this prospectus), from and including the date on which any such registration default shall occur to but excluding the date on which all registration defaults have been cured. At all other times, dividends will accumulate on the convertible preferred stock at the annual rate shown on the cover page of this prospectus. The preceding summary of certain provisions of the registration rights agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the registration rights agreement, a copy of which is available upon request to us at the address set forth under "Documents Incorporated by Reference."

Book-Entry, Delivery and Form

We initially issued the convertible preferred stock in the form of two global securities. The global securities were deposited with, or on behalf of, DTC, and registered in the name of DTC or its nominee. Except as set forth below, the global securities may be transferred, in whole and not in part, only to DTC or another nominee of DTC. Investors may hold their beneficial interests in the global securities directly through DTC if they have an account with DTC or indirectly through organizations which have accounts with DTC.

Shares of convertible preferred stock that are issued as described below under "— Certificated Convertible Preferred Stock" will be issued in definitive form. Upon the transfer of convertible preferred stock in definitive form, such convertible preferred stock will, unless the global securities have previously been exchanged for convertible preferred stock in definitive form, be exchanged for an interest in the global securities representing the liquidation preference of convertible preferred stock being transferred.

The DTC has advised us as follows: The DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The DTC was created to hold securities of institutions that have accounts with DTC ("participants") and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The DTC's participants include securities brokers and dealers (which may include the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's book-entry system is also available to others such as banks, brokers, dealers and trust companies ("indirect participants") that clear through or maintain a custodial relationship with a participant, whether directly or indirectly.

Pursuant to procedures established by DTC, upon the deposit of the global securities with, or on behalf of, DTC, DTC credited, on its book-entry registration and transfer system, the liquidation preference of the convertible preferred stock represented by such global securities to the accounts of participants. The accounts credited were designated by the initial purchasers of such convertible preferred stock. Ownership of beneficial interests in the global securities is limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in the global securities is shown on, and the transfer of those ownership interests is effected only through, records maintained by DTC (with respect to participants' interests) and such participants and indirect participants (with respect to the owners of beneficial interests in the global securities other than participants). The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such limits and laws may impair the ability to transfer or pledge beneficial interests in the global securities.

So long as DTC, or its nominee, is the registered holder and owner of the global securities, DTC or such nominee, as the case may be, will be considered the sole legal owner and holder of the convertible preferred stock evidenced by the global certificates for all purposes of such convertible preferred stock and the certificate of designation. Except as set forth below, as an owner of a beneficial interest in the global certificates, you will not be entitled to have the convertible preferred stock represented by the global securities registered in your name, will not receive or be entitled to receive physical delivery of certificated convertible preferred stock in definitive form and will not be considered to be the owner or holder of any convertible preferred stock under the global securities. We understand that under existing industry practice, in the event an owner of a beneficial interest in the global securities desires to take any action that DTC, as the holder of the global securities, is entitled to take, DTC will authorize the participants to take such action, and that the participants will authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

All payments on convertible preferred stock represented by the global securities registered in the name of and held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner and holder of the global securities.

We expect that DTC or its nominee, upon receipt of any payment on the global securities, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the liquidation preference of the global securities as shown on the records of DTC or its nominee. We also expect that payments by participants or indirect participants to owners of beneficial interest in the global securities held through such participants or indirect participants will be governed by standing instructions and customary practices and will be the responsibility of such participants or indirect participants. We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the global securities for any convertible preferred stock or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between DTC and its participants or indirect participants or the relationship between such participants or indirect participants and the owners of beneficial interests in the global securities owning through such participants or indirect participants.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of interests in the global securities among participants or indirect participants of DTC it is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the transfer agent will have any responsibility or liability for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Convertible Preferred Stock

Subject to certain conditions, the convertible preferred stock represented by the global securities is exchangeable for certificated convertible preferred stock in definitive form of like tenor as such convertible preferred stock if (1) DTC notifies us that it is unwilling or unable to continue as DTC for the global securities or if at any time DTC ceases to be a clearing agency registered under the Exchange Act and, in either case, a successor is not appointed within 90 days or (2) we in our discretion at any time determine not to have all of the convertible preferred stock represented by the global securities. Any convertible preferred stock that is exchangeable pursuant to the preceding sentence is exchangeable for certificated convertible preferred stock issuable for such number of shares and registered in such names as DTC shall direct. Subject to the foregoing, the global securities are not exchangeable, except for global securities representing the same aggregate number of shares and registered in the name of DTC or its nominee.

DESCRIPTION OF CAPITAL STOCK

Our total authorized capital stock consists of (a) 500,000 shares cumulative preferred stock, par value of $1.00 per share, (b) 3,000,000 shares of preference stock, and (c) 100,000,000 shares of common stock, par value $1.00 per share. At April 3, 2006 there were outstanding 33,752,686 shares of common stock. This amount does not include (i) the 23.5 million shares that we have previously reserved for issuance, into which the 350,000 shares of our preferred stock are potentially convertible or (ii) the vested and unvested options outstanding to purchase 1.4 million shares of our common stock as of April 3, 2006. We have a series of our preferred stock designated as the 5.00% Series B Convertible Cumulative Preferred Stock, of which 350,000 shares were outstanding at April 3, 2006. We also currently have Series A Preference Stock with the number of shares constituting such series set at 2,000,000. The Series A Preference Stock is reserved for issuance pursuant to our Shareholder Rights Plan, but no shares are currently outstanding. We also have a series of preference stock designated 6% Series B Convertible Preference Stock consisting of 70,000 shares, of which none are issued and outstanding. The following description of our capital is qualified in its entirety by reference to our articles of incorporation and bylaws and the laws of the State of Michigan. You should carefully review our articles of incorporation and bylaws which are filed as exhibits to the registration statement of which this prospectus is a part for a complete description.

Common Stock

Voting Rights. The holders of common stock are entitled to one vote for each share on all matters voted upon by our shareholders and, subject to any voting rights of the holders of the preferred stock and preference stock described below, the holders of such shares currently possess all voting power. Our articles of incorporation provide for cumulative voting for the election of our directors.

Preemptive Rights. No holder of common stock has any preemptive right to subscribe to any additional securities which we may issue.

Liquidation Rights. Subject to the preferential rights of holders of our preferred stock and preference stock, upon our liquidation the holders of our common stock are entitled to share on a pro rata basis in our net assets which remain after satisfaction of all liabilities.

Listing. Our common stock is listed on the New York Stock Exchange under the symbol “SEN.”

Transfer Agent and Registrar. National City Bank is the transfer agent and registrar for our common stock.

Dividend Rights. The holders of common stock are entitled to dividends when, as and if, declared by the Board of Directors out of our surplus after full cumulative dividends on the preferred stock and preference stock, if any, shall have been paid or set apart for payment and any sinking fund obligations with respect to each series of the preferred stock and preference stock then outstanding, if any, have been satisfied.

We have long-term debt agreements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. We are currently in compliance with all of the covenants in these agreements. See “Dividend Policy” for a description of these covenants.

