

2008 Summary Annual Report



Celebrating 100 years of  
delivering dividends to you



# Celebrating 100 years of delivering dividends to you



## About the Cover

We have paid annual dividends since 1909 — the year President Taft was inaugurated, Model T cars rolled off production lines and the average worker made \$12.98 a week.

Now, 100 years later, we remain dedicated to helping our loyal investors build value over time.



Durlin Radlund of Sun Prairie, Wis., is one of our younger shareholders growing up in a world that seems light-years away from Model T cars. Yet, the wisdom of saving and investing remains sound — passed down through his family. The stock purchased

for Durlin and his twin sister Grace is set aside for their college educations.

On pages 6 and 7, you can read brief profiles of other shareholders.

## Table of Contents

- 1 2008 Highlights
- 2 Letter to our Shareholders
- 6 Building Shareholder Value
- 8 Responding to our Customers
- 10 Growing a Healthy Economy
- 12 Serving our Communities
- 14 Consolidated Statements of Income
- 15 Consolidated Statements of Cash Flows
- 16 Consolidated Balance Sheets
- 17 Consolidated Statements of Capitalization
- 17 Cumulative Five-Year Total Return Comparison
- 18 Corporate Leadership
- 20 Shareholder Information
- 21 Corporate Profile

**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 \$1.3 billion. In 2008, revenue was approximately \$596 million. See the Corporate Profile on page 21.

100 years of delivering dividends: Since 1909, our annual dividend has grown from 4 cents to \$1.43 per share.



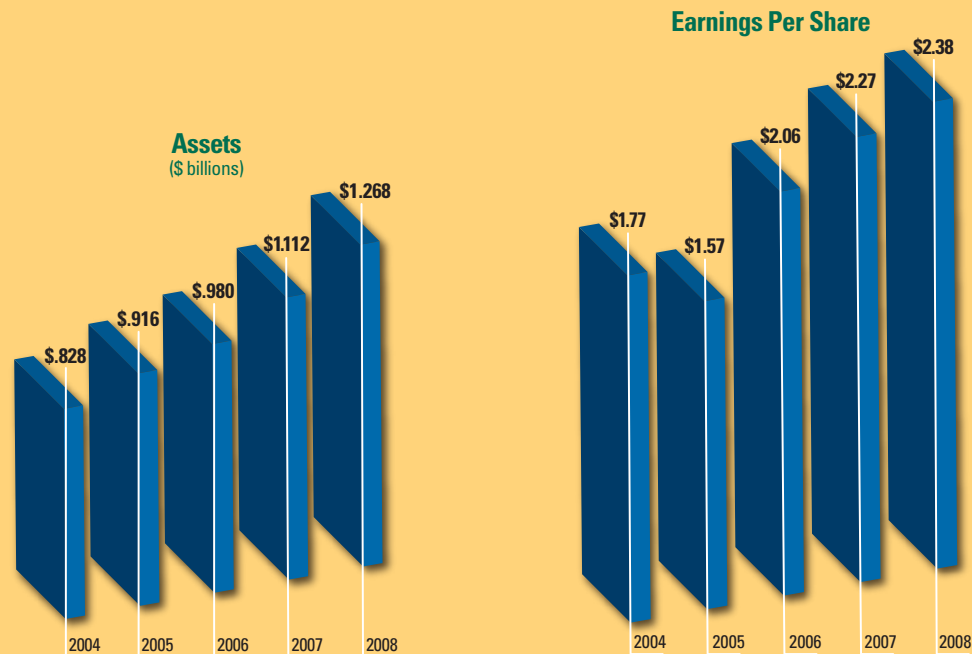
# 2008 Highlights

## MGE Energy (MGEE)

### Year at a Glance

(Thousands, except per-share amounts)

