



# STAYING POWER

Summary Annual Report 2004

150 years of growing with our communities



VISIONARY • DEDICATED  
ACCOUNTABLE • REPUTABLE  
CONNECTED • CONFIDENT



SUPPORTIVE • STRONG  
PROACTIVE • PRUDENT  
RESPONSIBLE • STEADFAST



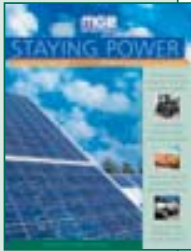
INNOVATIVE • COMMITTED  
INDEPENDENT • AGILE  
RESOURCEFUL • FLEXIBLE



PROMPT • RELIABLE  
DEPENDABLE • CARING  
DILIGENT • RESPONSIVE

Solar panels turn sunlight into electricity

About the Cover



OUR ROOTS DATE BACK TO 1855, WHEN A FEW VISIONARY, BOLD LEADERS LAUNCHED THE MADISON GAS LIGHT AND COKE CO. TODAY, WE CELEBRATE OUR FUNDAMENTAL VALUES THAT HAVE ENERGIZED GROWTH.

- PRODUCING SOLID FINANCIAL RESULTS
- ENGAGING CUSTOMERS
- PLANNING CAREFULLY
- DELIVERING DEPENDABLE SERVICE
- APPLYING INNOVATIVE SOLUTIONS

THESE ARE HALLMARKS OF OUR STAYING POWER – FROM THE FIRST FLICKER OF GAS LIGHT 150 YEARS AGO TO SOLAR TECHNOLOGY TODAY. WE TAKE SERIOUSLY OUR RESPONSIBILITY TO BE A GOOD COMMUNITY MEMBER.



150 years of STAYING POWER

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MGE Energy

MGE Energy is an investor-owned public utility holding company headquartered in Madison, Wis. MGE Energy is the parent company of Madison Gas and Electric Co. The utility provides highly reliable natural gas and electric service and promotes economic development in south-central and western Wisconsin. In 2004, MGE Energy's assets exceeded \$827 million and revenues were nearly \$425 million. See the MGE Energy Corporate Profile on page 21.

Mushroom Growth Marks History of Gas, Electric Co.

*"Even a cursory examination of its operating history evokes a wholesome respect for the constant managerial ability to make the business pay and pay well while other utilities were floundering through alternate waves and troughs of profit and loss."*

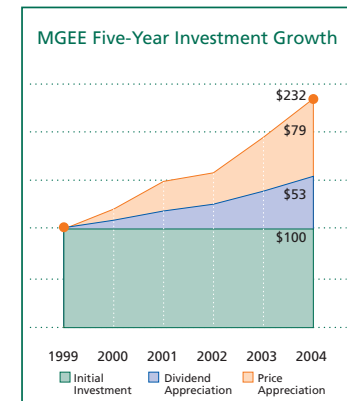
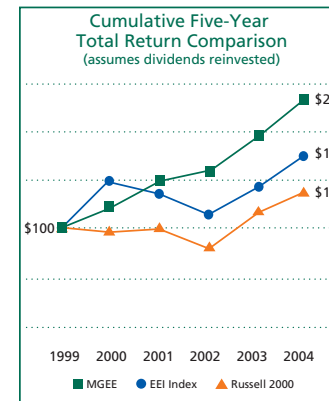
— Wisconsin State Journal, March 1934

MGE Energy (MGEE)

Year at a Glance

(Thousands, except per-share amounts)

	2004	2003	Increase/ (Decrease)	Change
Operating Revenues	\$ 424,881	\$ 402,570	\$ 22,311	5.5%
Net Income	\$ 33,840	\$ 30,640	\$ 3,200	10.4%
Basic and Diluted Earnings Per Share	\$ 1.77	\$ 1.71	\$ 0.06	3.5%
Dividend Paid Per Share	\$ 1.36	\$ 1.35	\$ 0.01	0.7%
Dividend Payout Ratio	76.8%	78.9%	-2.1%	-2.7%
Average Shares Outstanding	19,119	17,894	1,225	6.8%
Shares Outstanding at Year End	20,390	18,344	2,046	11.2%
Return on Average Common Equity	11.4%	12.2%	-0.8%	-6.6%
Book Value Per Share	\$ 16.59	\$ 14.34	\$ 2.25	15.7%
Market Price (Dec. 31)	\$ 36.03	\$ 31.45	\$ 4.58	14.6%
Total Market Value (Dec. 31)	\$ 734,652	\$ 576,919	\$ 157,733	27.3%
Total Assets	\$ 827,371	\$ 725,158	\$ 102,213	14.1%
Total Electric Sales (kwh)	3,144,182	3,182,319	(38,137)	-1.2%
Total Gas Deliveries (therms)	221,612	230,359	(8,747)	-3.8%



For detailed financial information, see the 2004 MGE Energy Form 10-K.



We celebrate the

# STAYING POWER

of a tenacious community energy company that thrives on fundamental values.



## To Our Shareholders

July 2005 marks 150 years since our predecessor company, the Madison Gas Light and Coke Co., introduced gas service in downtown Madison. In this report, we celebrate

the staying power of a tenacious community energy company that thrives on fundamental values. We reflect on past achievements to honor the utility pioneers who laid a solid foundation for growth. And we focus on the values that contributed to our staying power and guide our decisions today.