Preferred Stock

The Board of Directors is authorized, without further action by shareholders, to issue preferred stock, in one or more series, from time to time, with such rights and preferences as may be provided in a resolution

adopted by the Board of Directors. The authority of the Board includes, but is not limited to, the determination or fixing of the following with respect to shares of such class or any series thereof:

(a) the rate of dividends and the extent of further participation in dividend distribution, if any;

(b) the price at and the terms and conditions on which the shares are redeemable;

(c) the amount payable upon shares in event of voluntary or involuntary liquidation;

(d) sinking fund provisions for the redemption or purchase of shares; and

(e) the terms and conditions on which shares are convertible.

The terms of each series of preferred stock may include the following:

(a) the title and stated value of such preferred stock;

(b) the number of shares of such preferred stock offered and the offering price and liquidation preference per share of such preferred stock;

(c) the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to such preferred stock;

(d) the date from which dividends on such preferred stock shall accumulate, if applicable;

(e) the provision for a sinking fund, if any, for such preferred stock;

(f) the provision for redemption, if applicable, of such preferred stock;

(g) any listing of such preferred stock on any securities exchange;

(h) a discussion of federal tax considerations applicable to such preferred stock;

(i) any voting rights of holders of such preferred stock;

(j) any other specific terms, preferences, rights, limitations or restrictions of such preferred stock;

(k) the relative ranking and preference of such preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs;

(l) any limitations on issuance of any series of preferred stock ranking senior to or on a parity with such series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and

(m) the terms and conditions, if applicable, upon which such preferred stock will be convertible into or participate in dividends, if any, paid on the common stock, including the conversion price (or manner of calculation thereof).

In the event of our liquidation or dissolution, the holders of preferred stock are entitled to receive a fixed amount for each series before any distribution is made to the holders of common stock or preference stock.

As long as any preferred stock remains outstanding, we may not purchase any shares of our common stock or purchase or redeem any preference stock. As long as any preferred stock remains outstanding, we may not without the consent of the holders of at least two-thirds of the outstanding preferred stock authorize any class of stock having a priority or preference over or ranking on a parity with the preferred stock as to dividends or distribution of assets or amend the provisions of our articles of incorporation in a manner that would adversely affect the rights of holders of the preferred stock.

If at any time we fail to declare and pay or set apart for payment in full eight quarterly dividends (whether or not consecutive) on all of the outstanding preferred stock, then the holders of the outstanding preferred stock shall have the right, voting as a single class irrespective of series, to elect such number of our directors as shall constitute one less than the smallest number of directors necessary to constitute a majority of the full Board of Directors, and such right shall continue (and may be exercised at any annual or other meeting of shareholders for the election of directors) until we shall have paid or declared and set apart for

payment all accrued dividends on the preferred stock for all past quarterly dividend periods. At April 3, 2006, 350,000 shares of preferred stock were outstanding.

5.00% Series B Convertible Cumulative Preferred Stock. In March 2005, the Board of Directors created a series of preferred stock designated as the "5.00% Series B Convertible Cumulative Preferred Stock" with the number of shares constituting such series at 350,000, all of which were outstanding as of April 3, 2006. See "Description of Preferred Stock."

Preference Stock

The Board of Directors has the authority to divide the 3,000,000 shares of preference stock into series and, within the limitations set forth in the laws of the State of Michigan and in the articles of incorporation, to fix and determine the relative rights and preferences of the shares of any series so established. The preference stock ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, except to the extent that a specific series of preferred stock provides otherwise.

Series A Preference Stock. In January, 1997, the Board of Directors created a series of preference stock designated as Series A Preference Stock with the number of shares constituting such series set at 2,000,000. The Series A Preference Stock is reserved for issuance pursuant to a Shareholder Rights Plan, but no shares of Series A Preference Stock are currently outstanding. See "Anti-Takeover Provisions — Shareholder Rights Plan."

If Series A Preference Stock was outstanding, dividends would accrue and be cumulative in an amount per share per quarter equal to the greater of (i) $10.00 or (ii) the Adjustment Number (as defined below) times the per share amount of all cash dividends, and the Adjustment Number times the per share amount (payable in kind) of all non-cash dividends or other distributions (other than a dividend payable in shares of common stock or a subdivision of the shares of common stock), declared on the common stock since the preceding quarterly dividend payment date, or, if later, since the issuance or such Series A Preference Stock. Upon our liquidation or dissolution, the holders of Series A Preference Stock are entitled to receive $100 per share plus all accrued and unpaid dividends. The Series A Preference Stock is not redeemable and ranks junior to all series of preferred stock as to the payment of dividends and the distribution of assets, unless the terms of any series provides otherwise.

If Series A Preference Stock was outstanding, a holder of Series A Preference Stock would be entitled to the number of votes equal to the Adjustment Number times the number of votes to which a holder of common stock is entitled. Except as otherwise provided below or by law, Series A Preference Stock and common stock shall vote together as one class on all matters submitted to a vote of the holders of common stock.

If any dividends on Series A Preference Stock shall be in arrears for six or more quarterly dividends, a "default period" shall begin. The default period shall end when all accrued dividends shall have been paid or set apart for payment. During a default period, the holders of Series A Preference Stock shall have the right to elect two directors. This vote shall be as a class for all series of preference stock entitled to vote. Our articles of incorporation initially set the Adjustment Number at 100. If we shall (i) pay any dividend on common stock in shares of common stock; (ii) subdivide the common stock; or (iii) combine the common stock into a smaller number of shares, the Adjustment Number shall be modified by multiplying it by a fraction, the numerator of which is the number of shares of common stock outstanding immediately after such event and the denominator of which is the number of shares of common stock outstanding immediately prior to such event.

Series B Preference Stock. On March 19, 2004, the Board of Directors created a new series of preference stock designated as the "6% Series B Convertible Preference Stock" consisting of 70,000 shares none of which are currently outstanding.

Direct Stock and Dividend Reinvestment Plan

We sponsor a direct stock purchase and dividend reinvestment plan under which investors may purchase shares of common stock without paying brokerage fees and other expenses. Under the plan, the plan

administrator may purchase common stock in the open market, through private transactions or from us. If shares are purchased on the open market, or through private transactions, the price of the shares purchased through the plan will be the weighted average price paid in the stock market for the particular investment date. If the plan administrator purchases shares from us, the price paid for those shares will be the average of the closing prices on the three trading days prior to the purchase date as quoted on the New York Stock Exchange. We initially reserved 2,000,000 shares of common stock for issuance under the plan. As of December 31, 2005, 1,444,487 shares were available for issuance under the plan.

Anti-Takeover Provisions

Articles of Incorporation. The following provisions of our articles of incorporation may delay, deter or prevent a person from acquiring us or changing control of the Board of Directors. Our articles of incorporation divide the Board into three classes with staggered terms; each director is elected for a three year term. Approximately one-third of the Board positions are filled by a shareholder vote each year. Directors may be removed but only for cause, at an annual meeting of shareholders and by the affirmative vote of a majority of the shares then entitled to vote for the election of directors. In addition to requirements imposed under Chapters 7A and 7B of the Michigan Business Corporation Act, or the MBCA, our articles of incorporation provide that a business combination cannot occur unless a written opinion is obtained from an independent investment banker that the consideration to be paid to our shareholders is fair and reasonable; provided, however, the directors may waive this requirement. Our articles of incorporation also contain provisions limiting the personal liability of directors.

