



Summary Annual Report 2005



A new breed of energy company

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ABOUT THE COVER



At MGE Energy, we embrace the future while remaining true to our roots dating back more than 150 years. We are a “hybrid” – a new breed of energy company, innovating and advancing while producing solid results.

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RELIABLE SERVICE

MGE Energy, Inc.

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. Assets total nearly \$917 million. In 2005, revenue exceeded \$513 million. See the Corporate Profile on page 21.

2005 HIGHLIGHTS

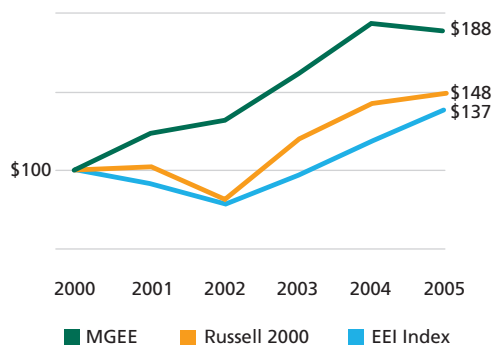
MGE ENERGY (MGEE)

Year at a Glance

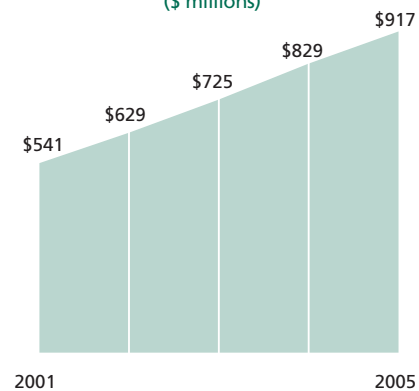
(Thousands, except per-share amounts)

	2005	2004	Increase/ (Decrease)	Change
Operating Revenues	\$ 513,370	\$ 424,881	\$ 88,489	20.8%
Net Income	\$ 32,091	\$ 33,840	\$ (1,749)	-5.2%
Basic and Diluted Earnings Per Share	\$ 1.57	\$ 1.77	\$ (0.20)	-11.3%
Dividends Paid Per Share	\$ 1.37	\$ 1.36	\$ 0.01	.7%
Dividend Payout Ratio	87.3%	76.8%	10.5%	13.7%
Average Shares Outstanding	20,436	19,119	1,317	6.9%
Shares Outstanding at Year End	20,451	20,390	61	0.3%
Return on Average Common Equity	9.4%	11.4%	-2.0%	-17.5%
Book Value Per Share	\$ 16.81	\$ 16.59	\$ 0.22	1.3%
Market Price (Dec. 31)	\$ 33.91	\$ 36.03	\$ (2.12)	-5.9%
Total Market Value (Dec. 31)	\$ 693,493	\$ 734,652	\$ (41,159)	-5.6%
Total Assets	\$ 916,907	\$ 828,771	\$ 88,136	10.6%
Total Electric Sales (KWh)	3,463,967	3,144,182	319,785	10.2%
Total Gas Deliveries (therms)	219,983	221,612	(1,629)	-0.7%

**Cumulative Five-Year
Total Return Comparison**
(assumes dividends reinvested)



MGEE Assets
(\$ millions)



For detailed financial information, see the 2005 MGE Energy Form 10-K.

To Our

Shareholders

Thomas Edison:

“There is a way to do



GARY J. WOLTER, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

We accept Thomas Edison's challenge to find a better way. MGE Energy blends strong business fundamentals with innovative practices. We remain committed to our high standards and performance, yet we always push the envelope for new ideas. MGE Energy finds a better way through vision, collaboration and creativity while remaining responsible to our customers, loyal investors and our fundamental values. Our success comes from combining our tried-and-true principles with new concepts and new ways of doing business. We're a **hybrid** ... a new breed of energy company.

it better – find it.”

ACCOMPLISHMENTS

We moved significant projects forward in 2005. These projects focus on our core business of reliable energy yet are dynamic, new approaches to our energy future.

Through an innovative partnership with the University of Wisconsin, the 150-megawatt (MW) West Campus Cogeneration Facility began producing energy on time and on budget. We also exercised our option to participate in We Energies' Oak Creek Power Plant, which will deliver 100 MW from new cleaner-coal technology starting in 2009. The company's 8.33% ownership interest is approximately \$190 million. By forming these key partnerships, we add new, state-of-the-art assets to serve customers and produce solid returns for our shareholders.

Madison Gas and Electric (MGE) also began competing in a new regional, wholesale energy market that changes the way utilities buy and sell electricity. The Midwest Independent System Operator (MISO) reaches 12 states and one Canadian province. MISO provides new opportunities to access energy in a broader region. MGE worked with other MISO stakeholders to ensure policies were in place to protect customers and investors in this new market.



MGE Energy is proud to serve Wisconsin's capital city and surrounding areas. We enjoy a strong local economy. In 2005, nonresidential construction in Dane County hit \$565 million – the second straight record-setting year.