Gary J. Wolter, Chairman, President and Chief Executive Officer

### UNYIELDING FINANCIAL STRENGTH

Your company's staying power is built on a solid financial base. We responsibly manage resources to meet customers' needs and build long-term value for you, our loyal investors. Our results speak volumes.

MGE Energy produced record earnings of \$1.77 per share in 2004, up 6¢ a share over the previous record set in 2003. For five consecutive years, we have achieved the best financial results in company history. MGE Energy's operations primarily reflect our utility subsidiary, Madison Gas and Electric Co. (MGE).

Our commitment to be a strong income producer has not wavered since we started paying dividends annually in 1909. Our solid financial position allowed your board of directors to increase dividends each year for the past 29 years. Only 120 companies in the nation provided consistent dividend growth for 25 or more years.

### PRODUCING EXEMPLARY RESULTS

MGE Energy's stock price hit \$36.03 per share at the closing bell on Dec. 31, up 15% from year-end 2003. Over the last five years, our stock price rose an impressive 79%. Our outstanding market performance surpassed several major indexes. The Dow Jones Utility Average (DJUA) was up only 18% while the Dow Jones Industrial Average (DJIA), Standard & Poor's (S&P) 500 and Nasdaq posted five-year losses.

Consistent dividend growth and significant gains in value produced an exceptional five-year total return. A \$100 investment in 1999 more than doubled to \$232 in 2004, with dividends reinvested. Our five-year compounded annual average return of 18.3% outpaced the Edison Electric Institute (EEI) and Russell 2000 indexes. The EEI Index ranks our five-year total return among the top 15 mid-small cap utilities in the nation.

MGE Energy's financial performance earned one of Value Line's top ratings for financial strength and its highest ranking for a safe investment. MGE maintained the highest S&P bond rating (AA) of all combination gas and electric utilities in the nation. S&P recognizes several company strengths including our "stable customer base, limited unregulated activities and supportive regulatory environment."

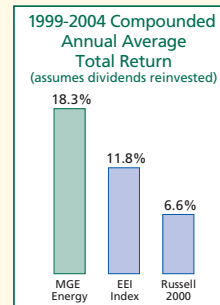
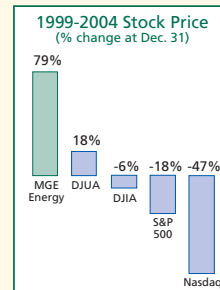
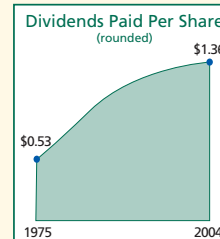
### ENERGIZING A PROSPEROUS ECONOMY

In 2004, *Forbes* and *Inc.* magazines identified Madison as one of the best places in the nation for business. Our customers confirm it. Nonresidential construction in Dane County hit a record \$535 million in 2004. MGE's new commercial service installations increased significantly – up 11.4% for gas and 20% for electric. Low interest rates and a healthy marketplace helped propel Dane County home sales to a record level for the third straight year.

Experts predict our economy will continue its stellar performance. Job growth in Madison is expected to surpass the national average through 2008. And projections show Dane County will add nearly 100,000 residents by 2025. Vibrant economic growth brings new challenges for meeting customers' energy needs and maintaining our exceptional quality of life.



Key gas system projects help meet growing demand – from Madison's east side to western Dane County. MGE Foreman Francis Stanek (left) and Steve Stehling, MGE Manager – Gas Systems Engineering, inspect a new gas main that increases pressure and reliability for fast-growing Mt. Horeb and communities to the west.



INNOVATIVE • VISIONARY

INDEPENDENT • COMMITTED

RESOURCEFUL • FLEXIBLE

PROMPT • RELIABLE

DEPENDABLE • CARING

DILIGENT • RESPONSIVE

PROACTIVE • DEDICATED

ACCOUNTABLE • REPUTABLE

CONNECTED • CONFIDENT

SUPPORTIVE • STRONG

#### FIRING UP A NEW PLANT

MGE is in the final stages of preparing the West Campus Cogeneration Facility (WCCF) to produce up to 150 megawatts (MW) of electricity by the summer of 2005. Located on the University of Wisconsin (UW)-Madison campus, this natural gas-fired plant also will expand the UW's heating and cooling capacity.

Siting WCCF in the heart of Madison required unprecedented collaboration and flexibility. We listened carefully to stakeholders and found solutions. The result is a clean, highly efficient plant that is a vital source of local power.

#### ANTICIPATING GROWTH

MGE has options to own up to 100 MW of power from two clean-coal plants planned in southeastern Wisconsin. In addition, projections show we need another 200 MW of power by 2014 to meet customers' growing demand.

A recent study also confirmed Dane County urgently needs four high-voltage transmission lines over the next 10 years. Environmentalists, public-interest groups and utilities worked side-by-side to evaluate a wide range of alternatives. This effort revealed that transmission lines are needed even with greater conservation.

#### ENGAGING CUSTOMERS

With substantial infrastructure improvements on the horizon, we invited all electric customers to *Community Energy Conversations* meetings. Going neighborhood by neighborhood, we explained the area's energy outlook and asked customers to share their ideas.

No other utility in the country has involved customers to this extent in developing a balanced, reliable energy supply. Our customers' priorities and values will help shape the energy future for our children and grandchildren.