Anti-Takeover Statute. We are subject to Chapter 7A of the MBCA, which provides that business combinations subject to Chapter 7A between a covered Michigan corporation or any of its subsidiaries and a beneficial owner of shares entitled to 10% or more of the voting power of such corporation generally require the affirmative vote of 90% of the votes of each class of stock entitled to vote, and not less than 2/3 of the votes of each class of stock entitled to vote (excluding voting shares owned by such 10% or more owner), voting as a separate class. Such requirements do not apply if (a) the corporation's Board of Directors approves the transaction prior to the time the 10% or more owner becomes such or (b) the transaction satisfies certain fairness standards, certain other conditions are met and the 10% or more owner has been such for at least five years. Chapter 7A business combinations include, among other transactions, mergers, significant asset transfers, certain disproportionate issuances of shares to an interested shareholder, certain reclassifications and recapitalizations disproportionately favorable to such shareholder, and the adoption of a plan of liquidation or dissolution in which such a shareholder would receive anything other than cash. Chapter 7A does not restrict the purchase of shares from other shareholders in the open market, through private transactions or acquired through a tender offer. In addition to the requirements imposed by Chapter 7A of the MBCA, a business combination subject to Chapter 7A of the MBCA may not be effected without first obtaining the written opinion of an independent investment banker to the effect that the consideration to be paid to our shareholders is fair and reasonable.

Control Share Statute. We are subject to Chapter 7B of the MBCA, which provides that control shares of a public company acquired in a control share acquisition have no voting rights except as granted by resolution approved by the shareholders of the company. The effect of the statute is to condition the acquisition of voting control of a corporation on the approval of a majority of pre-existing, disinterested shareholders. "Control shares" are outstanding shares which, but for Chapter 7B, when added to all other shares owned by a person or in respect to which that person may exercise or direct the exercise of voting power, would entitle that person, directly or indirectly, acting alone or in a group, to exercise or direct the exercise of the voting power of the public corporation in the election of directors within any of the following ranges of voting power:

- one-fifth or more but less than one-third,
- one-third or more but less than a majority, or
- a majority.

The shareholder resolution conferring voting rights on control shares must be approved by both

- a majority of the votes cast by the holders of shares entitled to vote thereon, and if the proposed control share acquisition would, if fully carried out, result in any action which would require a vote as a class or series, by a majority of the votes cast by the holders of shares of each such class or series entitled to vote thereon; and

- a majority of the votes cast by the holders of shares entitled to vote and a majority of the votes cast by the holders of shares of each class or series entitled to vote as a class or series, excluding all interested shares (which are shares owned by the acquirer and certain officers and employee directors).

No such approval is required, however, for gifts or other transactions not involving consideration, for a merger to which the corporation is a party or for certain other transactions described in Chapter 7B. Although control shares include, for the purpose of determining whether the thresholds have been met, shares beneficially owned by persons acting as a group, the formation of a group does not constitute a control share acquisition of shares held by members of the group.

Under Chapter 7B, in the event that our shareholders approve full voting rights for the control shares acquired in a control share acquisition and the acquiring person has acquired a majority of all voting power of the corporation, our shareholders (other than the acquiring person) would have dissenters' rights to receive the "fair value" of their shares from the corporation. In addition, upon meeting certain conditions enumerated in Article XII of our bylaws, control shares acquired in a control share acquisition are redeemable for their fair value at our option during certain periods specified in Chapter 7B. For each of these purposes, "fair value" is defined as a value not less than the highest per share price paid by the acquiring person in the control share acquisition.

Shareholder Rights Plan. In January 1997, we adopted a Shareholder's Rights Plan pursuant to which 2,000,000 shares of Series A Preference Stock are reserved under the plan for sale to holders of common stock. The common stock currently trades with a right to purchase such Series A Preference Stock. The right is intended to protect shareholders in the event of an unsolicited attempt to acquire us and becomes exercisable upon the occurrence of certain triggering events. The right is transferred automatically with the transfer of the common stock until separate rights certificates are distributed upon the occurrence of certain events. The right could have the effect of delaying, deferring or preventing a person from acquiring us or accomplishing a change in control of the Board of Directors. See "Description of Capital Stock — Preference Stock — Series A Preference Stock."

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes the material U.S. federal income tax consequences to holders (as defined below) of the purchase, ownership, and disposition of the preferred stock and any common stock received upon its conversion. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the final and temporary Treasury Regulations promulgated thereunder, and administrative rulings and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect) or different interpretations. This summary does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to an investor's decision to purchase shares of preferred stock, nor any tax consequences arising under the laws of any state, locality or foreign jurisdiction. This summary is not intended to be applicable to all categories of investors, such as dealers in securities, banks, insurance companies, tax-exempt organizations, persons that hold the preferred stock or common stock as part of a straddle or conversion transaction, former U.S. citizens or long term residents, or holders subject to the alternative minimum tax, all of whom or which may be subject to special rules. In addition, this discussion is limited to persons who hold the preferred stock or common stock as "capital assets" (generally, property held

for investment) within the meaning of Section 1221 of the Code. As used in this section, a "U.S. holder" is a beneficial owner of preferred stock or common stock that is for U.S. federal income tax purposes:

- an individual U.S. citizen or resident alien;
- a corporation, or entity taxable as a corporation that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose world-wide income is subject to U.S. federal income tax; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

A "non-U.S. holder" is a beneficial owner of preferred stock or common stock that is not a U.S. holder.

If a partnership (including a limited liability company for which no election to be treated as a corporation for U.S. federal income tax purposes is in effect) holds preferred stock or common stock, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership.

YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, CONVERSION, AND DISPOSITION OF PREFERRED STOCK AND COMMON STOCK RECEIVED AS A RESULT OF A CONVERSION OF PREFERRED STOCK.

Consequences to U.S. Holders of Preferred Stock or Common Stock

Distributions. The amount of any distribution to you with respect to preferred stock or common stock will be treated as a dividend, taxable as ordinary income to you, to the extent of our current or accumulated earnings and profits ("earnings and profits") as determined under U.S. federal income tax principles. To the extent the amount of such distribution exceeds our earnings and profits, the excess will be applied against and will reduce your adjusted tax basis (on a dollar-for-dollar basis) in the preferred stock or common stock, as the case may be. Any amount in excess of your tax basis will be treated as capital gain.

Dividends to Individual Shareholders. If you are an individual, for taxable years beginning on or before December 31, 2008, dividends on the preferred stock or common stock will be taxed at special reduced rates, the maximum U.S. federal tax rate being 15%, if the holder has held the shares of stock for more than 60 days during the 121-day period beginning 60 days before the Code section 246(c) ex-dividend date and other requirements applicable to "qualified dividend income" are satisfied. Dividends on the preferred stock attributable to a period or periods aggregating more than 366 days will qualify to be taxed as net capital gain only if holders held their shares more than 90 days during the 181-day period beginning 90 days before the ex-dividend date. You should consult your own tax advisor as to your eligibility for such reduced rates of taxation.