LONG-TERM PERFORMANCE

FINANCIAL STRENGTH

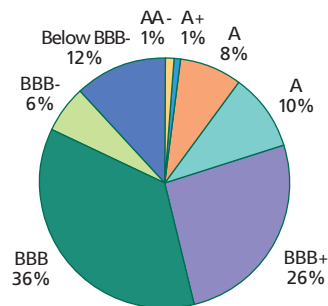
MGE tops the Standard and Poor's (S&P) bond rating list of integrated electric, gas and combination utilities. MGE is the only combination utility out of 106 in the country to receive the AA- rating. S&P rated MGE above average for financial strength, management and regulatory support.

Public Utilities Fortnightly in 2005 ranked MGE Energy among the 40 "best energy companies" in the nation. These companies were recognized as the industry's "brightest stars proven in performance and exceptional corporate management." The ratings were based on profit margin, dividend yield, return on equity and return on assets from 2002–2004.

30 YEARS OF DIVIDEND INCREASES

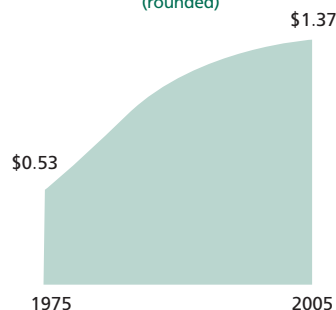
MGE Energy paid an annual cash dividend of \$1.37 per share in 2005. MGE Energy is one of only five U.S. investor-owned electric utilities to increase dividends for

U.S. Utility Rankings



Source: Standard and Poor's, October 2005

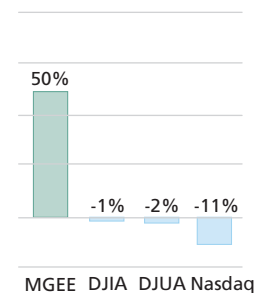
Dividends Paid Per Share (rounded)



30 consecutive years. We have paid cash dividends annually since 1909.

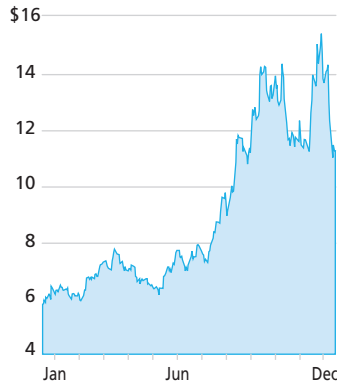
Consistent dividend growth and gains in stock value produced a solid five-year total return. A \$100 investment in 2000 increased to \$188 in 2005, with dividends reinvested. Over the last five years MGE Energy stock outperformed the Dow Jones Utility and Industrial averages and Nasdaq Index.

2000-2005 Stock Price Comparison (% Change at Dec. 31)



CONTINUED GROWTH

2005 Daily Natural Gas Prices
New York Mercantile Exchange



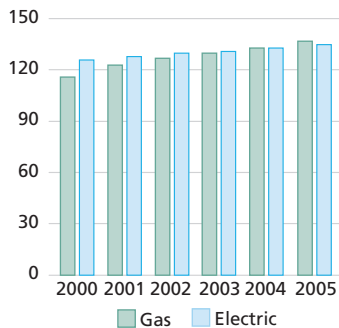
EARNINGS

MGE Energy produced earnings of \$1.57 per share in 2005 compared to \$1.77 per share in 2004. While we held the line on operating costs, earnings were impacted by substantial increases in the costs of purchased power and fuel to generate electricity.

Sharply higher natural gas prices have significantly impacted our industry. Following Hurricane Katrina, natural gas prices hit record highs in 2005. This directly affected our costs to produce electricity. We filed for a fuel surcharge with the Public Service Commission of Wisconsin and were able to recover some costs in the last two months of the year. We continue to operate in a supportive regulatory environment.

Natural gas is a commodity traded in a national market. MGE, like other utilities, is subject to the market's volatile prices. We work to control costs with hedging and aggressive buying strategies. In recent years, our customers' gas costs were among the lowest in the state. MGE rates to deliver natural gas are fixed. MGE does not make more money from higher gas prices.

Number of MGE Customers
2000 – 2005
(in thousands)



VIBRANT LOCAL ECONOMY

Madison and Dane County enjoy one of the strongest economies in the nation, with unemployment about 3% and local property values that outpace state averages. This vibrant local economy helps fuel MGE Energy and your investment in the company.

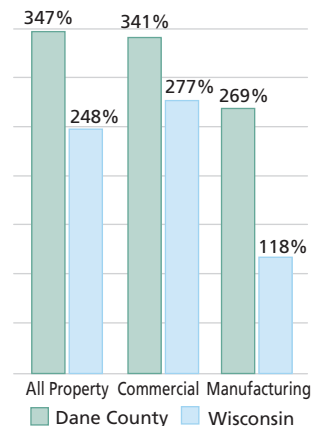
The entrepreneur spirit is alive in Madison. We have more business incubator space per capita than any other metro area in the country. We see steady technology transfer into new businesses from the University of Wisconsin-Madison, which is the country's fourth-largest research institution and spends \$721.2 million on research annually.