MGE is a national leader in engaging customers in planning for a responsible energy future. At neighborhood meetings, Greg Bollom (left), MGE's Assistant Vice President - Energy Planning, explains the growing need for more power and encourages customers to weigh in with their opinions.

#### HARNESSING MORE WIND POWER

In 2004, we signed a long-term agreement to buy 40 MW of wind energy from a facility proposed in east-central Wisconsin. With this purchase, 5% of MGE's annual energy demand can be met with Wisconsin-based renewable energy sources. Wind farm construction could start in 2005, pending regulatory approval.

#### GOING BEYOND REGULATIONS

MGE was one of the first companies to enroll in the state's Voluntary Emission Reduction Registry. This Department of Natural Resources (DNR) program recognizes efforts that go beyond regulatory compliance. Our achievements include burning paper-derived fuel (PDF) at Blount, operating compressed-natural gas vehicles, using ultra-low sulfur diesel fuel in generators and reducing emissions at our jointly owned coal plant.

Our employees' tireless efforts resulted in Blount Station receiving ISO 14001 certification. Blount is the first power plant in the state to meet this international standard for environmental management.



Our team already achieved some of the plant's voluntary environmental goals. Blount burned a record 14,640 tons of PDF last year. This reduced emissions by replacing about three weeks' worth of coal and saved

landfill space by burning more than 2 million cubic feet of nonrecyclable material. A new contract for recycling fly ash also should keep more than 20,000 tons of this waste out of the landfill each year.

#### ACTING NOW FOR CLEAN AIR

MGE helped launch a public-private partnership that is pioneering a voluntary effort to ensure Dane County continues meeting air-quality standards. The alternative could result in mandatory regulations that would cost area businesses and residents millions of dollars.

The partnership seeks to reduce ground-level ozone (smog). The DNR declares a Clean Air Action Day when conditions indicate ozone levels could get high. Businesses, government agencies, schools and citizens then take steps to reduce air pollution.



Burning a record amount of paper-derived fuel (PDF) at Blount Station in 2004 required close coordination between Charles Edwards (left), Madison General Fuels Plant Manager, and C. Ray Phillips, MGE Supervisor - Fuel and Environmental Compliance. PDF is a mixture of pre-consumer paper and plastic wrap that can't be recycled. Since 1993, the PDF burned at Blount saved 91,800 tons of coal and nearly 22 million cubic feet of landfill space.

Since transportation is the largest source of ozone pollution, MGE encourages employees to car pool, bike or walk to work. We also reduce emissions by conserving energy in our facilities, burning less coal or postponing ash and coal handling.

#### COMPETING IN A REGIONAL ENERGY MARKET

MGE's new \$4 million energy management and market trading system helps ensure we are ready to compete in a changing wholesale power market. The Midwest Independent Transmission System Operator plans to launch an energy market that will change the way utilities in our region buy and sell electricity.

Over the last three years, MGE joined with other Wisconsin stakeholders to advocate policies that protect customers and investors in this dynamic marketplace. Our voices were heard. The Federal Energy Regulatory Commission granted Wisconsin utilities safeguards against penalty charges for the next five years while our state's overburdened transmission system is improved.

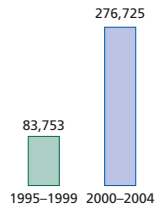
#### ACHIEVING FINANCIAL GOALS

Relentless dedication drives us to work hard every day to improve operations, exceed customers' expectations, be a good neighbor in our communities and provide you with a quality investment.

Thank you for trusting MGE Energy to help achieve your financial goals.

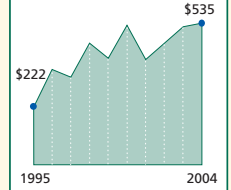
Gary J. Wolter  
Chairman, President and Chief Executive Officer

#### MGE Renewable Energy Generation\* (total megawatt-hours)



\* Electricity produced from methane gas; wind and solar power; and pre-consumer waste paper and plastic.

#### Nonresidential Construction in Dane County (\$ millions)

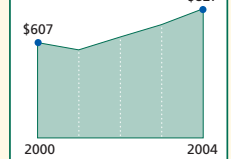


#### 2004 Value Line Ratings

	MGE Energy	Central Electric Utility Average
Financial Strength	A	B+
Safe Investment*	1	3

\* 1 is the highest safety ranking.

#### MGE Energy Assets (\$ millions)





# STAYING POWER

RESPONSIVE

PROACTIVE

INNOVATIVE

RESPONSIBLE

Flip a switch, **LIGHTS**. Turn up the thermostat, **HEAT**.

Every minute. Every day of the year.

We're there when customers need us.

When the natural gas-fired West Campus Cogeneration Facility (WCCF) starts operating in 2005, MGE customers will have another 150 megawatts of locally produced power to help meet their growing needs. WCCF also will expand heating and cooling capacity on the University of Wisconsin-Madison campus. This state-of-the-art facility will be one of the cleanest, most efficient plants in the Midwest.

Over the last 15 years, MGE's conservation initiatives helped customers save enough electricity to power more than 57,000 households for one year. But conservation alone won't offset projected growth. MGE has options to own up to 100 MW of clean-coal electric generation planned in southeastern Wisconsin. In addition, we must determine how to meet another 200 MW of electric demand by 2014 to keep pace with growth.

MGE invited all electric customers to Community Energy Conversations meetings to help plan for a responsible energy future. Customers learned about future energy needs – and the tradeoffs involved when choosing different types of generation. MGE gained insights into customers' priorities, which will play an important role in our decision-making process.