Dividends to Corporate Shareholders. In general, a distribution which is treated as a dividend for U.S. federal income tax purposes and is made to a corporate shareholder with respect to the preferred stock or common stock will qualify for the 70% dividends-received deduction under Section 243 of the Code. In general, the dividends-received deduction is available only if the stock in respect of which a dividend is paid has been held for more than 45 days during the 91-day period beginning on the date which is 45 days before the ex-dividend date, or at least 91 days during the 181-day period beginning on the date which is 90 days before the ex-dividend date in the case of a dividend paid with respect to preferred stock and which is attributable to a period or periods aggregating more than 366 days. A taxpayer's holding period for these purposes is reduced by periods during which the taxpayer's risk of loss with respect to the stock is considered diminished by reason of the existence of options, contracts to sell or other similar transactions. The dividends-received deduction will not be available to the extent that the taxpayer is under an obligation to make related payments with respect to positions in substantially similar or related property. The dividends-received deduction is limited to specified percentages of the holder's taxable income and may be reduced or eliminated if the holder has indebtedness "directly attributable to its investment" in the stock.

Prospective corporate purchasers of convertible preferred stock should consult their own tax advisors to determine whether these limitations might apply to them. No assurance can be given that we will have sufficient earnings and profits for federal income tax purposes to cause all or any portion of the distributions from us to be taxable as dividends. As a result, no assurance can be given that any distribution on the preferred stock or common stock will be treated as a dividend for which the dividends-received deduction will be available.

If distributions with respect to the preferred stock or common stock exceed our earnings and profits, the excess will be applied against and reduce the holder's basis in the preferred stock or common stock, as applicable. Any amount in excess of the amount of the dividend and the amount applied against basis will be treated as capital gain.

Extraordinary Dividends. If a corporate holder of preferred stock or common stock receives an "extraordinary dividend" from us with respect to stock which it has not held for more than two years before the dividend announcement date, the basis of the stock will be reduced (but not below zero) by the portion of the dividend which is not taxable because of the dividends-received deduction. If, because of the limitation on reducing basis below zero, any amount of the non-taxable portion of an extraordinary dividend has not been applied to reduce basis, such amount will be treated as gain from the sale or exchange of stock in the taxable year in which the extraordinary dividend is received. An "extraordinary dividend" on the preferred or common stock would include a dividend that (i) equals or exceeds 5%, in the case of the preferred stock, or 10%, in the case of the common stock, of the holder's adjusted basis in the stock, treating all dividends having ex-dividend dates within an 85-day period as one dividend, or (ii) exceeds 20% of the holder's adjusted basis in the stock, treating all dividends having ex-dividend dates within a 365-day period as one dividend. A holder may elect to use the fair market value of the stock rather than its adjusted basis for purposes of applying the 5%, 10% or 20% limitation if the holder is able to establish such fair market value to the satisfaction of the IRS. An "extraordinary dividend" also includes any amount treated as a dividend in the case of a redemption of the preferred stock or common stock that is not pro rata to all shareholders, irrespective of the holder's holding period of the stock.

Special rules apply with respect to "qualified preferred dividends." A qualified preferred dividend is any fixed dividend payable with respect to stock which (i) provides for fixed preferred dividends payable no less often than annually and (ii) is not in arrears as to dividends when acquired, provided the actual rate of return on such stock does not exceed 15%. For this purpose, the actual rate of return is determined solely by taking into account dividends during such holding period and by using the lesser of the adjusted basis or the liquidation preference in respect of such preferred stock. Where a qualified preferred dividend exceeds the 5% or 20% limitation described above, the extraordinary dividend rules will not apply if the taxpayer holds the stock for more than five years. If the taxpayer disposes of the stock before it has been held for more than five years, the aggregate reduction in basis will not exceed the excess of the qualified preferred dividends paid on such stock during the period held by the taxpayer over the qualified preferred dividends that would have been paid during such period on the basis of the stated rate of return as determined under section 1059(e)(3) of the Code. The length of time that a taxpayer is deemed to have held stock for this purpose is determined under principles similar to those applicable for purposes of the dividends-received deduction discussed above. Qualified preferred dividends do not include amounts treated as a dividend as a result of non-pro rata redemptions of preferred stock or common stock.

Any loss on the sale or exchange of stock with respect to which an individual holder has received an extraordinary dividend that is also qualified dividend income (see "Distributions to Individual Shareholders" above) will be treated as long-term capital loss to the extent of the dividend. The deductibility of capital losses is limited.

Sale or Other Disposition. Upon a sale or other disposition of preferred stock or common stock (other than an exchange of preferred stock for common stock pursuant to the conversion privilege), you generally will recognize capital gain or loss equal to the difference between the amount of cash and the fair market value of property you receive on the sale or other disposition and your adjusted tax basis in the preferred stock or common stock. Such capital gain or loss will be long-term capital gain or loss if your holding period for the

preferred stock or common stock, as applicable, is more than one year. Long-term capital gains are currently taxable at a maximum U.S. federal tax rate of 15% in the case of individuals and 35% in the case of corporations. The deductibility of capital losses is subject to limitations.

Redemption of Preferred Stock For Cash. A redemption of shares of preferred stock by us for cash will be treated as a distribution taxable as a dividend (and, in the case of a corporate holder, as an "extraordinary dividend") (see "Distributions", "Dividends to Individual Shareholders", "Dividends to Corporate Shareholders" and "Extraordinary Dividends" above) to redeeming shareholders to the extent of our earnings and profits (and to the extent of any portion of such distribution that is in excess of earnings and profits, as return of capital to the extent of basis, and thereafter, as capital gain) unless the redemption:

- results in a complete termination of the shareholder's interest in us (within the meaning of section 302(b)(3) of the Code);
- is "substantially disproportionate" (within the meaning of section 302(b)(2) of the Code) with respect to the holder; or
- is "not essentially equivalent to a dividend" (within the meaning of section 302(b)(1) of the Code).

In determining whether any of these tests has been met, shares considered to be owned by the holder by reason of the constructive ownership rules set forth in section 318 of the Code, as well as shares actually owned, will be taken into account. If any of the foregoing tests is met, the redemption of shares of preferred stock for cash will result in taxable gain or loss equal to the difference between the amount of cash received (except cash attributable to accrued, unpaid, declared dividends, which will be taxable as a dividend described above), and the holder's basis in the redeemed shares. Any such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period exceeds one year. Long-term capital gains are currently taxable at a maximum rate of 15% in the case of individuals and 35% in the case of corporations. The deductibility of capital losses is subject to limitations.