|                                      | 2008         | 2007         | Increase/<br>(Decrease) | %<br>Change |
|--------------------------------------|--------------|--------------|-------------------------|-------------|
| Operating Revenues                   | \$ 595,993   | \$ 537,594   | \$ 58,399               | 10.9        |
| Net Income                           | \$ 52,768    | \$ 48,825    | \$ 3,943                | 8.1         |
| Basic and Diluted Earnings Per Share | \$ 2.38      | \$ 2.27      | \$ 0.11                 | 4.8         |
| Dividends Declared Per Share         | \$ 1.43      | \$ 1.41      | \$ 0.02                 | 1.4         |
| Dividend Payout Ratio                | 60.1%        | 62.1%        | (2.0)                   | (3.2)       |
| Average Shares Outstanding           | 22,197       | 21,520       | 677                     | 3.1         |
| Shares Outstanding at Year End       | 22,905       | 21,950       | 955                     | 4.4         |
| Return on Average Common Equity      | 11.8%        | 12.1%        | (0.3)                   | (2.5)       |
| Book Value Per Share                 | \$ 21.54     | \$ 19.88     | \$ 1.66                 | 8.4         |
| Market Price Per Share (Dec. 31)     | \$ 33.00     | \$ 35.47     | \$ (2.47)               | (7.0)       |
| Total Market Value (Dec. 31)         | \$ 755,865   | \$ 778,567   | \$ (22,702)             | (2.9)       |
| Total Assets                         | \$ 1,268,275 | \$ 1,111,587 | \$ 156,688              | 14.1        |
| Total Electric Sales (kWh)           | 3,380,892    | 3,431,509    | (50,617)                | (1.5)       |
| Total Gas Deliveries (therms)        | 244,396      | 215,193      | 29,203                  | 13.6        |



For detailed financial information, see the 2008 MGE Energy Form 10-K.

# Letter to our shareholders



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

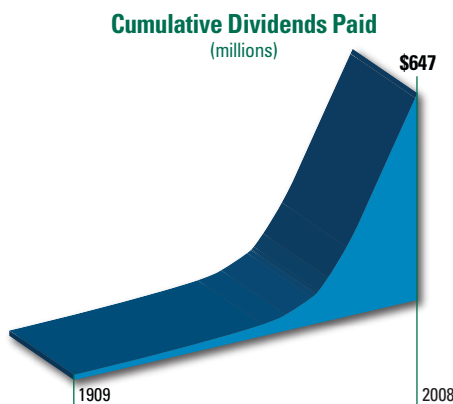
This year, MGE Energy celebrates 100 consecutive years of delivering dividends to you—our loyal shareholders.

This remarkable century of dividend payments is built on our consistently strong financial performance. Over the years, shareholders have benefited from MGE's dedication to our core business, our strategic investments

and our prudent financial management. We are proud to provide you with such an outstanding history of shareholder value.

Our customers and the communities we serve have also benefited. Our performance has allowed us to remain a local company focused on customer service and reliability. We have invested strategically in energy infrastructure, environmentally responsible technologies and smart economic growth.

Our firm financial position allowed us to reward investors with consistent dividend payment and growth over time and enabled MGE Energy to remain strong during the economic crisis in 2008.



## Dedicated to dividends since 1909

100 years of delivering dividends is an accomplishment very few companies can claim. In fact, only 58 U.S. companies have paid annual dividends for 100 or more years, according to DividendInvestor.com. No other Wisconsin utility has a dividend track record that matches MGE Energy's achievement. We stand with a select group of U.S. companies that remain dedicated to investor dividends. Cumulative dividends paid to our shareholders totaled \$647 million since 1909.

MGE Energy has raised dividends each year since 1976. Dividends increased from \$0.55 to \$1.43 per share during that time. MGE Energy is one of only six electric utilities to raise dividends annually for 30 or more consecutive years.

This record of dividend increases puts MGE Energy on Mergent's list of Dividend Achievers. Only 10% of dividend-paying common stocks are classified Dividend Achievers because they demonstrate the consistent ability to increase dividend payments over a substantial period of time.

MGE Energy also is a national leader in solid financial management. 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 in 2008.

Likewise, Moody's Investors Service gave MGE the highest mark among utilities (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.

MGE Energy stock weathered Wall Street's extreme market volatility far better than the major stock indexes. Your company finished 2008 as the best-performing utility stock in Wisconsin and one of the top-performing stocks in the state.

## Solid earnings, growing assets

MGE Energy produced earnings of \$2.38 per share in 2008. Earnings benefited from colder winter weather and gains on local economic development investments.

MGE Energy's assets reached nearly \$1.3 billion in 2008. This is a 1,000 fold increase over the last 100 years.

One of our recent investments is in We Energies' Oak Creek Power Plant expansion. MGE Energy's 8.33% ownership interest is approximately \$172 million (excluding capitalized interest). The first of two 615-megawatt (MW) advanced technology, cleaner coal units will be ready to serve customers in early 2010. The second unit is planned for later that year. We also expanded our assets in renewable energy by bringing a new \$59 million wind farm online in 2008.

