



2007 Summary Annual Report

innovation at work



innovation at work



About the Cover

We put innovation to work when we constructed our first wind farm—built in 1999 in Kewaunee County, Wis. At the time, it was the largest wind project east of the Mississippi.

Nathaniel and Olivia Theys are now growing up everyday with this wind technology in their backyard. As the next generation of energy consumers, they will benefit from a cleaner environment and a responsible energy future.

Building on this vision and initiative, MGE Energy recently completed its second major wind farm in Iowa. Our \$58 million, 30-megawatt wind farm began operation in early 2008.

As you read this report, you'll learn how we constantly build on our experience and knowledge to manage our company. We put innovation to work for our customers and loyal investors.

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MGE Energy, Inc.

MGE Energy is an investor-owned public utility holding company headquartered in the state capital of Madison, Wis. MGE Energy is the parent company of Madison Gas and Electric Co. The utility provides natural gas and electric service in south-central and western Wisconsin. Assets total \$1.1 billion. In 2007, revenue was more than \$537 million. See the Corporate Profile on page 21.

2007 Highlights

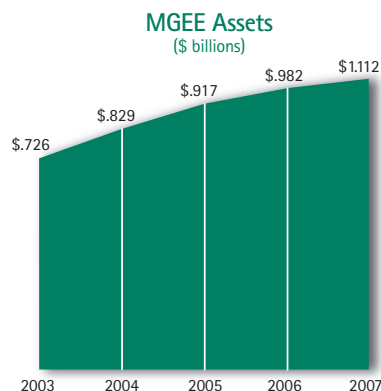


MGE Energy (MGEE)

Year at a Glance

(Thousands, except per-share amounts)

| | 2007 | 2006 | Increase/ (Decrease) | % Change |
|--------------------------------------|--------------|------------|-------------------------|-------------|
| Operating Revenues | \$ 537,594 | \$ 507,546 | \$ 30,048 | 5.9 |
| Net Income | \$ 48,825 | \$ 42,423 | \$ 6,402 | 15.1 |
| Basic and Diluted Earnings Per Share | \$ 2.27 | \$ 2.06 | \$ 0.21 | 10.2 |
| Dividends Declared Per Share | \$ 1.41 | \$ 1.39 | \$ 0.02 | 1.4 |
| Dividend Payout Ratio | 62.1% | 67.5% | (5.4) | (8.0) |
| Average Shares Outstanding | 21,520 | 20,564 | 956 | 4.6 |
| Shares Outstanding at Year End | 21,950 | 20,975 | 975 | 4.6 |
| Return on Average Common Equity | 12.1% | 12.0% | 0.12 | 1.0 |
| Book Value Per Share | \$ 19.88 | \$ 18.25 | \$ 1.63 | 8.9 |
| Market Price Per Share (Dec. 31) | \$ 35.47 | \$ 36.58 | \$ (1.11) | (3.0) |
| Total Market Value (Dec. 31) | \$ 778,567 | \$ 767,266 | \$ 11,301 | 1.5 |
| Total Assets | \$ 1,111,587 | \$ 982,232 | \$ 129,355 | 13.2 |
| Total Electric Sales (kWh) | 3,431,509 | 3,347,701 | 83,808 | 2.5 |
| Total Gas Deliveries (therms) | 215,193 | 202,994 | 12,199 | 6.0 |



For detailed financial information, see the 2007 MGE Energy Form 10-K.



to our shareholders

built on innovation



Gary J. Wolter, MGE Energy Chairman, President and Chief Executive Officer, with the city of Madison, Wisconsin's state capital, in the background.

For generations, we have put innovation to work at MGE Energy. It is embedded in our culture. For us, innovation is not just a new product or technology. Instead, innovation is fundamental to how we conduct and build our business. It is an integral part of our process. At MGE Energy, we encourage our employees to generate ideas and take initiative—to imagine how things can be better.

Because of our innovative approach, MGE Energy stands out year after year as an industry leader—in financial performance, in serving customers and in environmental stewardship. We create the solutions that address the challenges we face.

Financial performance

Innovation turns creativity into success. Innovation drives business growth, increases the bottom line and produces results for our shareholders.

MGE Energy reached a milestone when its assets topped \$1 billion in 2007. In the last five years, assets have grown from \$726 million to \$1.1 billion.

This steady growth in assets helped produce record earnings of \$2.27 per share in 2007. Sales growth in electric deliveries to the residential and commercial sectors also contributed to these earnings. Your company has produced record earnings for four of the last five years.

In 2007, your Board of Directors raised the regular quarterly dividend to \$0.355 per share on the company's common stock. The amount of the dividend increase was double 2006's change and the largest increase in 15 years. Cash dividends paid in 2007 totaled \$1.41 per share. MGE Energy is one of only 95 U.S. companies and one of six electric utilities to raise dividends annually for 30 or more consecutive years.

Independent rating agencies have taken note of our performance. Madison Gas and Electric Co. (MGE), our main subsidiary, maintained the highest bond rating (AA-) of all investor-owned, combination utilities in the nation from Standard & Poor's. Likewise, Moody's Investor Service gives MGE the high mark of Aa2 for its sound business strategy and supportive regulatory environment. MGE Energy's financial performance earned one of Value Line's top ratings for financial strength and its highest ranking for a safe investment.

Energy future

Technology is shaping the future of our industry. We are investing in new projects that provide reliable energy and environmental stewardship.