Conversion of Preferred Stock in Exchange for Common Stock. You generally will not recognize gain or loss by reason of receiving common stock in exchange for preferred stock upon conversion of the preferred stock, except gain or loss will be recognized with respect to any cash received in lieu of fractional shares and the fair market value of any shares of common stock attributable to dividend arrearages will be treated as a constructive distribution as described above under "Distributions." The adjusted tax basis of the common stock (including fractional share interests) so acquired (excluding any common stock received that is attributable to dividend arrearages) will be equal to the tax basis of the shares of preferred stock exchanged and the holding period of the common stock received will include the holding period of the preferred stock exchanged. The adjusted tax basis of any common stock treated as received in a constructive distribution will be equal to its fair market value on the date of the exchange and the holding period for such common stock will begin the day after the date of the exchange.

Adjustment of Conversion Price. Holders of preferred stock may, in certain circumstances, be deemed to have received constructive distributions of stock if the conversion rate for the preferred stock is adjusted. Adjustments to the conversion price made pursuant to a bona fide reasonable adjustment formula which has the effect of preventing the dilution of the interest of the holders of the preferred stock, however, generally will not be considered to result in a constructive distribution of stock. Certain of the possible adjustments provided in the anti-dilution provisions of the preferred stock, including, without limitation, adjustments in respect of stock dividends or the distribution of rights to subscribe for common stock should qualify as being pursuant to a bona fide reasonable adjustment formula and should not result in a constructive distribution. In contrast, adjustments in respect of distributions of our indebtedness or assets to our stockholders, for example, will not qualify as being pursuant to a bona fide reasonable adjustment formula. In addition, any adjustment triggered by a "fundamental change" as described under "Description of Preferred Stock" may not so qualify. If such adjustments are made, the holders generally will be deemed to have received constructive distributions in amounts based upon the increase, if any, of the value of such holders' interests in our equity resulting from such adjustments. Certain *de minimis* adjustments will not be taken into account for this purpose. The amount of the distribution will be treated as a distribution to a holder with the tax consequences specified above under "Distributions." Accordingly, you could be considered to have received distributions taxable as dividends to

the extent of our earnings and profits even though you did not receive any cash or property as a result of such adjustments.

Conversion of Preferred Stock After Dividend Record Date. If a holder exercises its right to convert the preferred stock into shares of common stock after a dividend record date but before payment of the dividend, then upon conversion, the holder generally will be required to pay to us in cash an amount equal to the portion of such dividend attributable to the current quarterly dividend period, which amount would increase the tax basis of the common stock received. When the dividend is received, the holder would recognize the dividend payment in accordance with the rules described under "— Distributions" above.

Backup Withholding. Under the backup withholding provisions of the Code and applicable Treasury Regulations, you may be subject to backup withholding with respect to dividends paid on, or the proceeds of a sale, exchange or redemption of, preferred stock or common stock unless:

- you are a corporation or come within certain other exempt categories and when required demonstrate this fact, or
- within a reasonable period of time, you provide a taxpayer identification number, certified under penalties of perjury as well as certain other information or otherwise establish an exemption from the backup withholding rules.

The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. Federal income tax liability and may entitle you to a refund, provided that the required information is furnished to the Internal Revenue Service.

Consequences to Non-U.S. Holders of Preferred or Common Stock

Dividends. In general, dividends received by you with respect to our preferred stock or common stock will be subject to withholding of U.S. Federal income tax at a 30% rate, unless such rate is reduced by an applicable income tax treaty. Dividends that are effectively connected with your conduct of a trade or business in the United States (and if a tax treaty applies, dividends that are attributable to a U.S. permanent establishment) are generally subject to U.S. Federal income tax on a net income basis and are exempt from the 30% withholding tax (assuming compliance with certain certification requirements). Any such effectively connected dividends received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be applicable under an income tax treaty.

For purposes of obtaining a reduced rate of withholding under an income tax treaty, you generally will be required to provide a U.S. taxpayer identification number as well as certain information concerning your country of residence and entitlement to tax treaty benefits. Generally, this will be accomplished by providing a properly executed IRS Form W-8BEN. If you instead are claiming an exemption from withholding with respect to dividends effectively connected with the conduct of a trade or business within the United States, you will be required to provide an appropriate certification to us or our paying agent (generally by providing a properly completed IRS Form W-8ECI).

Sale or Other Disposition. As a non-U.S. Holder, you generally will not be subject to U.S. Federal income tax on any gain recognized on the sale or other disposition of preferred stock or common stock unless:

- the gain is considered effectively connected with the conduct of a trade or business by you within the United States and, where a tax treaty applies, is attributable to a U.S. permanent establishment of yours (and, in which case, if you are a foreign corporation, you may be subject to an additional branch profits tax equal to 30% or a lower rate as may be specified by an applicable income tax treaty)
- you are an individual who holds the preferred stock or common stock as a capital asset and are present in the United States for 183 or more days in the taxable year of the sale or other disposition and other conditions are met; or
- we are or have been, within a 5-year period ending on the date of your disposition of preferred stock or common stock, a "United States real property holding corporation," or a USRPHC, for U.S. federal income tax purposes.

We do not believe we are or have been in the last five years a USRPHC or that we will become a USRPHC in the future. However, there can be no assurances that the Internal Revenue Service may not take an adverse position. If the IRS determines that we are a USRPHC, then the tax consequences to certain Non-U.S. holders may be affected. In general, gain on the sale or other disposition of stock of a USRPHC that is regularly traded on an established securities market will be subject to U.S. federal income tax only in the case of a holder that owns more than 5% of that class of stock at any time during the five-year period ending on the date of disposition. If a non-regularly traded class of stock is convertible into a regularly traded class of stock, gain on the sale of that non-regularly traded stock will be subject to U.S. federal income tax only if, on any date on which such stock was acquired by the holder, the non-regularly traded stock acquired by such holder (including all previously acquired stock of the same class) had a fair market value greater than 5% of the regularly traded class of the corporation's stock into which it is convertible.

Although it is possible that, in the future, the preferred stock will be listed on an established securities market, there can be no assurance that such stock will be listed or, if listed, that it will qualify as "regularly traded" under the relevant rules. If the preferred stock is so listed and if it is considered to be "regularly traded," gain recognized by a holder that owns more than 5% of the preferred stock at any time during the five year period ending on the date of disposition would be subject to U.S. federal income tax. If the preferred stock is not listed on an established securities market, or, if listed, does not qualify as "regularly traded," gain recognized on a sale of preferred stock would be subject to U.S. federal income tax only in the case of a holder that owned, as of the date of any acquisition of such preferred stock, an amount of preferred stock having a fair market value greater than 5% of the common stock into which it is convertible.

Non-U.S. holders that may be treated as beneficially owning more than 5% of our preferred or common stock should consult their own tax advisors with respect to the United States tax consequences of the ownership and disposition of preferred or common stock.

Redemption of Preferred Stock for Cash. Upon a redemption of the preferred stock for cash, we may be required to withhold tax on the entire amount of the proceeds at a 30% rate or lower treaty rate applicable to dividends unless a Non-U.S. holder is able to demonstrate to our satisfaction that such redemption or exchange satisfies the section 302 tests discussed above with respect to such Non-U.S. holder (see "Consequences to U.S. Holders of Preferred Stock or Common Stock — Redemption of Preferred Stock for Cash" above).