Fast action by Madison's Rapid Response team and MGE convinced Schoep's Ice Cream to stay and grow in Madison. Founded in 1928, Schoep's will invest \$8 million in a new refrigerated storage and distribution facility. MGE Business Development Manager John Drury (left), Schoep's President Paul Thomsen and MGE Senior Marketing Representative Bob Maney worked together to help seal the deal.



MGE and contract crews worked nearly around the clock to restore power after a tornado whipped through Madison in June 2004. It was the worst storm to hit this area in 10 years. Workers cleared debris and replaced damaged equipment. MGE service was restored to all customers within 72 hours.



"It has been the policy of this Company to always be ready and able to meet the requirements of our customers promptly and adequately at all times."  
—1925 MGE newspaper ad

Through decades of significant growth, we have anticipated customers' needs and delivered reliable service. It took careful planning and foresight to install poles, wires and pipes in the right places at the right time to satisfy customers. Our team also worked diligently in emergencies to restore service – day or night, in any weather.



As a community energy company, we also have a long tradition of taking responsibility to help improve the quality of life for everyone who lives here. Our employees generously volunteer time to make a difference. Since 1968, the MGE Foundation also has funded thousands of requests from community groups and worthy causes.



Tim Bliefert (left), MGE Construction Management Engineer, and Rodney Washington, President and CEO of Proactive Safety Consultants, review progress on MGE's West Campus Cogeneration Facility. The plant is on schedule to start serving customers by summer 2005.

# STAYING POWER

RESPONSIVE  
PROACTIVE  
INNOVATIVE  
RESPONSIBLE

Bright IDEAS. Responsible ACTION.

Anticipating needs. Partnering for progress.

Investing in solutions. You can count on MGE.

MGE is ready for the new Midwest wholesale power market. Preparing for this industry change required three years of planning, design and renovation. It culminated with the installation of a \$4 million state-of-the-art energy management and market trading system. The new equipment provides better data access and added flexibility for managing energy load and delivery.



A new energy trading system sharpens MGE's competitive edge in the Midwest wholesale marketplace. MGE's Brenda Schultz, Energy Supply Operations Supervisor, uses the new tools to maximize generation assets in an increasingly complex energy market.

MGE is working with a broad-based, public-private group to measure the effectiveness of our new stormwater-filtering system – the first privately owned system in the state. MGE teamed up with the Wisconsin Department of Natural Resources, Department of Transportation, State Lab of Hygiene, U.S. Geological Survey and two private firms. We will test runoff from at least 15 storms. The results will help determine how well this system captures debris, toxins and nutrients before they reach Wisconsin's lakes and rivers.



MGE is a leading member of the Dane County Clean Air Coalition. Businesses, government agencies, schools and citizens work to curb ozone (smog) when high levels are predicted. Transportation is the biggest source. So MGE employees, like Customer Loyalty Manager Karen Matteoni, will bike to work while MGE takes other steps to reduce emissions.



Madison resident Nikky Hoffmaster is a new homeowner who will enjoy greater comfort and lower energy bills – thanks to efficiency improvements funded by MGE grants. Since 1991, MGE has awarded grants surpassing \$375,000 to help ensure the long-term affordability of more than 260 homes for lower-income families.



Photograph Courtesy of the Wisconsin Historical Society Image ID: 2025000

In 1930, an ambitious program in downtown Madison

replaced overhead poles and wires with underground electric lines. This network system was revolutionary for that era, typically found only in Chicago, New York and other large cities.

The foresight of our utility pioneers has allowed downtown Madison customers to benefit from the most reliable form of utility-supplied power for more than 70 years.

MGE also achieved one of the tightest, leak-proof gas systems in the country in 1983. We were one of the first utilities



in the nation to replace cast-iron gas mains with steel pipe.

MGE recently spearheaded an effort to create the Capital Ideas

Technology Zone, which fostered greater cooperation among five communities and Dane County. As a result, nearly \$1.1 million in state tax credits were awarded to six area firms.



150 years of STAYING POWER



# STAYING POWER

RESPONSIVE  
PROACTIVE  
INNOVATIVE  
RESPONSIBLE

## UNCONVENTIONAL thinking. Powerful RESULTS.

Caring about people and the environment  
inspires MGE to go beyond what's expected.



"The Company is cognizant of its obligation to generate power with the lowest possible amount of impurities from its power plant stacks, and has had a continuing program to reduce these emissions since 1945."

—1969 MGE Annual Report

For more than 25 years, MGE has funded research and pilot projects to find cost-effective ways to tap into renewable energy. Today's sources include our wind farm, alternate fuel and photovoltaic installations. We also buy clean electricity generated with methane gas at a Dane County landfill.



Recognizing the value of a "brain-powered" economy, we launched the MGE Innovation Center in 1989. It has nurtured and stimulated

the growth of more than 70 technology-based enterprises.



Nanotechnology breakthroughs come in small packages at Platypus Technologies. In 2000, CEO Barbara Israel, Ph.D., started this firm in the MGE Innovation Center. Today, Platypus' 21 employees have outgrown its incubator space. The company soon "graduates" to the Fitchburg Technology Campus where it will occupy 8,000 square feet.



MGE's wind power capacity will increase by 500% when we start buying 40 megawatts of clean energy from a new wind farm near Waupun, Wis. This new source of renewable energy will produce enough power to serve about 14,000

homes each year. Construction on the wind farm may begin in 2005 if approved by the Public Service Commission of Wisconsin.