Forbes Magazine lists Madison in the top 10 places to start a new business or career, while Expansion Magazine ranks Madison among the nation's top "business opportunity metros."



The Madison area continues to see steady population growth. In the last five years, Dane County's population rose more than 7%, compared to a 4% growth across Wisconsin. Our population is projected to increase 15% by 2020 compared to a 9% growth statewide.

Property Value Growth
1985 – 2005



Source: Wisconsin Department of Revenue

ENERGY 2015 PLAN

MGE's Energy 2015 is an innovative step forward to meet our customers' needs. This plan takes a comprehensive approach that emphasizes reliability, sound economics and environmental responsibility.

Energy 2015 includes new cleaner-coal resources, energy efficiency and renewable energy programs. We also will make significant changes at our Blount Station Power Plant.

Though the plant currently meets or exceeds all environmental regulations, future federal coal regulations will require steep cuts in emissions. To comply with the new regulations, the company would need to make substantial investments and face major siting problems. Instead, MGE plans to retire the oldest, least efficient part of Blount at the end of 2011 and operate the facility only on cleaner-burning natural gas.

By 2011, the new Oak Creek Power Plant near Milwaukee and new transmission lines are scheduled to be in place so we can continue delivering affordable energy to our customers. We believe that Energy 2015 is the best roadmap for a sound energy future.

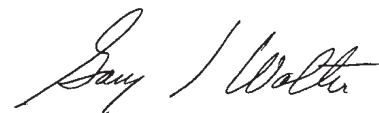
CARING FOR OUR CUSTOMERS AND COMMUNITY

As always, we strive to care for the customers and communities we serve. Last year, MGE launched an eight-year "Energy Partnership for a Green Capital City" to encourage energy efficiency investments by the City of Madison. As a good corporate citizen, MGE invests in our communities through economic development and environmental stewardship.

ACCEPTING THE CHALLENGE

We are energized to this day by the challenge Thomas Edison gave in the 1800s, "There is a way to do it better – find it." We incorporate strong business values with visionary approaches to produce steady dividend income and competitive returns for our loyal investors.

Thank you for your confidence.



Gary J. Wolter
Chairman, President
and Chief Executive Officer

COMMUNITY INVOLVEMENT

ENVIRONMENTAL STEWARDSHIP

We work to protect the environment while providing reliable energy for our customers. MGE achieves this through a commitment to renewable energy, a strong efficiency ethic, innovative technologies and cleaner generation sources.

MGE has a long history of supporting pioneering research that can improve our environment. We are funding two small-scale, yet ground-breaking generation projects – one using hydrogen fuel and one using methane gas. We developed these projects to better understand how new technologies might serve our customers and investors in the future.

The MGE Foundation also funded a three-year study that looked at the potential for prairie grasses to offset carbon dioxide emissions from power plants. This research was instrumental in helping determine how land-use practices could be used as part of a carbon-credit program.

Energy 2015 is a bold step toward our environmental future. We plan to grow our wind resources by five to 10 times, encourage other renewable resources and engage every customer in energy efficiency efforts. While it is critical to add new electric generation, it is equally important to focus on energy efficiency and clean, renewable energy sources.



MGE's comprehensive Energy 2015 Plan calls for increased renewable energy, such as solar power (above), wind and biomass.

A new breed of energy company –

listens

carefully to
shape our
future.

Energy 2015 is MGE's long-term strategy to meet our customers' future energy needs. This comprehensive, balanced plan maintains our emphasis on reliability, affordability and environmental responsibility. It includes new cleaner-coal generation, wind resources and an energy efficiency initiative that will touch every customer in our service area.

MGE used its series of "Community Energy Conversations" with customers as listening sessions to help inform the Energy 2015 Plan. This type of customer involvement is unprecedented in our industry.

Innovative approaches

MGE held "Community Energy Conversations" with customers to discuss which energy options make the most sense for our community. We invited all of our electric customers to one of more than two-dozen sessions. Customers learned about future energy demands and generation options. MGE gained insights to better understand our customers' values and needs. This open and honest dialogue helped shape our Energy 2015 Plan.



Greg Bollom, Assistant Vice President of Energy Planning, meets with a group of customers at one of the Community Energy Conversations that MGE held throughout its electric service area.

Developing new technologies



Connie Li is CEO for TrafficCast, which dynamically processes digital traffic, weather and construction data to predict travel times and delays in key cities.

Critical funding for emerging technology companies is one way we energize our local economy. MGE recognized the need and partnered with others to establish a \$2 million Venture Debt Fund that has invested in three high-tech companies with potential for long-term success. These loans help companies move from the start-up phase to producing products and a positive cash flow.

The Venture Debt Fund provided financial support for Madison-based TrafficCast, Inc., that uses patented processes to provide traffic data to a range of map and travel services. The new firm has contracts with Yahoo, major cellular phone service providers and others. TrafficCast also established business last year in Shanghai, China.

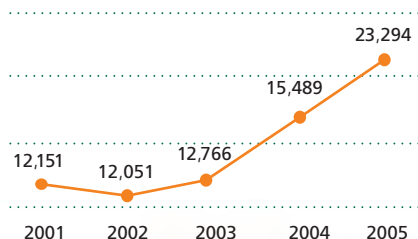
Local environmental results

MGE purchases electricity produced by methane gas from a local landfill. Additional generators in 2004 and 2005 boosted the landfill's output.