Conversion of Preferred Stock in Exchange for Common Stock. You generally will not recognize any gain or loss by reason of receiving common stock in exchange for preferred stock upon conversion of the preferred stock, except gain or loss will be recognized with respect to any cash received in lieu of fractional shares, as described above under "Sale or Other Disposition," and the fair market value of any shares of common stock attributable to dividend arrearages will be treated as a constructive distribution, and will be taxable, as described above under "Dividends," to you to the extent of our earnings and profits.

Information Reporting and Backup Withholding. We must report annually to the IRS and to you the amount of dividends paid to you (including the amount of any constructive dividends) regardless of whether withholding was required, and the amount of any tax withheld with respect to those dividends. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty or other applicable agreements.

Backup withholding is generally imposed on certain payments to persons that fail to furnish the necessary identifying information to the payor. You generally will be subject to backup withholding tax with respect to dividends paid on your preferred stock or common stock unless you certify your non-U.S. status, provided we do not have actual knowledge or reason to know that you are a U.S. holder.

The payment of proceeds of a sale of preferred stock or common stock effected by or through a U.S. office of a broker is subject to both backup withholding and information reporting unless you provide the payor with your name and address and you certify under penalties of perjury as to your non-U.S. status or you otherwise establish an exemption. In general, backup withholding and information reporting will not apply to the payment of the proceeds of a sale of preferred stock or common stock by or through a foreign office of a

broker. If, however, such broker is, for U.S. federal income tax purposes, a United States person, a controlled foreign corporation, a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, or, a foreign partnership that at any time during its tax year either is engaged in the conduct of a trade or business in the United States or has as partners one or more United States persons that, in the aggregate, hold more than 50% of the income or capital interest in the partnership, such payments will be subject to information reporting, but not backup withholding, unless such broker has documentary evidence in its records that you are a non-U.S. Holder and certain other conditions are met or you otherwise establish an exemption.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished in a timely manner to the IRS.

THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO YOU IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES THAT WOULD RESULT FROM YOUR PURCHASE, OWNERSHIP AND DISPOSITION OF THE PREFERRED STOCK AND ANY COMMON STOCK RECEIVED UPON ITS CONVERSION, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

SELLING SECURITYHOLDERS

We originally issued 325,000 shares of the preferred stock in a private placement on March 15, 2005 and, pursuant to the initial purchasers' exercise of their over-allotment option, an additional 25,000 shares on March 22, 2005. The preferred stock was resold by the initial purchasers to persons they reasonably believed to be qualified institutional buyers within the meaning of Rule 144A under the Securities Act or to non U.S. persons in offshore transactions in reliance on Regulation S, in either case in transactions exempt from registration under the Securities Act.

This prospectus covers sales, by the selling securityholders named below, of preferred stock and shares of common stock issued upon conversion of the preferred stock. The selling securityholders purchased their preferred stock from the initial purchasers or from subsequent holders in transactions exempt from registration under the Securities Act. Selling securityholders who are selling common stock that was issued upon conversion of shares of the preferred stock acquired such common stock from us upon conversion of their previously acquired preferred stock or from the initial purchasers or from subsequent holders in transactions exempt from registration under the Securities Act.

The preferred stock and the shares of common stock issuable upon conversion of the preferred stock that may be offered pursuant to this prospectus will be offered by the selling securityholders, which includes their transferees, distributees, pledgees or donees or their successors. Selling securityholders may from time to time offer and sell pursuant to this prospectus any or all of the preferred stock and common stock into which the preferred stock is convertible. The following table sets forth certain information we have received as of April 3, 2006, concerning the number of shares of preferred stock beneficially owned by each selling securityholder and the number of shares of common stock that may be offered from time to time pursuant to this prospectus.

The number of shares of common stock shown in the table below assumes conversion of all shares of preferred stock held by such holder at the initial conversion rate of 26.1438 shares per $200 liquidation price. This conversion rate is subject to certain adjustments. Accordingly, the number of shares of common stock issuable upon conversion of the preferred stock may increase or decrease from time to time. Under the terms of the preferred stock, fractional shares will not be issued upon conversion of the preferred stock. Cash will be paid instead of fractional shares, if any. The selling securityholders may offer all, some or none of the preferred stock or common stock into which the preferred stock is convertible. Because the selling securityholders may offer all or some portion of the preferred stock or the shares of common stock issuable upon conversion of the preferred stock pursuant to this prospectus, no estimate can be given as to the amount of preferred stock or common stock that will be held by the selling securityholders upon completion of all sales. In addition, the selling securityholders identified below may have sold, transferred or otherwise disposed of all or a portion of their preferred stock in transactions exempt from the registration requirements of the Securities Act since the date on which they provided information to us regarding their holdings.

We have prepared this table using information furnished to us by or on behalf of the selling securityholders. We have not sought to verify such information. Except as otherwise indicated below, to our knowledge, no selling securityholder nor any of its affiliates has held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior to the date of this prospectus. Information about the selling securityholders may change over time. Any changed information given to us by the selling securityholders will be set forth in a prospectus supplement or an amendment to the registration statement of which this prospectus is a part if and when necessary.

Full Legal Name of Selling Securityholder	Number of Shares of Preferred Stock Beneficially Owned and Offered Hereby	% of Preferred Stock Outstanding	Shares of Common Stock Beneficially Owned Before Offering(2)	Conversion Shares of Common Stock Offered Hereby(3)	Common Stock Owned Upon Completion of the Offering(1)	
					Number of Shares	% of Class(4)
Akela Capital Master Fund, Ltd.	33,000	9.43%	0	862,745	0	*
Aloha Airlines Non-Pilots Pension Trust	165	*	0	4,313	0	*
Bancroft Convertible Fund, Inc.	13,000	3.71%	0	339,869	0	*
BNP Paribas Equity Strategies, SNC	16,902	4.83%	0	441,882	0	*
Boilermakers Blacksmith Pension Trust	5,960	1.70%	0	155,817	0	*
C&H Sugar Company Inc.	225	*	0	5,882	0	*
CooperNeff Convertible Strategies (Cayman) Master Fund, LP	4,833	1.38%	0	126,352	0	*
Credit Suisse First Boston LLC	47,335	13.52%	0	1,237,516	0	*
DBAG London	30,000	8.57%	0	784,314	0	*
Delta Airlines Master Trust	1,300	*	0	33,986	0	*
Duke Endowment	1,175	*	0	30,718	0	*
Ellsworth Convertible Growth and Income Fund, Inc.	10,000	2.86%	0	261,438	0	*
Highbridge International LLC	50,000	14.29%	0	1,307,190	0	*
ING Convertible Fund	9,500	2.71%	0	248,366	0	*
ING VP Convertible Portfolio	500	*	0	13,071	0	*
Linden Capital LP	35,884	10.25%	0	938,144	0	*
Lyxor/ Convertible Arbitrage Fund Limited	1,539	*	0	40,235	0	*
MFS Total Return, A Series of MFS Series Trust V	2,100	*	0	54,901	0	*
Pioneer High Yield Fund	60,000	17.14%	1,250,048	1,568,628	1,250,048	3.54%
Raytheon Multi Strategy Fund	1,972	*	0	51,555	0	*
Singlehedge US Convertible Arbitrage Fund	1,512	*	0	39,529	0	*
Sturgeon Limited	2,214	*	0	57,882	0	*
UBS AG London Branch F/B/O USSY	10,000	2.86%	0	261,438	0	*
Vicis Capital Master Fund	50,000	14.29%	0	1,307,190	0	*
All other holders of preferred stock (and future transferees, distributees, pledgees, donees or successors of such holders)(5)	(39,116)	(11.18)%	0(6)	(1,022,640)	0(6)	*

Total(7)	350,000	100%	1,250,048	9,150,330	1,250,048	2.91%

* Less than 1%.