I am proud that we recently commissioned a new 30-megawatt, MGE Energy wind farm. In the last year, our wind energy capacity increased from 11 to 87 megawatts with the new project and two other wind farms from which we purchase energy.

Dividends Paid Per Share
(rounded)



Top Credit Quality
(MGE)

S&P

Corporate Credit: **AA-**
Outlook: **Stable**

Moody's

Secured: **Aa2**
Outlook: **Stable**

Wind Energy Capacity
(megawatts)





to our shareholders



This increase in renewable energy has allowed us to significantly expand our green pricing program and lower the cost of our green pricing for customers. Our Green Power Tomorrow program provides a clean mix of solar and wind power.

While these renewable energy projects are moving forward, we also are developing new baseload energy. MGE Energy is investing in a cleaner coal power plant expansion on Lake Michigan. This state-of-the-art generation facility will supply affordable, reliable energy with far lower emission rates than standard coal-fired plants.

Commitments to the environment

As we modernize our fleet of electric generation, we recognize our responsibility to protect the environment. MGE developed a 10-year electric supply plan—called Energy 2015—that is anticipated to produce significantly lower emission rates. We expect the combination of more green energy, switching to new coal generation, greater customer conservation and new technologies to drive down emission rates for carbon dioxide, sulfur dioxide, nitrogen oxide, particulates and mercury.

Part of the way we pursue environmental innovation is to invest in demonstration projects. For example, we have more than a dozen solar photovoltaic demonstrations in our service area. We learn which specific solar technologies are most effective in our climate and best serve our customers.

Prospering economy

Innovation goes hand-in-hand with the rapidly growing, knowledge-based economy in our service area. Madison is in the center of the Midwest's I-Q Corridor. In fact, bizjournals.com lists Madison as the fourth "brainiest" medium-sized city in the nation.

For years, our company has been in step with the area's emerging economies—first the high-tech fields and more recently the biotech industry. Life sciences is a \$5 billion industry in Wisconsin, and it's centered in Madison. With \$125 million earmarked for a new federal bioenergy research center here, we expect the biofuels sector to be the next significant frontier.

Our service territory is not just a high-tech powerhouse. The greater Madison area also is a wonderful place to live. Middleton, a flourishing suburb, was named No. 1 of the 100 "Best Places to Live" nationally by *Money* magazine. It's no wonder our area is growing. From 2000 to 2030, Dane County's population is estimated to grow 36%—adding more than 150,000 new residents.

Projects to meet growing demand

This vibrant growth requires infrastructure to meet increasing energy demands. In addition to investing in new generation, we also continually improve the systems that deliver energy. Just southwest of Madison, Fitchburg and Verona are rapidly expanding. In 2007, MGE installed new natural gas lines and other facilities to boost gas capacity for this area.



The Midwest's I-Q Corridor is a region packed with ideas and a knowledge-based economy—especially in biotech, biofuels and technology development.



Left photo: Tim Caruso (left) and Tony Masino help oversee an MGE natural gas expansion project.

Right photo: Ken Alderson (left) and Scott Lindloff check control panels in MGE's East Campus Substation.

MGE made significant upgrades to the electric system serving parts of downtown Madison and the University of Wisconsin-Madison campus. To power this fast-growing area, the capacity of the East Campus Substation was increased by 50%. Three new building developments—with a total of \$380 million in construction—are significantly increasing electric load within blocks of the substation.

Employee innovation

We encourage our employees to make business improvements through innovation. Our employees were resourceful in creating a flexible database to manage compliance with new federal electric reliability standards. These standards are designed to protect the country's electric system. Other utilities have turned to MGE for advice on creating their own databases.

Another group of creative employees faced a daunting task last summer. Raging floodwaters submerged parts of western Wisconsin where MGE provides natural gas service. Worst hit was the village of Gays Mills. Drawing on their ingenuity, our employees used the assistance of a swift-water rescue team to safely turn off submerged gas valves. Later, employees isolated the areas with the worst flooding to keep other customers in service.

Director changes

Londa J. Dewey, president of The QTI Group, was elected to the Board of Directors effective Feb. 1, 2008. Donna K. Sollenberger resigned from the board in 2007 after seven years of dedicated service. We wish her well in her new job in Houston.

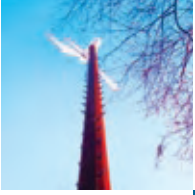
Built on innovation

You can count on us to combine innovation and initiative with our sound business principles. We are committed to excellent customer service and outstanding shareholder returns.

Thank you for your confidence in MGE Energy.

A handwritten signature in black ink that reads "Gary J. Wolter".

Gary J. Wolter
Chairman, President and Chief Executive Officer



We use new electric generation technologies to create a cleaner energy future.

innovation

new energy solutions at work

Our experience with wind energy illustrates that innovation is core to how we conduct our business. In the early 1980s, we began monitoring potential wind sites. By 1984, MGE had three of its own pilot wind projects.

In 1999, MGE took a bold step and constructed the largest wind farm east of the Mississippi. This wind farm remains an integral part of our growing renewable energy mix.

In the last year, we grew our wind power capacity by nearly eight times—from 11 to 87 megawatts. We are harvesting clean wind energy from a new \$58 million MGE wind farm and purchasing energy from two other installations.

Innovating with technology is one key to meeting tomorrow's energy needs.