MGE helped tackle the challenge of economically producing electricity from methane gas in small- to medium-sized landfills. MGE joined a project that tests a new engine better suited for running on landfill gas. This project takes methane gas, normally burned off at landfills, and turns it into fuel that generates electricity.

We develop these projects because our customers value new technologies that can improve our environment while generating energy. In 2005, we were able to serve 3,235 homes from methane production. The amount of electricity generated by methane has nearly doubled in five years.

Electricity Produced by Landfill Gas
(megawatt-hours)



A new breed of energy company – partners



to grow our
community assets.



Dedicating the West Campus Cogeneration Facility were (left to right) Wisconsin Gov. Jim Doyle, UW-Madison Chancellor John Wiley and MGE Chairman Gary Wolter.

Community partnerships resulted in the West Campus Cogeneration Facility that went on-line in 2005. This world-class facility is a new approach to the town-and-gown relationship. MGE's partnership with the University of Wisconsin-Madison and the State of Wisconsin ensured a reliable energy supply for the city and campus without producing any net increase in emissions.

Through the efficiency of state-of-the-art cogeneration, we can produce 150 megawatts for MGE customers as well as meet the heating and cooling needs of the expanding campus.

Reports show the impact of the UW-Madison campus on the regional economy was more than \$4.7 billion in 2002. Under the Campus Master Plan, UW-Madison will gain 6.9 million square feet by 2025. This growth will increase the university's capacity for cutting-edge research that often migrates off campus to become successful new Madison-based businesses.

Working together productively

MGE helped form a Biomedical Collaborative that brings together leaders from local hospitals, the biomedical industry, the University of Wisconsin-Madison and other health care fields to shape a bright future for this essential industry. This economic development initiative helps position Madison as a regional and national health care leader.

Health care contributes more than \$2.1 billion each year to the local economy. Employment in Madison's health care fields is expected to grow 10% in the next six years. For every job created in hospitals or clinics, an additional 1.9 jobs are generated in the metropolitan economy.



Recognizing the need to encourage energy efficiency and environmental improvements, MGE and the City of Madison formed the Energy Partnership for a Green Capital City. With this new initiative, MGE commits \$1.8 million for "green energy projects" over eight years.

In the Energy Partnership's first year, MGE helped put cleaner ultra-low sulfur diesel fuel in Metro Transit buses nearly one year before it became mandatory. While it is critical to add new electric generation to meet energy needs in our vibrant area, it is equally important to focus on energy efficiency and our environment.

Judy Keefe, a registered nurse in Meriter Hospital's Newborn Intensive Care Unit, checks on Caden Klausner who was born prematurely weighing 1.8 pounds. A combination of high-skilled care and high-tech equipment nourished Caden to 4.15 pounds by the time he went home.



Caring while conserving

Luanne Fax (center), an MGE Residential Services Manager, shows Mary and Jim Pertzborn their new ENERGYSTAR® oven. Energy efficiency was built into their home makeover project.

MGE put a fresh face on energy efficiency by joining a local effort to create "A Caring Home Makeover" – a takeoff from a popular TV show. Partnering with local TV station WKOW and the National Association of Remodeling Industry, MGE helped a Madison family remodel their home and improve its energy efficiency.

More than 130 vendors joined in this remarkable effort. MGE used weekly TV

reports to educate customers on how they can conserve energy.

MGE is dedicated to energy efficiency. We have helped customers reduce electric use and avoid the need for 98 additional megawatts of generating capacity since 1987. MGE's new Energy 2015 Plan will help our customers take further energy-saving steps.



A new breed of energy company – finds

Corn, a native plant dating back thousands of years, can now be transformed into hydrogen fuel. MGE partnered with a local firm in the world's first demonstration project to convert corn, soybean and other plant byproducts into hydrogen and other fuels to power electric generators.

Virent Energy Systems has a cost-effective, patented process that is extremely clean, producing low to no emissions. The energy from this pilot project feeds into MGE's electric grid. Though we rely on traditional generation sources, we also fund visionary research and pilot projects to develop renewable energy.

Tapping into the age-old energy of corn and other renewable biomass may help fuel our energy future.



new
solutions
in our own backyard.

Cleaner energy for a bright future



We challenged a new generation to think outside the box and change the way we use energy.

The MGE Foundation provided \$3,200 for materials so Madison's East High School students could design, build and test a battery-powered vehicle. We helped open their eyes to new technology and reinforce the value of teamwork. This next generation will help plan our energy future.

The students participated in Wisconsin's first "Electrathon America" driving competition and took first place in maneuverability.

Cleaner-coal technology allows us to rely on coal – stable prices and plentiful supplies – while reducing regulated air emissions.

MGE Energy became a partial owner in the new cleaner-coal generation units at the Oak Creek Power Plant. Investors will earn a 12.7% return on this investment.