(1) Assumes the sale of all shares of preferred stock and all shares of common stock offered pursuant to this prospectus. Percentages are based on 33,712,012 shares of our common stock outstanding as of January 11, 2006.

(2) Figures in this column are based solely on information provided to us by selling securityholders and do not include the shares of common stock issuable upon conversion of the preferred stock listed in the column entitled "Conversion Shares of Common Stock Offered Hereby."

(3) Represents shares of common stock into which the preferred stock is convertible and assumes the initial conversion rate of 26.1438 shares per $200 liquidation price. Fractions have been rounded down to the nearest whole share, as no fractional shares will be issued upon conversion of the preferred stock. The number of common stock shares issuable upon conversion is subject to increase or decrease pursuant to the terms of the preferred stock.

(4) For purposes of this calculation, the shares issuable to the specific selling securityholder upon conversion of the preferred stock have been added to the denominator, but the shares of common stock issuable to other selling securityholders upon conversion are excluded from the denominator.

(5) Information concerning other selling securityholders will be set forth in a prospectus supplement or an amendment to the registration statement of which this prospectus is a part if and when necessary. Totals in these columns may exceed the total number of shares of preferred stock and common stock offered by this prospectus as a result of selling securityholders identified above having sold, transferred or otherwise disposed of some or all of their shares of preferred stock since the date on which the information in the preceding table was provided in transactions exempt from the registration requirements of the Securities Act and without informing us of such sale(s). In no event will the number of shares of preferred stock offered by this prospectus exceed 350,000. Similarly, the total number of shares issuable upon the conversion of all the preferred stock may increase or decrease due to adjustments to the conversion rate. Pursuant to Rule 416 under the Securities Act, the registration statement of which this prospectus is a part also covers any additional shares of our common stock which become issuable in connection with such shares because of any stock dividend, stock split, recapitalization or other similar transaction effected without the receipt of consideration which results in an increase in the number of outstanding shares of our common stock.

(6) Assumes that all other holders of preferred stock (and future transferees, distributees, pledgees, donees or successors of such holders) do not beneficially own any shares of common stock other than the shares issuable upon conversion of the preferred stock.

(7) Amounts may not sum due to rounding.

PLAN OF DISTRIBUTION

The preferred stock and the underlying common stock are being registered to permit public secondary trading of these securities by the holders thereof from time to time after the date of this prospectus. We cannot assure you that the selling securityholders will sell all or any portion of the securities offered hereby. We will not receive any proceeds from the sale by selling securityholders of the preferred stock or the underlying common stock offered by this prospectus.

The preferred stock and the underlying common stock may be sold directly by selling securityholders and their successors, which include their transferees, distributees, pledgees or donees or their successors or, alternatively, through underwriters, broker-dealers or agents, in one or more transactions at:

- fixed prices;
- prevailing market prices at the time of sale;
- prices related to such prevailing market prices;

- varying prices determined at the time of sale; or
- negotiated prices.

The selling securityholders may sell the securities by one or more of the following methods, without limitation:

- on any national securities exchange or quotation service on which the preferred stock or the common stock may be listed or quoted at the time of sale;
- in the over-the-counter market;
- in transactions otherwise than on such exchanges, quotation services or in the over-the-counter market;
- block trades in which the broker or dealer so engaged will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- cross transactions in which the same broker or dealer acts as agent on both sides of the transaction;
- purchases by a broker or dealer as principal and resale by the broker or dealer for its own account pursuant to this prospectus;
- an exchange distribution in accordance with the rules of any stock exchange on which the securities are listed;
- ordinary brokerage transactions and transactions in which the broker solicits purchases;
- privately negotiated transactions;
- through the settlement of short sales;
- through the writing of options (including the issuance of derivative securities by a selling securityholder) whether or not the options or such other derivative securities are listed on an options exchange or otherwise;
- through the distribution of the securities by any selling securityholder to its partners, members or stockholders;
- one or more underwritten offerings on a firm commitment or best efforts basis; or
- any combination of any of these methods of sale.

The selling securityholders may also transfer the securities by gift. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. We do not know of any arrangements by the selling securityholders for the sale of any of the securities.

The selling securityholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the securities. These brokers, dealers or underwriters may act as principals, or as an agent of a selling securityholder. Broker-dealers may agree with a selling securityholder to sell a specified number of the securities at a stipulated price per security. If the broker-dealer is unable to sell securities acting as agent for a selling securityholder, it may purchase as principal any unsold securities at the stipulated price. Broker-dealers who acquire securities as principals may thereafter resell the securities from time to time in transactions in any stock exchange or automated interdealer quotation system on which the securities are then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above.

Underwriters, broker-dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling securityholders or the purchasers. These discounts, concessions or commissions may be in excess of those customary in the types of transactions involved.

Selling securityholders may enter into hedging or other derivative transactions with broker-dealers or other financial institutions which may in turn engage in short sales of the preferred stock or the underlying

common stock in the course of the hedging transactions they assume. A selling securityholder may enter into option or other transactions with broker-dealers that involve the delivery of the securities offered hereby to the broker-dealers, who may then resell or otherwise transfer those securities. Selling securityholders may also sell the preferred stock or the underlying common stock short and deliver these securities to close out such short positions, or loan or pledge the preferred stock or the common stock into which the preferred stock is convertible to broker-dealers that in turn may sell or otherwise transfer the pledged securities offered hereby.

From time to time, the selling stockholders may transfer, donate, or assign some or all of their securities to lenders or others, and each of such persons will be deemed to be a "selling securityholder" for purposes of this prospectus. The number of securities beneficially owned by the selling securityholders will decrease as and when they take such actions. The plan of distribution for the selling securityholders' shares of common stock sold under this prospectus will otherwise remain unchanged, except that the transferees, donees, and other successors will be selling securityholders hereunder. The selling securityholders may, from time to time, pledge or grant a security interest in some or all of the securities owned by them. If they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the securities under this prospectus, or under a supplement or an amendment to this prospectus amending the list of selling securityholders to include the pledgee, transferee or other successors-in-interest as selling securityholders under this prospectus.

The aggregate proceeds to the selling securityholders from the sale of the preferred stock or underlying common stock will be the purchase price of the preferred stock or common stock less discounts or commissions, if any. Each of the selling securityholders reserves the right to accept and, together with their agents, to reject, in whole or in part any proposed purchase of preferred stock or common stock to be made directly or through agents. We will not receive any of the proceeds from this offering. The number of a selling securityholder's securities offered under this prospectus will decrease as and when it takes such actions. The plan of distribution for that selling securityholder's securities will otherwise remain unchanged.