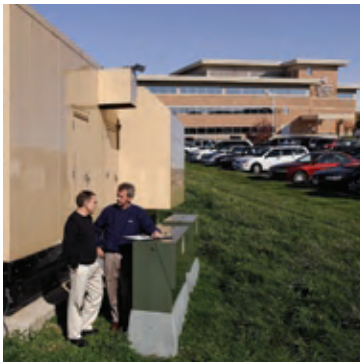


At MGE Energy's new wind farm, a crane hoists the blades to the top of a 260-foot-tall tower.



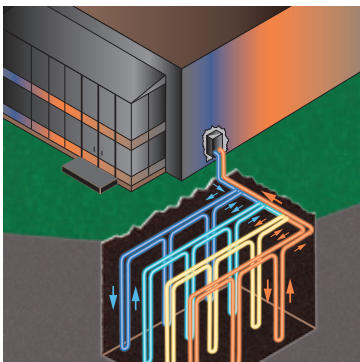
Modernizing generation assets. MGE's Energy 2015 plan is a comprehensive 10-year electric generation strategy. We are retiring old, less efficient coal generation while investing in a cleaner coal power plant with state-of-the-art emission controls. Our renewable wind resources have increased nearly eight times. In 2005, MGE commissioned a natural gas-fired cogeneration facility, one of the cleanest and most efficient power plants in the Midwest. MGE works to provide the best balance of cost and efficiency to deliver reliable energy with the least environmental impacts.

MGE Energy is a partner in We Energies' Oak Creek power plant expansion. This cleaner coal facility is under construction and set to come online beginning in 2009.



Improving reliability. We look for win-win situations that can benefit local businesses while improving electric reliability for all customers. In 1998, MGE launched a new program—the Backup Generation Service. Since then, the program's success has been firmly established. Customers in the program pay a charge for the assurance of backup generation. If power to the customer's facility is interrupted, the generator automatically starts. The program's 55 generators also provide an additional 45 megawatts of generating capacity for MGE to use during peak electric use periods.

Bob Connor (right), an MGE account manager, and Kevin Snitchler, a Dean Health System administrator, check the large generator behind them. The Dean West Clinic and Urgent Care uses backup generation service.



Demonstrating technologies. For years, MGE has invested in pilot technology projects to better understand highly efficient and renewable energy systems. The geothermal heat pump, an evolving technology, is an example. MGE recently installed geothermal heat pumps to handle the heating and air-conditioning needs at Madison's new Lussier Community Center. The unit extracts the earth's heat and uses it to help warm the building in the winter and cool it in the summer. We expect an overall energy savings of 30%. MGE gains expertise from technology projects that we then share with customers.

A geothermal heat pump uses a series of looped pipes to capture the earth's temperature. Fluid circulates through the pipes and transfers the energy to pumps that amplify the heating or cooling.



MGE Energy helps seed future economic growth. We support the discoveries that spur our local high-tech, biotech economy.

innovation
putting our economy to work

MGE has long encouraged business incubators. In 1989, the MGE Innovation Center opened with space for 12 tenants at the UW Research Park. The very first tenant was a small biotech start-up called Novagen—now a successful Madison-based company. In total, the Innovation Center has spawned over 70 high-tech and biotech firms.

We have provided support for eight business incubators. Madison has more business incubators per capita than most U.S. cities. In fact, Madison is one of 30 “Fast Cities” around the world, according to *Fast Company* magazine. Fast Cities are places “where the most important ideas and the organizations of tomorrow are centered.”

MGE Energy is dedicated to promoting economic success.

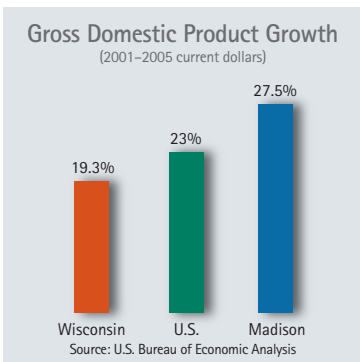


Anthony Lauer is an associate scientist at Mirus Bio Corp.—a leader in gene therapy and gene silencing. Mirus is graduating from the MGE Innovation Center and expanding into a new facility with 50% more space.



Tapping the potential. Bioenergy research is gaining a strong foothold in Madison with the new Great Lakes Bioenergy Research Center. The University of Wisconsin-Madison earned a \$125 million federal grant to fund the new center, which will research ways to convert plant matter into fuel for automobiles and power plants. MGE is one of the center's corporate partners and was instrumental in helping UW-Madison secure the grant. The center may become a magnet in Madison for bioenergy companies.

Phyllis Wilhelm (left), MGE's economic development director, and Molly Jahn, dean of the UW's College of Agriculture and Life Sciences, collaborated to secure the bioenergy grant.



Healthy economy. Madison, with its wealth of high-tech and biotech companies, is well positioned to compete in the global economy of the 21st century. One important indicator is the growth of Madison's gross domestic product (GDP), which is stronger than the state's or nation's. The GDP is a key instrument used to measure an economy. And, Madison's success has not gone unnoticed. In 2007, Madison was named in the nation's top 10 metro areas for income growth and in the top 15 metro areas for companies actively looking to expand or relocate their facilities.

Madison's gross domestic product surpassed the state's and nation's from 2001 to 2005. The GDP measures the total market value of goods and services produced.