This power plant on Lake Michigan is undergoing major expansion by We Energies. The two new generation units will be completed in 2009 and 2010. MGE's agreement is for 100 megawatts to help meet our customers' growing energy needs.

The expansion will boost the coal plant's energy production while advances in environmental control technologies will dramatically reduce air emissions.



Rendering of the Oak Creek Power Plant

Madison East High School students worked with Teacher Nathan Madsen (left) and Jim Jenson, MGE's Community Education Manager, to build a battery-powered vehicle. Student Nick Hogan gives a behind-the-wheel demonstration.

High-tech teamwork

Ralph Kauten (right), Quintessence Biosciences Chairman and CEO, and Vladimir Trubetskoy, Director of Polymer Chemistry, work with a team of researchers on cancer therapies.

The MGE Innovation Center helps new high-tech businesses put down their roots in our community. The center is undergoing a \$1 million renovation to create 20 more incubator spaces. Currently, the center has 60 fully occupied suites.

The expansion demonstrates the high level of technology transfer from UW-Madison into new businesses. The high-tech sector last year contributed nearly \$5 billion to the local economy and accounted for 26,000 jobs.



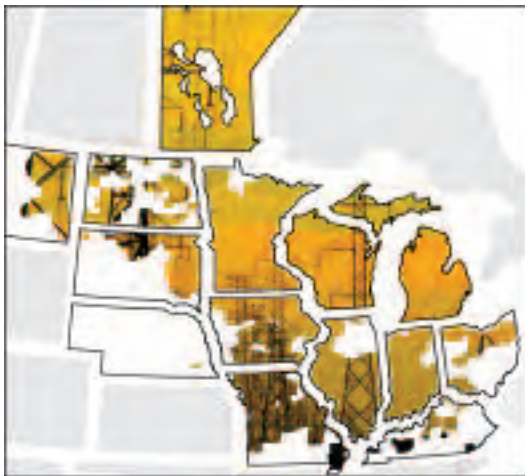
"The MGE Innovation Center allows us to interact and share ideas and resources with other biotech companies. Collaboration is important as we build our expertise," said Ralph Kauten, CEO of Quintessence Biosciences. The MGE Innovation Center has helped more than 70 early-stage companies grow since 1989.

A new breed of energy company –

responds

to new

challenges.



MGE was at the table as the new Midwest Independent System Operator, a new regional energy market, took shape. This dynamic energy market includes 12 states and one Canadian province. In 2005, utilities began trading in the market under rules that MGE helped shape to protect our customers and investors.

The new market transforms the way utilities buy and sell electricity and plan transmission needs while maintaining dependable energy. This market opens the doors to electricity from a larger region. We prepared for this change for four years – including planning, training and computer upgrades. We remain active to improve market rules and represent our customers.

Improving performance



Photo: David Nevala Photography

Jenkins Research and Manufacturing is a local machine shop that works closely with its customers to improve the performance of their products. Jenkins produces parts for a diverse group of growing Madison-area companies including Trek Bicycle, TomoTherapy and Sub-Zero.

MGE stepped up with competitive financing that allowed Jenkins to install the advanced equipment required to keep pace with one of its customer's rapidly changing demands. Through MGE's action, Jenkins improved productivity – reducing production time from 48 hours to 16 hours on a key product.

MGE collaborates with key businesses like Jenkins Research and Manufacturing. Jenkins' Gerald Easley inspects a precision metal part for a local customer.

Building a talented workforce

Delivering reliable energy depends on a skilled workforce. That's why MGE takes an original approach to recruit well-trained workers. A national study shows that a significant number of U.S. utility workers will reach retirement age in the next five years. There is also a shortage of new workers entering the skilled trades. MGE anticipated these national trends.



In addition to the typical approach of working with high schools, technical colleges and job fairs, MGE produced a recruitment video. Packed with interesting visuals, it explains utility operations jobs to students and why they should consider a career at MGE. These new recruits ensure a reliable energy future.

MGE recruits bright people for challenging utility careers. Debra Loeks, MGE's Employment Manager, hired Shane Abing (left), Line Technician Apprentice, and Ben Fruzen, Pipe Layer in Gas Operations.



Community education

At MGE, we have a long-standing commitment to energy conservation and working with our customers.

Record-high natural gas prices made the past heating season difficult for many customers. That's why we developed a comprehensive plan to communicate frequently with our customers, giving them advice and tools to control their energy use and costs. We worked with nonprofit and community groups to educate our customers.

Annette Miller (right), an MGE Community Services Manager, explains how a setback thermostat can help customer Shiva Bidar-Sielaff save on her heating bills.