"A pioneering company that leads by example." That's how the Wisconsin Department of Natural Resources described MGE when announcing we were one of the first companies to participate in the state's Voluntary Emission Reduction Registry. This program recognizes our efforts to go beyond regulatory compliance where sound science and cost-effective technologies exist.

Blount Station was the first power plant in Wisconsin to receive the internationally recognized ISO 14001 certification for environmental management systems. This voluntary program requires annual goals and recertification every three years.

Blount set a record for paper-derived fuel (PDF) usage in 2004. Burning 14,640 tons of PDF replaced enough coal for about three weeks of operation, reduced emissions and saved more than 2 million cubic feet of landfill space. PDF is a mixture of shredded pre-consumer paper and plastic wrap that can't be recycled.

A new contract for recycling fly ash should save more than 20,000 tons of waste from going to the landfill each year. The fly ash is used as structural fill in an Iowa limestone mine.



MGE employees played a vital role in obtaining ISO 14001 certification for Blount Station in Madison. MGE Maintenance Mechanic Bill Pulvermacher helps ensure the plant is in top condition.

# STAYING POWER

RESPONSIVE  
PROACTIVE  
INNOVATIVE  
RESPONSIBLE

## Shared VISION. Traditional VALUES.

Deeply rooted in our communities,  
MGE delivers on our responsibility to be a good neighbor.



The \$205 million Overture Center helped stimulate a resurgence in downtown Madison development. The first phase of this nationally acclaimed arts center opened in fall 2004. When completed in 2006, the 400,000-square-foot facility will cover a city block adjacent to the state Capitol.

MGE embarked on a multiyear expansion of Blount Substation to improve electric reliability for Madison's fast-growing downtown and near east side. Over the past five years, about \$466 million was invested in nonresidential construction in downtown Madison. In addition, a renewed interest in downtown living spurred development of about 660 condominiums – more than four times the units built from 1980 to 2000. Another 800 units are planned over the next five years.

MGE and the American Transmission Co. built two bike paths in Madison. They increase safety and provide vital links to existing bike paths. The work was part of an underground transmission line project, which supplies electricity to the new Tokay Substation on Madison's west side.



MGE finished a three-year project in Prairie du Chien, replacing all copper services with plastic pipes. MGE Distribution Fitter LuWayne Mathson (standing) checks on the progress of work at a

Prairie du Chien home. This upgrade improves reliability and safety for our natural gas customers.

A business retention and expansion study reached more than 70 firms in Middleton. MGE partnered with the city, local chamber and Wisconsin Department of Commerce to help identify business needs and growth opportunities.

Thousands of people attended *Safety Saturday* last summer, which featured more than 25 public safety agencies and businesses. This marked the eighth year MGE was a major sponsor of this event in downtown Madison.



MGE recycled enough waste wood, cardboard and paper to save nearly 1,900 trees so far while building the West Campus Cogeneration Facility. About 1,500 tons of concrete and metal also were recovered and reused. With help from WasteCap Wisconsin, Inc., 85% of the construction waste was recycled, surpassing MGE's goal.



Photograph Courtesy of the Wisconsin Historical Society Image ID: 212133

"It is our desire and intention to always give a full dollar's worth of service

for every dollar paid us, and to do our work mindful of our obligations to the community of which we are a part."

–1920s MGE newspaper ad

In 2004, MGE received the Neighborhoods USA Notable Award for our long-term support to improve quality of life. MGE invested more than \$500,000 in Neighborhood Revitalization Grants since 1998. The funds helped increase energy efficiency in five major low-income redevelopment projects.



Since 1993, area businesses tapped into nearly \$23 million in MGE's Shared Savings loans for energy-efficient equipment.

These measures saved about 2.1 million therms of gas and 10.5 million kilowatt-hours of electricity.



150 years of STAYING POWER



## CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31 (Thousands, except per-share amounts)	2004	2003	2002
<b>Operating Revenues</b>			
Regulated .....	\$422,149	\$401,547	\$347,096
Nonregulated .....	2,732	1,023	—
Total Operating Revenues.....	424,881	402,570	347,096
<b>Operating Expenses</b>			
Fuel for electric generation.....	43,553	41,557	38,210
Purchased power.....	52,052	49,521	44,607
Natural gas purchased.....	114,506	104,066	73,412
Other operations and maintenance .....	115,185	111,636	92,514
Depreciation and amortization .....	24,917	23,344	29,362
Other general taxes.....	12,715	11,592	10,861
Total Operating Expenses.....	362,928	341,716	288,966
<b>Operating Income</b> .....	61,953	60,854	58,130
Other income, net.....	3,977	1,500	2,476
Interest expense.....	(11,434)	(11,813)	(12,686)
Income before income taxes.....	54,496	50,541	47,920
Income tax provision.....	(20,656)	(19,901)	(18,727)
<b>Net Income</b> .....	\$ 33,840	\$ 30,640	\$ 29,193
<b>Earnings Per Share of Common Stock</b> – Basic and Diluted.....	\$ 1.77	\$ 1.71	\$ 1.69
<b>Dividends Paid Per Share of Common Stock</b> .....	\$ 1.36	\$ 1.35	\$ 1.34
<b>Average Shares Outstanding</b> – Basic and Diluted.....	19,119	17,894	17,311