Locally grown. MGE's Shared Savings financing program is about to reach the \$25 million mark after 15 years of helping grow local businesses. Firms can use a Shared Savings loan to finance energy efficiency improvements to their businesses. The companies pay off the financing with savings in their energy budgets. Businesses save energy and money, while MGE is able to help support the local economy. A recent loan to Eflexgroup.com, an innovator in the flexible spending account industry, helped the company relocate to a new, larger corporate facility.

Ric Joyner (left), COO of Eflexgroup.com, worked with Randy Popp, an MGE engineer, to secure a \$200,000 loan for high-efficiency heating and cooling equipment.



Innovation is key to our efforts to create a healthier environment.

innovation environmental commitments that work

More than 30 years ago, MGE and the Wisconsin Utilities Association built an experimental solar-powered home. As the technology advanced, so did we. In the mid-1980s, MGE conducted various solar photovoltaic energy research projects.

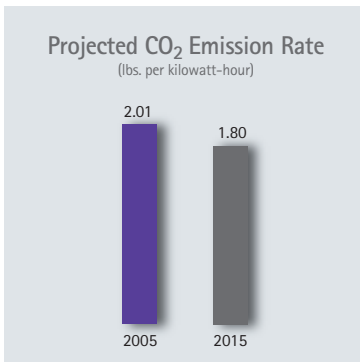
By the early 2000s, solar technology was far more efficient. We launched new demonstration projects including solar installations on all the high schools in our electric service area.

We learn about renewable technology options to find ways to offer innovative programs. Now, we are launching a new program to encourage customers to install their own solar units that feed into our electric grid.

Renewable energy is growing at MGE Energy.



New solar panels collect energy on the 100-year-old home of MGE customers Jean and Dr. Jonathan Patz, a university professor and a member of a U.N. climate change panel awarded the 2007 Nobel Peace Prize.



Reducing emissions. We work to protect our environment while providing reliable energy. MGE anticipates its Energy 2015 plan will produce lower emission rates across the board—even though electric use is growing. Energy 2015 is a balanced plan that combines building more renewable energy, retiring older coal facilities, switching to cleaner coal generation and encouraging greater customer conservation. This combination is projected to lower emission rates for carbon dioxide, sulfur dioxide, nitrogen oxide, particulates and mercury by 2015.

Even though carbon dioxide (CO₂) is not currently regulated, MGE is working to reduce CO₂ emissions. We project a decrease in MGE's CO₂ emission rates. For more details, see our Environmental Responsibility Report on mgeenergy.com.



Renewable fuels. MGE has supported Virent Energy System's ground-breaking work to turn plant sugars into fuel for generators and engines. Virent is a local company commercializing technology that can help us move from a fossil-fuel economy to one using renewable fuels. In a demonstration project, Virent's SuperNatural™ gas prototype system fuels an internal combustion engine that can generate 10 kilowatts of electricity for MGE customers. We recognize how this type of visionary technology is needed to drive a cleaner future.

Greg Keenan, vice president of business development at Virent Energy Systems, leads engineering and business development. MGE was an early, local supporter of Virent that has grown significantly since it was founded in 2002.



Mercury free. MGE is a leader in installing mercury-free encoders in the meters on customers' homes and businesses. When MGE decided to install an automated meter reading system, we asked the manufacturer to develop mercury-free encoders—which have now become the industry standard in the United States. We look for opportunities to go beyond compliance in day-to-day operations and pursue clean options.

This small encoder allows MGE to read meters remotely. With about 275,000 encoders throughout our service area, it was important to us that the devices be mercury free and environmentally friendly.



We work hard to listen and stay connected. This is how we make a difference in the communities we serve.

innovation community connections at work

Responding to customer needs is a long-standing commitment. In the 1980s, when the United States faced an energy crisis, MGE stepped up its conservation efforts. Our home energy audit program ranked second in the nation in 1983.

More recently, open discussions at our town-hall meetings, called Community Energy Conversations, helped us better understand our customers' preferences for future energy supply. The discussions shaped our Energy 2015 plan.

Former MGE Chairman Frederick Mackie (above) explained our position well in 1976: *"We do want our customers and stockholders to understand the decisions we must make are for the sake of running our business properly and in response to their needs. This presents a real challenge, but we believe it can be met."*

It's a challenge we still meet today.



Mayra Medrano, an MGE customer service representative, meets with MGE green power customers Vickie Hackbarth and Mark Shimasaki.



Solar lighting. MGE and the University of Wisconsin-Madison worked closely with the community to plan the West Campus Cogeneration Facility. This natural gas-fired plant provides electricity to MGE customers and heating/cooling to the campus. MGE and UW-Madison joined with others and made commitments to improve our local environment. Now, we are completing our final commitment with solar lighting along a new campus bike path. This \$220,000 photovoltaic technology project draws attention to renewable energy while providing safe lighting at night. The bike path opens in 2008.

Bob Stoffs (left), an MGE community services manager, and Rob Kennedy, a UW-Madison transportation supervisor, check a solar panel during bike path construction.



Community ties. We continuously create opportunities for stakeholders to engage with us. MGE asked community members to serve on an advisory committee to help shape our Environmental Cooperative Agreement with the Wisconsin Department of Natural Resources. We recently renewed the voluntary five-year agreement that commits us to superior environmental performance at Blount Generating Station.

Several Community Environmental Advisory Group members meet at MGE including (left to right) John Shenot, DNR environmental assistance coordinator; Rich Bogovich, a local environmentalist; Michael Ricciardi, MGE's environmental director; and Judy Olson, former Madison alderperson.