Our outstanding common stock is listed for trading on the New York Stock Exchange under the symbol "SEN." Any shares of preferred stock sold by means of this prospectus will no longer be eligible for trading in PORTAL. We do not intend to list the preferred stock for trading on any national securities exchange or for inclusion in any automated quotation system. Therefore, we cannot guarantee that any trading market will develop for the preferred stock. Even if a market does develop, the market may not be maintained.

The preferred stock and underlying common stock may be sold in some states only through registered or licensed brokers or dealers. In addition, in some states the preferred stock and underlying common stock may not be sold unless they have been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

The selling securityholders and any underwriters, brokers, dealers or agents that participate in the sale of the preferred stock and underlying common stock may be deemed to be underwriters within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions, fees or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. We cannot presently estimate the amount of such compensation, if any. Selling securityholders who are underwriters within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. We will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling securityholders for the purpose of satisfying the prospectus delivery requirements.

The selling securityholders have acknowledged that they understand their obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation including, but not limited to, Regulation M, and have agreed that they will not engage in any transaction in violation of such provisions. This regulation may limit the timing of purchases and sales of any of the securities by the selling securityholders and any other person. The anti-manipulation rules under the Securities Exchange Act of 1934 may apply to sales of securities in the market and to the activities of the selling securityholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making activities with respect to the particular securities being distributed for a

period of up to five business days before the distribution. These restrictions may affect the marketability of the securities and the ability of any person or entity to engage in market-making activities with respect to the securities. Based on the information provided to us by the selling securityholders, we know of no existing arrangements between any selling securityholder, any other selling securityholder, broker, dealer, underwriter or agent relating to the sale or distribution of the securities.

If required, the specific preferred stock or common stock to be sold, the names of the selling securityholders, the respective purchase prices and public offering prices, the names of any agent, broker, dealer or underwriter, and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part.

The registration rights agreement provides for cross-indemnification of the selling securityholders and us and their and our respective controlling persons against certain liabilities, including certain liabilities under the Securities Act or contribution in connection with these liabilities.

We have agreed to pay substantially all of the expenses incidental to the registration, offering and sale of the preferred stock and underlying common stock to the public other than applicable transfer taxes and commissions, fees and discounts of underwriters, brokers, dealers and agents.

LEGAL MATTERS

The validity of the preferred stock and the shares of our common stock issuable upon conversion of the preferred stock has been passed upon for us by Mark T. Prendeville, Deputy General Counsel of SEMCO Energy, Inc.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control Over Financial Reporting) incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2005 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the SEC, using a “shelf” registration, or continuous offering, process. Under this shelf registration process, the selling securityholders may, from time to time, sell the securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the securities which may be offered by the selling securityholders. Each time a selling securityholder sells securities, the selling securityholder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling securityholder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under “Where You Can Find More Information.”

For more detailed information about the securities, you can read the exhibits to the registration statement of which this prospectus is a part. Those exhibits have been either filed with the registration statement or with our other SEC filings incorporated by reference in the registration statement.

You should rely only on the information contained in, or incorporated by reference in, this prospectus and any prospectus supplement. We have not, and each selling securityholder has not, authorized anyone else to provide you with different information. We are not, and each selling securityholder is not, making an offer of these securities or soliciting offers to buy these securities in any state where the offer or solicitation is not permitted. You should not assume that the information contained in this prospectus and any prospectus supplement is accurate as of any date other than the date on the front of such document or that the information incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date of filing of that document incorporated by reference. Our business, financial position, results of operations and prospects may have changed since those dates.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements made in this prospectus and other documents we file with the SEC that relate to future events or our expectations, projections, estimates, intentions, goals, targets and strategies are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical facts, including without limitation, statements about our outlook, beliefs, plans, goals, and expectations, are forward-looking statements. In addition, forward-looking statements generally can be identified by use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially from the expectations described in these statements. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot provide any assurance that these expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations are described in the Risk Factors section in this prospectus and include:

- the effects of weather and other natural phenomena (including the effects of these phenomena on customer consumption);
- the economic climate and growth in the geographical areas where we do business;
- the capital intensive nature of our business;
- the operational risks associated with operating businesses involved in the storage, transportation and distribution of natural gas and propane;
- competition within the energy industry as well as from alternative forms of energy;
- the timing and extent of changes in commodity prices for natural gas and propane and the resulting changes in, among other things, our working capital requirements, customer rates and customer gas consumption;
- the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates;
- the adequacy of authorized rates to compensate us, on a timely basis, for the costs of doing business, including the cost of capital, and the amount of any cost disallowances;
- our ability to procure our gas supply on reasonable credit terms;
- the availability of long-term gas supplies in the Cook Inlet region of Alaska;
- the amounts and terms of our debt and our credit ratings;
- our ability to remain in compliance with our debt covenants and accomplish our financing objectives in a timely and cost-effective manner;
- our ability to maintain an effective system of internal control;
- our ability to execute our strategic plan effectively, including the ability to make acquisitions and investments on reasonable terms and the reasonableness of any conditions imposed on those transactions by governmental and regulatory agencies;
- our ability to conclude litigation and other dispute resolution proceedings on reasonable terms;
- our ability to utilize our net operating loss carry-forwards for federal income tax purposes; and
- changes in the performance of certain assets, which could impact the carrying amount of our existing goodwill.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this prospectus and our reports filed with the SEC and incorporated by reference herein that attempt to advise interested parties of the risks and factors that may affect our business.

For a detailed discussion of the important factors that affect us and that could cause actual results to differ from those expressed or implied by our forward-looking statements, please see "Risk Factors" above and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosure About Market Risk" contained in certain of the documents incorporated by reference in this prospectus.

TRADEMARKS

SEMCO® and our "Flame Design" trademark are our registered trademarks in the United States and Canada pursuant to applicable intellectual property laws and are the property of us and our subsidiaries. This prospectus also includes trademarks, service marks and trade names of other companies. Our use or display of other companies' trademarks, service marks or trade names is not intended to and does not imply a relationship with, or endorsement or sponsorship of us by, such other companies.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Such reports and other information can be inspected and copied at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants including us that file electronically at http://www.sec.gov. In addition, reports and other material concerning SEMCO can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

DOCUMENTS INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with the SEC (File No. 001-15565). This permits us to disclose important information to you by referring to these filed documents. We incorporate by reference:

- our Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 14, 2006;

All documents filed by us with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the initial filing of the registration statement and prior to the effectiveness of the registration statement and subsequent to the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus and made a part of this prospectus from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. Information in any of our current reports on Form 8-K

furnished under “Results of Operations and Financial Condition” shall not be incorporated by reference into this prospectus.

You may request a copy of these filings at no cost by writing or telephoning us at the following address:

SEMCO Energy, Inc.
1411 Third Street, Suite A
Port Huron, Michigan 48060
(810) 987-2200
Attn: Corporate Secretary

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