For detailed financial information, see the 2004 MGE Energy Form 10-K.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (Thousands)	2004	2003	2002
<b>Operating Activities</b>			
Net income.....	\$ 33,840	\$ 30,640	\$ 29,193
Items not affecting cash:			
Depreciation and amortization .....	24,917	23,344	29,362
Deferred income taxes.....	8,832	8,075	4,186
Amortization of investment tax credits.....	(502)	(516)	(520)
Equity in earnings in ATC*.....	(4,236)	(3,687)	(3,316)
Amortization of debt issuance costs and bond expense .....	516	484	368
Other items .....	639	(514)	(380)
Dividend income from ATC .....	3,055	2,640	2,714
Prepayments to ATC.....	—	5,000	(5,000)
Gain on the sale of property.....	(938)	—	—
Changes in working capital, excluding cash and cash equivalents, current long-term debt maturities and short-term debt:			
Increase in current assets .....	(26,495)	(13,412)	(13,170)
Increase in current liabilities.....	8,004	5,740	13,336
Special billing projects – ATC .....	10,657	—	—
Other noncurrent items, net.....	4,025	9,937	(527)
Cash Provided by Operating Activities.....	62,314	67,731	56,246
<b>Investing Activities</b>			
Capital expenditures.....	(95,747)	(82,970)	(77,001)
ATC – capital contribution.....	(3,475)	—	—
Advance to ATC related to WCCF** .....	(2,308)	(9,223)	(1,281)
Increase in nuclear decommissioning fund .....	—	—	(7,804)
Proceeds from sale of property.....	1,592	—	—
Other.....	(277)	(410)	(623)
Cash Used for Investing Activities.....	(100,215)	(92,603)	(86,709)
<b>Financing Activities</b>			
Issuance of common stock, net.....	63,154	23,162	13,597
Cash dividends paid on common stock.....	(25,943)	(24,137)	(23,170)
Repayment of long-term debt.....	(20,000)	(20,000)	(20,000)
Issuance of long-term debt, net.....	—	50,000	35,000
Increase/(decrease) in short-term debt.....	21,595	(2,618)	24,798
Other.....	636	(200)	484
Cash Provided by Financing Activities.....	39,442	26,207	30,709
<b>Change in Cash and Cash Equivalents</b> .....	1,541	1,335	246
Cash and cash equivalents at beginning of period.....	2,020	685	439
Cash and cash equivalents at end of period.....	\$ 3,561	\$ 2,020	\$ 685

\* American Transmission Co.

\*\* West Campus Cogeneration Facility

For detailed financial information, see the 2004 MGE Energy Form 10-K.

At December 31 (Thousands)	2004	2003
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents.....	\$ 3,561	\$ 2,020
Restricted cash.....	876	764
Accounts receivable, less reserves of \$2,755 and \$2,735, respectively.....	34,130	30,236
Other accounts receivable.....	22,910	7,477
Unbilled revenues.....	24,880	21,644
Materials and supplies, at lower of average cost or market.....	9,107	7,851
Fossil fuel, at lower of average cost or market.....	5,523	5,054
Stored natural gas, at lower of average cost or market.....	21,712	18,598
Prepaid taxes.....	14,510	14,063
Deferred income taxes.....	—	1,206
Other prepayments.....	5,029	3,816
Total Current Assets.....	142,238	112,729
Deferred Charges.....	40,299	43,625
Property, Plant and Equipment, Net.....	480,154	449,022
Construction work in progress.....	127,244	88,489
Total Property, Plant, and Equipment.....	607,398	537,511
Other Property and Investments.....	37,436	31,293
Total Assets.....	\$827,371	\$725,158
<b>Liabilities and Capitalization</b>		
<b>Current Liabilities</b>		
Long-term debt due within one year.....	\$ —	\$ 20,000
Short-term debt – commercial paper.....	53,275	31,680
Accounts payable.....	42,488	34,103
Accrued interest and taxes.....	3,101	3,028
Deferred income taxes.....	581	—
Other current liabilities.....	16,116	15,814
Total Current Liabilities.....	115,561	104,625
<b>Other Credits</b>		
Deferred income taxes.....	89,627	79,936
Investment tax credit – deferred.....	4,389	4,891
Regulatory liabilities.....	28,764	33,623
Accrued pension and other postretirement benefits.....	42,138	29,947
Other deferred liabilities.....	6,438	6,862
Total Other Credits.....	171,356	155,259
<b>Capitalization</b>		
Common shareholders' equity.....	338,197	263,070
Long-term debt.....	202,257	202,204
Total Capitalization.....	540,454	465,274
Commitments and Contingencies.....	—	—
Total Liabilities and Capitalization.....	\$827,371	\$725,158

For detailed financial information, see the 2004 MGE Energy Form 10-K.