Power of working together. When we partner with others, we can reach customers more effectively. For example, we are working with the City of Madison on the city's Clean Energy Challenge to reduce greenhouse gases. Some of our most rewarding collaborations involve teaching the next generation. MGE reaches thousands of students through classroom programs. Last summer, we took another step with the Boys and Girls Club and sponsored a series of energy education projects.

Jesse Shields (right), an MGE marketing representative, helps Anthony Washington cook a hot dog in a solar oven. Children at the Boys and Girls Club of Dane County constructed solar ovens to learn more about clean, renewable energy sources.

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

| | 2007 | 2006 | 2005 |
|--|------------------|------------------|------------------|
| Operating Revenues | | | |
| Regulated revenues..... | \$ 532,413 | \$ 504,138 | \$ 511,517 |
| Nonregulated revenues..... | 5,181 | 3,408 | 1,853 |
| Total Operating Revenues..... | 537,594 | 507,546 | 513,370 |
| Operating Expenses | | | |
| Fuel for electric generation..... | 56,694 | 49,227 | 65,016 |
| Purchased power..... | 77,594 | 77,164 | 81,676 |
| Natural gas purchased..... | 140,838 | 129,331 | 146,110 |
| Other operations and maintenance..... | 130,831 | 126,086 | 117,552 |
| Depreciation and amortization..... | 32,199 | 31,342 | 29,275 |
| Other general taxes..... | 15,771 | 15,402 | 13,269 |
| Total Operating Expenses..... | 453,927 | 428,552 | 452,898 |
| Operating Income..... | 83,667 | 78,994 | 60,472 |
| Other income, net..... | 6,069 | 4,329 | 4,938 |
| Interest expense..... | (13,056) | (15,001) | (13,448) |
| Income before income taxes..... | 76,680 | 68,322 | 51,962 |
| Income tax provision..... | (27,855) | (25,899) | (19,871) |
| Net Income..... | \$ 48,825 | \$ 42,423 | \$ 32,091 |
| Earnings Per Share of Common Stock (basic and diluted)..... | \$ 2.27 | \$ 2.06 | \$ 1.57 |
| Dividends Paid Per Share of Common Stock..... | \$ 1.41 | \$ 1.39 | \$ 1.37 |
| Average Shares Outstanding (basic and diluted)..... | 21,520 | 20,564 | 20,436 |

Consolidated Statements of Cash Flows



For the years ended December 31
(in thousands)

Operating Activities

| | 2007 | 2006 | 2005 |
|---|-----------|-----------|-----------|
| Net income..... | \$ 48,825 | \$ 42,423 | \$ 32,091 |
| Items not affecting cash: | | | |
| Depreciation and amortization..... | 32,199 | 31,342 | 29,275 |
| Deferred income taxes..... | 750 | 5,241 | 10,900 |
| Amortization of investment tax credits..... | (410) | (432) | (460) |
| AFUDC – equity funds..... | (1,927) | (554) | (414) |
| Equity earnings in ATC*..... | (6,047) | (5,317) | (4,871) |
| Employee benefit plan expenses..... | 8,101 | 10,178 | 9,665 |
| Provision for doubtful accounts receivable..... | 3,080 | 3,230 | 2,080 |
| Amortization of debt issuance costs and discount..... | 543 | 595 | 493 |
| Reserve for fuel refund..... | – | 2,312 | – |
| Gain on sale of investments..... | (778) | – | – |
| Other items..... | 1,950 | 653 | 1,109 |
| Changes in working capital items: | | | |
| (Increase) decrease in current assets..... | (12,312) | 13,042 | (32,323) |
| Increase (decrease) in current liabilities..... | 3,818 | (4,299) | 8,515 |
| Proceeds from Congestion Cost and Line Loss Allocation Agreement..... | 2,545 | – | – |
| Dividend income from ATC*..... | 4,441 | 4,003 | 3,550 |
| Cash contributions to pension and other postretirement plans..... | (6,346) | (5,779) | (5,536) |
| Other noncurrent items, net..... | (1,846) | 4,401 | (697) |
| Cash Provided by Operating Activities..... | 76,586 | 101,039 | 53,377 |

Investing Activities

| | | | |
|--|-----------|----------|----------|
| Capital expenditures..... | (136,258) | (92,575) | (85,771) |
| Capital contributions to ATC* and other investments..... | (255) | (1,974) | (1,686) |
| Repayment from ATC* related to WCCF**..... | – | – | 12,964 |
| Proceeds from sale of property to ATC*..... | 724 | – | – |
| Advance to Wisconsin Electric Power Co. for ATC* work related to Elm Road..... | (138) | (808) | (1,599) |
| Other..... | 1,136 | 916 | 359 |
| Cash Used for Investing Activities..... | (134,791) | (94,441) | (75,733) |

Financing Activities

| | | | |
|---|----------|----------|----------|
| Issuance of common stock, net..... | 32,786 | 17,050 | 2,259 |
| Issuance (purchase) of treasury stock..... | – | 119 | (119) |
| Cash dividends paid on common stock..... | (30,295) | (28,513) | (28,054) |
| Repayment of long-term debt..... | (15,000) | – | – |
| Issuance of long-term debt..... | 25,000 | 30,000 | 20,000 |
| Increase (decrease) in short-term debt..... | 46,500 | (25,500) | 29,225 |
| Other..... | – | (82) | (1,128) |
| Cash Provided by/(Used for) Financing Activities..... | 58,991 | (6,926) | 22,183 |

Change in Cash and Cash Equivalents.....

| | | | |
|---|----------|----------|----------|
| Change in Cash and Cash Equivalents..... | 786 | (328) | (173) |
| Cash and cash equivalents at beginning of period..... | 3,003 | 3,331 | 3,504 |
| Cash and cash equivalents at end of period..... | \$ 3,789 | \$ 3,003 | \$ 3,331 |

* American Transmission Co.