For the years ended December 31
(in thousands, except per-share amounts)

	2005	2004	2003
Operating Revenues			
Regulated	\$511,517	\$422,149	\$401,547
Nonregulated	1,853	2,732	1,023
Total Operating Revenues.....	513,370	424,881	402,570
Operating Expenses			
Fuel for electric generation.....	65,016	43,033	41,013
Purchased power.....	81,676	51,984	49,449
Natural gas purchased.....	146,110	114,646	104,163
Other operations and maintenance	117,552	115,633	112,155
Depreciation and amortization	29,275	24,917	23,344
Other general taxes.....	13,269	12,715	11,592
Total Operating Expenses.....	452,898	362,928	341,716
Operating Income	60,472	61,953	60,854
Other income, net	4,938	3,927	1,888
Interest expense.....	(13,448)	(11,384)	(12,201)
Income before income taxes.....	51,962	54,496	50,541
Income tax provision.....	(19,871)	(20,656)	(19,901)
Net Income	\$ 32,091	\$ 33,840	\$ 30,640
Earnings Per Share of Common Stock (basic and diluted).....	\$ 1.57	\$ 1.77	\$ 1.71
Dividends Paid Per Share of Common Stock	\$ 1.37	\$ 1.36	\$ 1.35
Average Shares Outstanding (basic and diluted)	20,436	19,119	17,894

For detailed financial information, see the 2005 MGE Energy Form 10-K.

CONSOLIDATED STATEMENTS OF CASH FLOWS



For the years ended December 31

(in thousands)

	2005	2004	2003
Operating Activities			
Net income.....	\$ 32,091	\$ 33,840	\$ 30,640
Items not affecting cash:			
Depreciation and amortization	29,275	24,917	23,344
Deferred income taxes.....	10,900	8,832	8,075
Amortization of investment tax credits.....	(460)	(502)	(516)
Equity in earnings in ATC*.....	(4,871)	(4,236)	(3,687)
Amortization of debt issuance costs and bond expense	493	516	484
Other items	695	639	(514)
Gain on the sale of property	—	(938)	—
Changes in working capital:			
Increase in current assets	(30,243)	(15,776)	(13,412)
Increase in current liabilities.....	8,515	7,942	5,723
Prepayments to ATC*	—	—	5,000
Other noncurrent items, net	3,432	4,330	11,009
Cash Provided by Operating Activities.....	49,827	59,564	66,146
Investing Activities			
Capital expenditures.....	(85,771)	(95,747)	(82,970)
ATC* – capital contribution.....	(1,376)	(3,475)	—
Dividend income from ATC*	3,550	3,055	2,640
Repayment (advance) from/to ATC* related to WCCF**.....	12,964	(2,308)	(9,223)
Proceeds from sale of property.....	—	1,592	—
Advance to Wisconsin Electric Power Co. for ATC* work	(1,599)	—	—
Capital calls.....	(310)	—	—
Other.....	359	(644)	(1,539)
Cash Used for Investing Activities.....	(72,183)	(97,527)	(91,092)
Financing Activities			
Issuance of common stock, net.....	2,259	63,154	23,162
Purchase of treasury stock	(119)	—	—
Cash dividends paid on common stock.....	(28,054)	(25,943)	(24,137)
Repayment of long-term debt	—	(20,000)	(20,000)
Issuance of long-term debt, net	20,000	—	50,000
Increase/(decrease) in short-term debt.....	29,225	21,595	(2,618)
Other.....	(1,128)	698	(183)
Cash Provided by Financing Activities.....	22,183	39,504	26,224
Change in Cash and Cash Equivalents	(173)	1,541	1,278
Cash and cash equivalents at beginning of period.....	3,504	1,963	685
Cash and cash equivalents at end of period.....	\$ 3,331	\$ 3,504	\$ 1,963

* American Transmission Co.

** West Campus Cogeneration Facility

For detailed financial information, see the 2005 MGE Energy Form 10-K.

At December 31

(in thousands)

Assets

Current Assets

	2005	2004
Cash and cash equivalents	\$ 3,331	\$ 3,504
Restricted cash	2,556	3,044
Accounts receivable, less reserves of \$2,734 and \$2,665, respectively	49,272	34,220
Other accounts receivable, less reserves of \$93 and \$90, respectively	9,079	22,820
Unbilled revenues.....	30,432	24,880
Materials and supplies, at lower of average cost or market.....	15,326	9,107
Fossil fuel	5,501	5,523
Stored natural gas, at lower of average cost or market	27,983	21,712
Prepaid taxes.....	12,436	14,510
Other prepayments	4,989	4,967
Total Current Assets	160,905	144,287
Other long-term receivables	3,969	1,417
Special billing projects.....	1,786	3,121
Regulatory assets	34,024	24,419
Deferred Charges.....	11,120	12,110
Property, Plant and Equipment, Net	611,419	480,725
Construction work in progress	56,238	127,244
Total Property, Plant, and Equipment.....	667,657	607,969
Other Property and Investments.....	37,446	35,448
Total Assets.....	\$916,907	\$828,771

Liabilities and Capitalization

Current Liabilities

Short-term debt – commercial paper.....	\$ 82,500	\$ 53,275
Accounts payable.....	49,502	42,488
Accrued interest and taxes.....	3,328	3,101
Deferred income taxes	4,061	2,994
Other current liabilities.....	13,589	16,195
Total Current Liabilities.....	152,980	118,053

Other Credits

Deferred income taxes.....	99,329	87,214
Investment tax credit – deferred.....	3,929	4,389
Regulatory liabilities.....	21,748	29,366
Accrued pension and other postretirement benefits	55,504	42,138
Other deferred liabilities.....	17,222	7,157
Total Other Credits.....	197,732	170,264

Capitalization

Common shareholders' equity.....	343,883	338,197
Long-term debt.....	222,312	202,257
Total Capitalization.....	566,195	540,454
Commitments and Contingencies.....	—	—
Total Liabilities and Capitalization.....	\$916,907	\$828,771

For detailed financial information, see the 2005 MGE Energy Form 10-K.