At December 31 (Thousands)	2004	2003
<b>Common Shareholders' Equity</b>		
Common stock – par value \$1 per share:		
Authorized 50,000,000 shares		
Outstanding 20,389,619 and 18,343,913 shares, respectively.....	\$ 20,390	\$ 18,344
Additional paid-in capital.....	229,682	168,574
Retained earnings.....	87,439	79,542
Accumulated other comprehensive income (loss).....	686	(3,390)
Total Common Shareholders' Equity.....	338,197	263,070
<b>First Mortgage Bonds</b>		
7.70%, 2028 Series.....	1,200	1,200
<b>Other Long-Term Debt</b>		
7.49%, due 2007.....	15,000	15,000
6.02%, due 2008.....	30,000	30,000
4.875% 2012 Series, Industrial Development Revenue Bonds.....	19,300	19,300
5.875% 2034 Series, Industrial Development Revenue Bonds.....	28,000	28,000
6.58%, due 2012.....	15,000	15,000
5.26%, due 2017.....	20,000	20,000
7.12%, due 2032.....	25,000	25,000
6.12%, due 2028.....	20,000	20,000
5.68%, due 2033.....	30,000	30,000
Total Other Long-Term Debt.....	202,300	202,300
Unamortized discount and premium on bonds, net.....	(1,243)	(1,296)
Total Long-Term Debt.....	202,257	202,204
Total Capitalization.....	\$540,454	\$465,274

For detailed financial information, see the 2004 MGE Energy Form 10-K.

**Directors of MGE Energy and MGE**



**Richard E. Blaney**  
Retired President  
Richard Blaney Seeds Inc.  
Age 68  
Director since 1974



**John R. Nevin**  
Executive Director, Center for Product Management; Executive Director, Grainger Center for Supply Chain Management; and Professor, School of Business, University of Wisconsin-Madison  
Age 61  
Director since 1998



**F. Curtis Hastings**  
Chairman  
J. H. Findorff & Son, Inc.  
Commercial and industrial general contractors  
Age 59  
Director since 1999



**Donna K. Sollenberger**  
President and Chief Executive Officer  
University of Wisconsin Hospital and Clinics  
Age 55  
Director since 2000



**Regina M. Millner**  
President  
R.M.M. Enterprises Inc.  
Attorney, analyst and broker  
Age 60  
Director since 1996



**H. Lee Swanson**  
Chairman of the Board and President, SBCP Bancorp, Inc., and Chairman of the Board, State Bank of Cross Plains  
Age 66  
Director since 1988



**Frederic E. Mohs**  
Partner  
Mohs, MacDonald, Widder & Paradise, Attorneys at Law  
Age 67  
Director since 1975



**Gary J. Wolter**  
Chairman, President and Chief Executive Officer  
MGE Energy, Inc., and Madison Gas and Electric Co.  
Age 50  
Director since 2000

**Audit Committee**  
Directors Blaney, Hastings, Millner, Mohs, Nevin, Sollenberger and Swanson.

**Executive Committee**  
Directors Blaney, Mohs, Swanson and Wolter.

*Note: Ages as of Dec. 31, 2004.*

**Compensation Committee**  
Directors Blaney, Mohs and Swanson.

**Personnel Committee**  
Directors Hastings, Millner, Mohs, Nevin and Sollenberger.

**Officers of MGE Energy and MGE**



**Gary J. Wolter\***  
Chairman, President and Chief Executive Officer  
Age 50  
Years of Service, 20



**Terry A. Hanson\***  
Vice President, Chief Financial Officer and Secretary  
Age 53  
Years of Service, 23



**Jeffrey C. Newman\***  
Vice President and Treasurer  
Age 42  
Years of Service, 20



**Lynn K. Hobbie**  
Senior Vice President  
Age 46  
Years of Service, 19



**Mark T. Maranger**  
Senior Vice President  
Age 56  
Years of Service, 3



**James G. Bidlingmaier**  
Vice President – Administration and Chief Information Officer  
Age 58  
Years of Service, 32



**Kristine A. Euclide**  
Vice President and General Counsel  
Age 52  
Years of Service, 3



**Scott A. Neitzel**  
Vice President – Energy Supply Policy  
Age 44  
Years of Service, 7



**Peter J. Waldron**  
Vice President – Energy Supply Operations  
Age 47  
Years of Service, 24



**Gregory A. Bollom**  
Assistant Vice President – Energy Planning  
Age 44  
Years of Service, 22



**Joseph P. Pellitteri**  
Assistant Vice President – Human Resources  
Age 56  
Years of Service, 5



**John M. Yogerst**  
Assistant Vice President – Gas Operations  
Age 47  
Years of Service, 24

*\* Officers of MGE Energy and MGE. All others are MGE officers.  
Note: Ages and years of service as of Dec. 31, 2004.*



**2005 Annual Shareholder Meeting**

Tuesday, May 10, 2005  
 Marriott Madison West  
 1313 John Q. Hammons Drive  
 Greenway Center  
 Middleton, Wis.

**Stock Listing**

- MGE Energy common stock trades on The Nasdaq Stock Market®
- Stock symbol: MGEE
- Listed in newspaper stock tables as MGE or MGE Engy

**Shareholder Services**



Shareholder Services: (from left) Katherine Grunke, Ken Frassetto, Jerilyn Geishirt, Lynne Harper, Linda Carignan.

We welcome calls from shareholders. Please notify us promptly if:

- A stock certificate is lost or stolen.
- A dividend check or statement is not received within 10 days of the scheduled payment date.
- Your name or address changes.

**Reports Available**

More financial information is available upon request or on the company's Web site, including:

- Form 10-K (filed with the Securities and Exchange Commission).
- A Statistical Supplement to this annual report.