**Dividends Paid Per Share**  
(rounded)

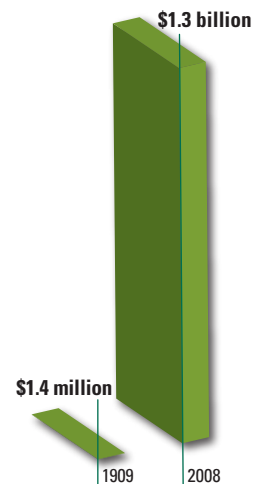


**Top Credit Quality**  
(MGE)

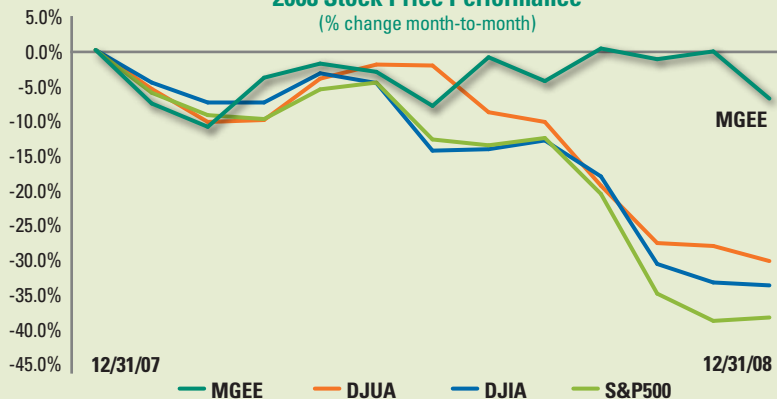
**S&P**  
Corporate Credit: AA-  
Outlook: Stable

**Moody's**  
Secured: Aa2  
Unsecured: Aa3  
Outlook: Stable

**Asset Growth**



**2008 Stock Price Performance**  
(% change month-to-month)



MGE Energy compared to Dow Jones Utilities, Dow Jones Industrials and the S&P 500.



# Letter to our shareholders



Thomas Wapneski, an MGE line technician, works on upgrade and improvement projects that make the electric system more efficient and help prevent service interruptions.



Steve Beversdorf (left) and John Wichern, MGE gas systems engineering technicians, check the progress of a gas construction project on Madison's growing west side.

## An industry leader for customers

In 2008, MGE had the highest residential green pricing participation rate of any investor-owned utility in the country. About 10% of our residential customers now purchase clean wind and solar energy through our innovative program.

We also provide highly dependable energy for customers. MGE was rated No. 1 in the country for electric service reliability in a 2007 national utility survey. Our electric service reliability ranked among the top 10 utilities in the country for the five years ended in 2007. MGE pays diligent attention to maintaining excellent gas and electric distribution systems.

## Cleaner environment

In response to our customers, we chose to increase our wind resource capacity by 12 times in 2008. Our wind energy capacity grew from 11 to 137 MW. In 2009, renewable energy is expected to account for more than 12% of MGE's total energy supply, up dramatically from 1.6% in 2007.

This increased wind capacity comes from our new 30-MW wind farm in northern Iowa and wind power purchases from two other new Iowa wind projects and one new wind farm in Wisconsin.

We also know that many customers and shareholders are concerned about global climate change and carbon dioxide (CO<sub>2</sub>) emissions. In 2008, we partnered with others to launch a new Web site, CO<sub>2</sub>gether.org, which gives customers the knowledge they need to reduce their energy use and CO<sub>2</sub> emissions. This one-stop Web site allows people to calculate the CO<sub>2</sub> impacts of their energy and transportation use, track their actions and share their results with others.

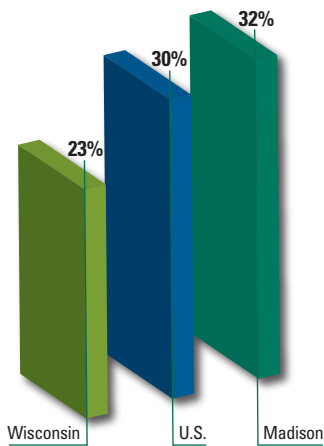
Under our strategic energy supply plan, Energy 2015, MGE's CO<sub>2</sub> impacts are projected to decline system-wide even though total energy use is expected to increase. We project a 10% decrease for CO<sub>2</sub> rates and an 8% decrease for total CO<sub>2</sub> emissions from 2005 to 2015.