** West Campus Cogeneration Facility

At December 31
(in thousands)

Assets

Current Assets

| | | |
|---|----------|----------|
| Cash and cash equivalents | \$ 3,789 | \$ 3,003 |
| Restricted cash | 2,896 | 4,243 |
| Accounts receivable, less reserves of \$3,709 and \$3,489, respectively..... | 43,668 | 33,397 |
| Other accounts receivable, less reserves of \$114 and \$107, respectively | 3,397 | 4,508 |
| Unbilled revenues | 30,370 | 26,038 |
| Materials and supplies, at lower of average cost or market | 14,809 | 15,052 |
| Fossil fuel | 5,136 | 6,010 |
| Stored natural gas, at lower of average cost or market | 28,483 | 31,465 |
| Prepaid taxes | 14,696 | 13,748 |
| Regulatory assets – current | 189 | 4,270 |
| Other current assets | 8,242 | 7,679 |

| | | |
|----------------------------|---------|---------|
| Total Current Assets | 155,675 | 149,413 |
|----------------------------|---------|---------|

| | | |
|-----------------------------------|--------|--------|
| Other long-term receivables | 6,166 | 4,631 |
| Special billing projects | 999 | 1,861 |
| Regulatory assets | 53,375 | 50,841 |
| Other deferred charges | 5,881 | 5,874 |

| | | |
|---|---------|---------|
| Property, Plant and Equipment, Net | 638,774 | 632,474 |
|---|---------|---------|

| | | |
|-------------------------------------|---------|--------|
| Construction work in progress | 205,214 | 95,949 |
|-------------------------------------|---------|--------|

| | | |
|--|---------|---------|
| Total Property, Plant, and Equipment | 843,988 | 728,423 |
|--|---------|---------|

| | | |
|---|--------|--------|
| Other Property and Investments | 45,503 | 41,189 |
|---|--------|--------|

| | | |
|--------------------|-------------|------------|
| Total Assets | \$1,111,587 | \$ 982,232 |
|--------------------|-------------|------------|

Liabilities and Capitalization

Current Liabilities

| | | |
|--|-----------|-----------|
| Long-term debt due within one year | \$ 30,000 | \$ 15,000 |
| Short-term debt | 103,500 | 57,000 |
| Accounts payable | 58,498 | 45,063 |
| Accrued interest and taxes | 3,964 | 3,430 |
| Deferred income taxes | 4,153 | 3,917 |
| Regulatory liabilities – current | 2,924 | 2,943 |
| Pension liability – current | 607 | 614 |
| Other current liabilities | 16,466 | 15,894 |
| Total Current Liabilities | 220,112 | 143,861 |

Other Credits

| | | |
|---|---------|---------|
| Deferred income taxes | 107,393 | 101,700 |
| Investment tax credit – deferred | 3,087 | 3,497 |
| Regulatory liabilities | 20,885 | 24,207 |
| Accrued pension and other postretirement benefits | 74,056 | 76,050 |
| Other deferred liabilities | 25,982 | 20,285 |
| Total Other Credits | 231,403 | 225,739 |

Capitalization

| | | |
|-----------------------------------|---------|---------|
| Common shareholders' equity | 427,726 | 375,348 |
| Long-term debt | 232,346 | 237,284 |
| Total Capitalization | 660,072 | 612,632 |

| | | |
|-------------------------------------|---|---|
| Commitments and Contingencies | – | – |
|-------------------------------------|---|---|

| | | |
|--|-------------|------------|
| Total Liabilities and Capitalization | \$1,111,587 | \$ 982,232 |
|--|-------------|------------|

Consolidated Statements of Capitalization



At December 31
(in thousands)

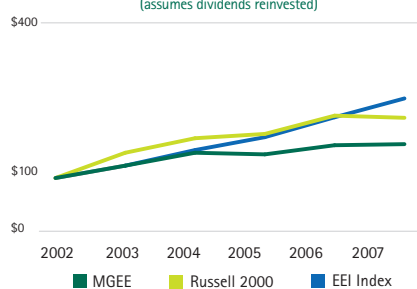
| | 2007 | 2006 |
|---|-------------------|-------------------|
| Common Shareholders' Equity | | |
| Common stock – par value \$1 per share: | | |
| Authorized 50,000,000 shares | | |
| Issued 21,950,335 and 20,975,392 shares, respectively | \$ 21,950 | \$ 20,975 |
| Additional paid-in capital | 280,217 | 248,406 |
| Retained earnings..... | 123,916 | 105,386 |
| Accumulated other comprehensive income, net of tax..... | 1,643 | 581 |
| Total Common Shareholders' Equity | 427,726 | 375,348 |
| Redeemable Preferred Stock | | |
| Cumulative, \$25 par value, 1,175,000 authorized but unissued | – | – |
| First Mortgage Bonds | | |
| 7.70%, 2028 Series | 1,200 | 1,200 |
| Other Long-Term Debt | | |
| 7.49%, due 2007..... | – | 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 |
| 5.25%, due 2017 | 30,000 | 30,000 |
| 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 | 20,000 |
| 6.247%, due 2037..... | 25,000 | – |
| Total Other Long-Term Debt..... | 262,300 | 252,300 |
| Long-term debt due within one year | (30,000) | (15,000) |
| Unamortized discount..... | (1,154) | (1,216) |
| Total Long-Term Debt..... | 232,346 | 237,284 |
| Total Capitalization..... | \$ 660,072 | \$ 612,632 |

Cumulative Five-Year Total Return Comparison

Assumes \$100 invested on Dec. 31, 2002, in each of the Company's Common Stock, Russell 2000 and the EEI Index.