**National Association of Investors Corporation**

**NAIC**® MGE Energy is a corporate sponsor of the NAIC and participates in a number of programs including the Low Cost Investment Plan, Investor's Information Report (Green Sheet), Own Your Own Shares of America and regional investor fairs. **Web Address: [www.betterinvesting.org](http://www.betterinvesting.org)**

**Dividend Reinvestment and Direct Stock Purchase Plan**

MGE Energy's Dividend Reinvestment and Direct Stock Purchase Plan allows investors to:

- Buy common stock directly through the company.
- Reinvest dividends or receive cash payments.
- Deposit certificates for safekeeping.

**2005 Expected Record and Dividend Payment Dates**

MGEE Common Stock	
Record Dates	Payment Dates
March 1	March 15
June 1	June 15
September 1	September 15
December 1	December 15

**For Assistance and Transfer Agent Inquiries**

Contact MGE Energy Shareholder Services by phone, mail or e-mail.  
 E-mail: [investor@mgeenergy.com](mailto:investor@mgeenergy.com)  
 Web Address: [www.mgeenergy.com](http://www.mgeenergy.com)  
 Madison Area: (608) 252-4744  
 Continental U.S.: 1-800-356-6423  
 Business Hours: 8:00 a.m. to 4:30 p.m. (Central Time) Monday through Friday  
 Mailing Address: MGE Energy Shareholder Services Post Office Box 1231 Madison, WI 53701-1231  
 Location: 133 South Blair Street Madison, WI 53703

**Co-Transfer Agent & Registrar**

Continental Stock Transfer & Trust Co.  
 17 Battery Place, 8th Floor  
 New York, NY 10004

**Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP  
 One North Wacker Drive  
 Chicago, IL 60606

MGE Energy is the parent company of Madison Gas and Electric Co. (MGE), which serves natural gas and electric customers in south-central and western Wisconsin.

**MGE Electric Services**

Generation and Distribution  
 Customers: 134,000  
 Population: 282,000  
 Area: 250 square miles

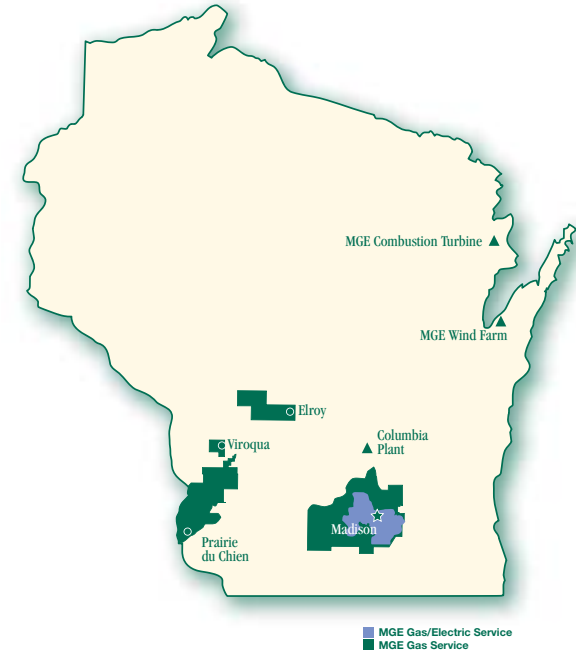
Communities served: Cross Plains, Fitchburg, Madison, Maple Bluff, Middleton, Monona and Shorewood Hills.

Generating facilities: Blount Station, West Campus Cogeneration Facility, combustion turbines and solar units at Madison, the Columbia Energy Center at Portage, a natural gas combustion turbine at Marinette and the MGE Wind Farm in Kewaunee County.

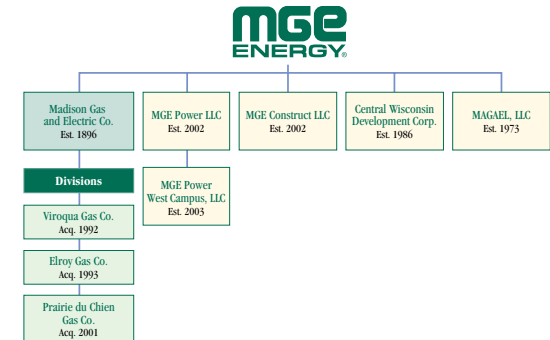
**MGE Natural Gas Services**

Purchase and Distribution  
 Customers: 133,000  
 Population: 391,000  
 Area: 1,350 square miles

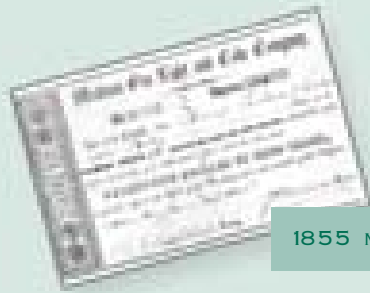
Counties served: Columbia, Crawford, Dane, Iowa, Juneau, Monroe and Vernon.



Learn more at [www.mgeenergy.com](http://www.mgeenergy.com)



# OUR HISTORY



1855 MADISON GAS LIGHT & COKE CO.

1871 MADISON CITY GAS LIGHT & COKE CO.

1888 MADISON ELECTRIC CO.

1892 FOUR LAKES LIGHT & POWER CO.



1896 MADISON GAS & ELECTRIC CO. (MGE)  
OWNED BY UNITED GAS IMPROVEMENT

1899 MGE OWNED BY  
AMERICAN LIGHT & TRACTION

1949 MGE INDEPENDENT,  
PUBLICLY OWNED UTILITY



2002 MGE ENERGY, INC., MGE MAIN SUBSIDIARY