CONSOLIDATED STATEMENTS OF CAPITALIZATION



At December 31 <i>(in thousands)</i>	2005	2004
Common Shareholders' Equity		
Common stock – par value \$1 per share:		
Authorized 50,000,000 shares		
Issued 20,454,496 and 20,389,619 shares, respectively	\$ 20,454	\$ 20,390
Common stock held in treasury, at cost (3,384 shares).....	(119)	—
Additional paid-in capital	231,877	229,682
Retained earnings.....	91,476	87,439
Accumulated other comprehensive income (net of tax)	195	686
Total Common Shareholders' Equity	343,883	338,197
First Mortgage Bonds		
7.70%, 2028 Series.....	1,200	1,200
Other Long-Term Debt		
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
5.19%, due 2033.....	20,000	—
Total Other Long-Term Debt	222,300	202,300
Unamortized discount.....	(1,188)	(1,243)
Total Long-Term Debt	222,312	202,257
Total Capitalization	\$566,195	\$540,454

For detailed financial information, see the 2005 MGE Energy Form 10-K.

DIRECTORS OF MGE ENERGY AND MGE



Richard E. Blaney
Retired President
Richard Blaney Seeds Inc.
Age 69
Director since 1974



John R. Nevin
Executive Director, Center for Brand and Product Management; Executive Director, Grainger Center for Supply Chain Management; and Professor, School of Business, University of Wisconsin-Madison
Age 62
Director since 1998



F. Curtis Hastings
Chairman
J. H. Findorff & Son, Inc.
Commercial and industrial general contractors
Age 60
Director since 1999



Donna K. Sollenberger
President and Chief Executive Officer
University of Wisconsin Hospital and Clinics
Age 56
Director since 2000



Regina M. Millner
President
RMM Enterprises Inc.
Attorney, analyst and broker
Age 61
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 67
Director since 1988



Frederic E. Mohs
Partner
Mohs, MacDonald, Widder & Paradise, Attorneys at Law
Age 68
Director since 1975



Gary J. Wolter
Chairman, President and Chief Executive Officer
MGE Energy, Inc., and Madison Gas and Electric Co.
Age 51
Director since 2000

Audit Committee

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

Executive Committee

Directors Blaney, Mohs, Swanson and Wolter.

Compensation Committee

Directors Blaney, Mohs* and Swanson.

Governance Committee

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

* Committee Chair

Note: Ages as of Dec. 31, 2005.

OFFICERS OF MGE ENERGY AND MGE



Gary J. Wolter*
Chairman, President and
Chief Executive Officer
Age 51
Years of Service, 21



Terry A. Hanson*
Vice President, Chief
Financial Officer and
Secretary
Age 54
Years of Service, 24



Jeffrey C. Newman*
Vice President and Treasurer
Age 43
Years of Service, 21



Lynn K. Hobbie
Senior Vice President
Age 47
Years of Service, 20



Mark T. Maranger
Senior Vice President
Age 57
Years of Service, 4



James G. Bidlingmaier
Vice President –
Administration and Chief
Information Officer
Age 59
Years of Service, 33



Kristine A. Euclide
Vice President and
General Counsel
Age 53
Years of Service, 4



Scott A. Neitzel
Vice President –
Energy Supply Policy
Age 45
Years of Service, 8



Peter J. Waldron
Vice President –
Energy Supply Operations
Age 48
Years of Service, 25



Gregory A. Bollom
Assistant Vice President –
Energy Planning
Age 45
Years of Service, 23



Joseph P. Pellitteri
Assistant Vice President –
Human Resources
Age 57
Years of Service, 6



John M. Yogerst
Assistant Vice President –
Gas Operations
Age 48
Years of Service, 25

* Officers of MGE Energy and MGE. All others are MGE officers.
Note: Ages and years of service as of Dec. 31, 2005.

2006 ANNUAL SHAREHOLDER MEETING

Tuesday, May 23, 2006
 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,
 Kari Foster,
 Lynne Harper.*

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.

Materials 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).
- Dividend Reinvestment and Direct Stock Purchase Plan.

National Association of Investors Corp.

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

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.

2006 EXPECTED RECORD AND DIVIDEND PAYMENT DATES

MGEE Common Stock	
Record Dates	Payment Dates
March 1	March 15
June 1	June 15
Sept. 1	Sept. 15
Dec. 1	Dec. 15

FOR ASSISTANCE AND TRANSFER AGENT INQUIRIES

Contact MGE Energy Shareholder Services by phone, mail or e-mail.