Cumulative Five-Year Total Return Comparison

(assumes dividends reinvested)



| | MGEE | Russell 2000 | EEI Index |
|------|-------|--------------|-----------|
| 2002 | \$100 | \$100 | \$100 |
| 2003 | \$123 | \$147 | \$123 |
| 2004 | \$147 | \$174 | \$152 |
| 2005 | \$144 | \$182 | \$176 |
| 2006 | \$161 | \$216 | \$213 |
| 2007 | \$163 | \$212 | \$248 |

Directors of MGE Energy and MGE



Richard E. Blaney
Retired President
Richard Blaney Seeds Inc.
Age 71
Director since 1974



Frederic E. Mohs
Partner
Mohs, MacDonald, Widder
& Paradise, Attorneys at Law
Age 70
Director since 1975



Londa J. Dewey
President
The QTI Group, Inc.
A human resources and staffing company
Age 47
Director since 2008



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 64
Director since 1998



F. Curtis Hastings
Chairman
J. H. Findorff & Son, Inc.
Commercial and industrial
general contractors
Age 62
Director since 1999



H. Lee Swanson
Chairman of the Board and
President, SBCP Bancorp, Inc.,
and Chairman of the Board,
State Bank of Cross Plains
Age 69
Director since 1988



Regina M. Millner
President
RMM Enterprises Inc.
Attorney, analyst and broker
Age 63
Director since 1996



Gary J. Wolter
Chairman, President and Chief
Executive Officer
MGE Energy, Inc., and
Madison Gas and Electric Co.
Age 53
Director since 2000

Note: Ages as of Dec. 31, 2007.

For detailed information on board members, see the MGE Energy Proxy Statement.

Officers of MGE Energy and MGE



Gary J. Wolter*
Chairman, President and
Chief Executive Officer
Age 53
Years of Service, 23



Terry A. Hanson*
Vice President, Chief
Financial Officer and
Secretary
Age 56
Years of Service, 26



Jeffrey C. Newman*
Vice President and Treasurer
Age 45
Years of Service, 23



Lynn K. Hobbie
Senior Vice President
Age 49
Years of Service, 22



James G. Bidlingmaier
Vice President –
Administration and Chief
Information Officer
Age 61
Years of Service, 35



Kristine A. Euclide
Vice President and
General Counsel
Age 55
Years of Service, 6



Scott A. Neitzel
Vice President –
Energy Supply
Age 47
Years of Service, 10



Peter J. Waldron
Vice President and
Operations Officer
Age 50
Years of Service, 27



Gregory A. Bollom
Assistant Vice President –
Energy Planning
Age 47
Years of Service, 25



Craig A. Fenrick
Assistant Vice President –
Electric Transmission
and Distribution
Age 48
Years of Service, 25



Joseph P. Pellitteri
Assistant Vice President –
Human Resources
Age 59
Years of Service, 8



John M. Yogerst
Assistant Vice President –
Gas Operations
Age 50
Years of Service, 27

* Officers of MGE Energy and MGE. All others are MGE officers.
Note: Ages and years of service as of Dec. 31, 2007.

2008 Annual Shareholder Meeting

Tuesday, May 20, 2008
 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

We welcome inquiries 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.



Shareholder Services: (from left) Jerilyn Geishirt, Lynne Harper, Kari Foster, Ken Frassetto.

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.

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.

National Association of Investors Corp.

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: betterinvesting.org

2008 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 |

Contact MGE Energy Shareholder Services

E-mail: investor@mgeenergy.com
 Web Address: 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

Online Account Access

Registered shareholders can now access their account information online. Visit MGE Energy's Web site to log on through the secure My Shareholder Account link.

Contact shareholder services for a security code to help you set up private access to your account.

Go to the home page at mgeenergy.com and click the My Shareholder Account button.

Eliminate Duplicate Proxy Mailings

If you receive more than one proxy mailing from MGE Energy, you can reduce the mailbox clutter.

- Registered shareholders: call or e-mail MGE Energy
- Brokerage shareholders: contact your broker

Sign Up For Electronic Delivery

You may choose to receive e-mail alerts when annual meeting invitations, proxy materials, the annual report and newsletters are available on our Web site. Registered shareholders can sign up by visiting mgeenergy.com/paperless. If your MGEE shares are held in a brokerage account, contact your broker.

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.