E-mail: investor@mgeenergy.com

Web Address: 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 S. Blair St.
 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 N. Wacker Drive
 Chicago, IL 60606

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

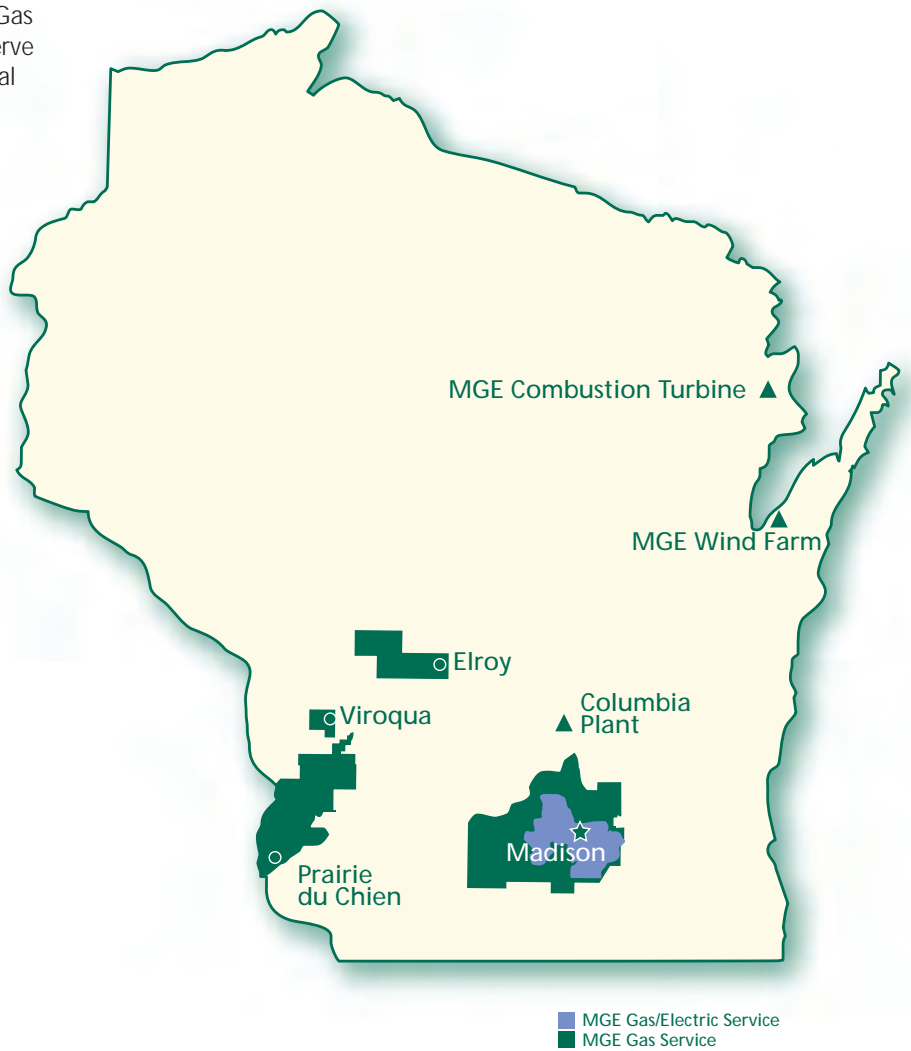
MGE Power owns assets in the West Campus Cogeneration Facility in Madison, Wis., and the Elm Road coal plant under construction at Oak Creek, Wis.

MGE Transco Investment owns interest in the American Transmission Co. through its members, MGE and MGE Energy.

MGE Construct provides construction services for building new generation facilities.

Central Wisconsin Development Corp. promotes business growth in MGE's service area.

MAGAEL holds title to properties acquired for future utility plant expansion.



MGE ELECTRIC SERVICES

Generation and Distribution

Customers: 136,000

Population: 286,000

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

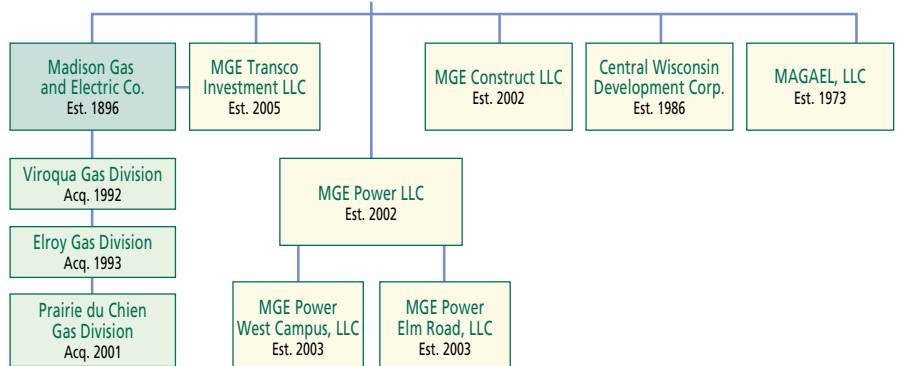
Customers: 137,000

Population: 397,000

Area: 1,350 square miles

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

Learn more at www.mgeenergy.com





P.O. Box 1231
Madison, WI 53701-1231

www.mgeenergy.com