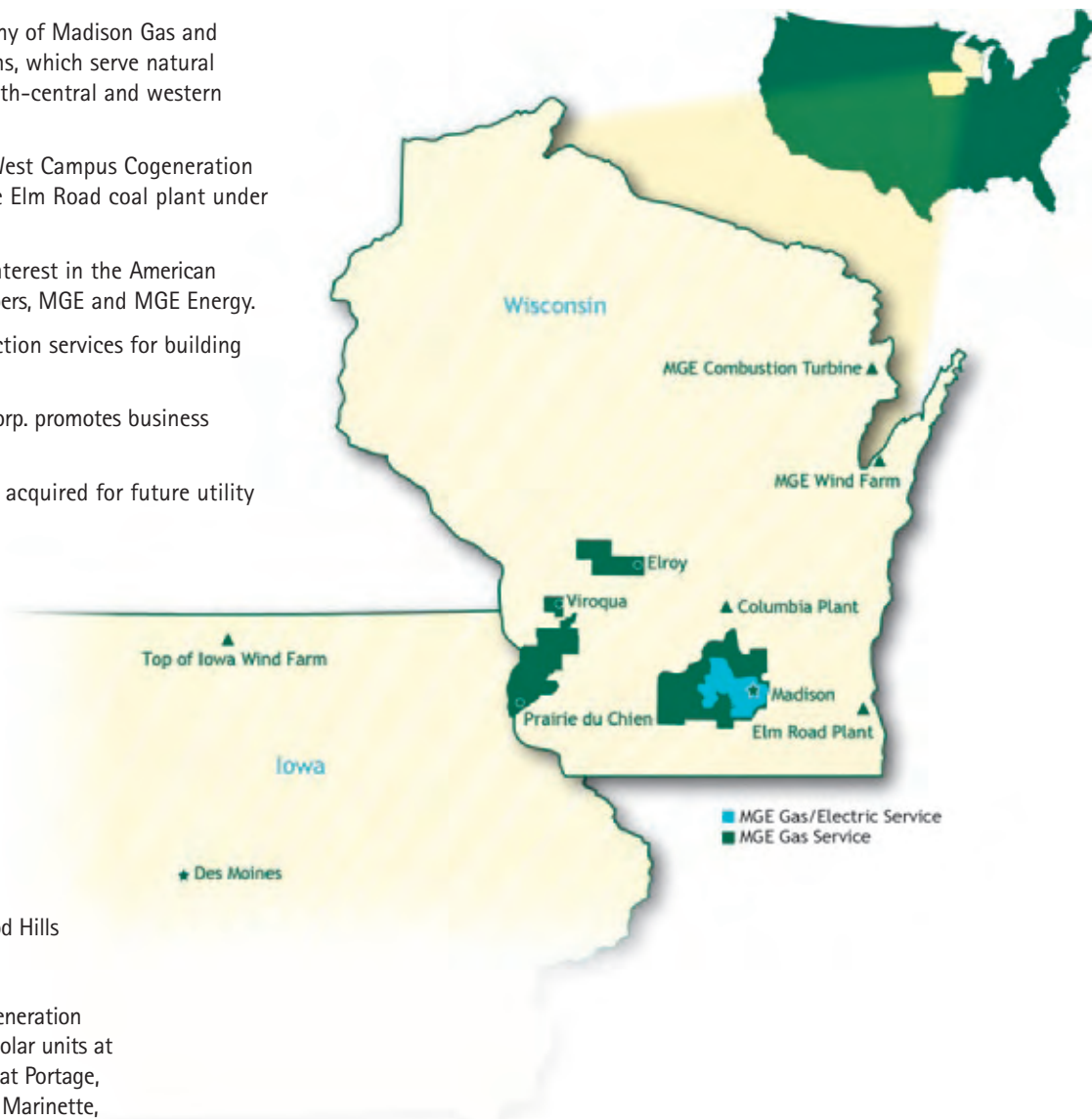
MGE Power owns assets in the West Campus Cogeneration Facility in Madison, Wis., and the Elm Road coal plant under construction at Oak Creek, Wis.

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: 290,000

Area: 315 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, Columbia Energy Center at Portage, natural gas combustion turbine at Marinette, MGE wind farm in Kewaunee County, Top of Iowa Wind Farm in north-central Iowa and Elm Road Power Plant expansion at Oak Creek, scheduled for completion in 2009 and 2010.

MGE Natural Gas Services

Purchase and Distribution

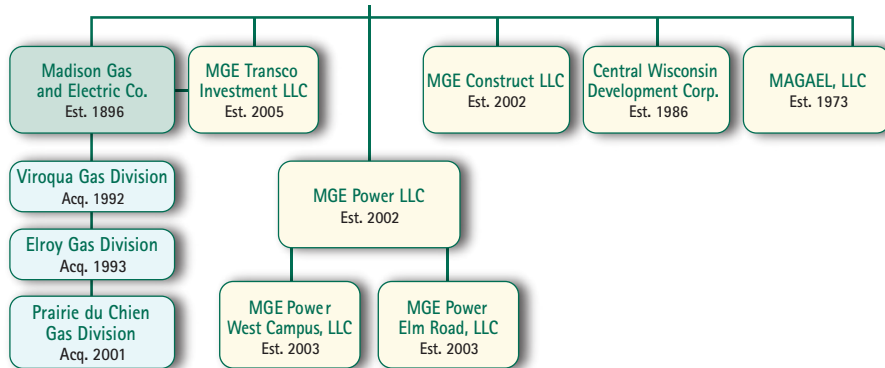
Customers: 140,000

Population: 404,000

Area: 1,625 square miles

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

Learn more at mgeenergy.com





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

mgeenergy.com



MGE is committed to environmental stewardship.
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