## Resilient local economy

We are fortunate to serve an area that has good jobs, a diversified economy and strong educational institutions. It all adds up to an outstanding quality of life. In 2008, the Madison area was ranked 8th in the country in *Best Life's* annual "100 Best Places to Raise a Family" survey.

Over the years, MGE has provided support to help keep our economy healthy and growing. Our innovative approaches have helped fuel significant economic growth in our community.

### Gross Domestic Product Growth (2001 – 2006 current dollars)



Source: U.S. Bureau of Economic Analysis

Our area's economic strength is reflected in a national survey that ranked Madison's economy 15th among 363 metro areas. Madison has been rated in the top 20 for the last five years in the Policom report.

Another important indicator is Madison's gross domestic product growth rate, which has increased faster than the U.S. and Wisconsin rates.

## Officer and board changes

Your Board of Directors elected Jeffrey C. Newman as Vice President, Chief Financial Officer, Secretary and Treasurer of MGE Energy and MGE effective Jan. 1, 2009. Mr. Newman previously served as Vice President and Treasurer and has been with the company for 24 years. He replaced Terry A. Hanson, Vice President, Chief Financial Officer and Secretary, who retired on Dec. 31, 2008.

Thomas R. Stolper was elected to the Board of Directors of MGE Energy and MGE effective Dec. 19, 2008. Mr. Stolper is the Chief Financial Officer and an owner of TRAC Microbiology, Inc., a food and consumer products testing, research, auditing and consulting corporation. He also is an owner of Pro Chemicals LLC, a cleaning and sanitizing products manufacturer.

## A century of dividends

As we mark our significant history of dividend payments, I want to recognize our loyal investors. Thank you for your confidence and commitment to our company.

We are proud to celebrate with you 100 years of delivering dividends.

Gary J. Wolter

Chairman, President and Chief Executive Officer

# 100 years of delivering dividends to our shareholders

Since 1909, the United States has rolled through World War I, the Roaring Twenties, the Great Depression, World War II, the race for space, the 9/11 terrorist attacks and now our nation's current economic crisis. Through it all, your company has built value and paid annual dividends to its investors. Several investors are profiled here.



**Reinvesting dividends.** Skip Baker knows the importance of building assets carefully over time. He and his partner Paul Davenport bought Triggs Plumbing in 1972 when he was just 24 years old. Thirteen years later, he and his wife, Gloria, began building an investment in MGE Energy. "We're good savers. I like the dividend reinvestment plan and how it helps the stock grow," Skip says. With retirement approaching, the Bakers are putting more money into MGE Energy because they see it as a sound investment.

As a small business owner, Skip Baker of Triggs Plumbing in Madison looks out for his future with diversified investments that include MGE Energy stock.



100 years of delivering dividends: Currently, 79% of our registered shareholders choose to reinvest their dividends to build value.





## A century of dividends

On Jan. 26, 1909, Madison Gas and Electric's Board of Directors passed a resolution to provide the first dividends to our shareholders. That resolution was the start of what has become a remarkable record for your company — a century of continuous dividend payments.

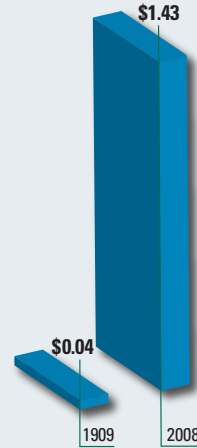
Only 58 U.S. companies have paid annual dividends for 100 or more years.

Furthermore, for each of the last 33 years, MGE Energy increased its dividend. Only 97 companies in the nation and only six utilities have provided consistent dividend growth for 30 or more years.

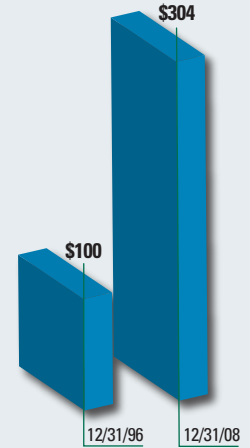
We are dedicated to building shareholder value over time. In 1909, the annual dividend was 4 cents per share. Now 100 years later, MGE Energy's annual dividend totaled \$1.43 per share.

Our shareholders see the worth of MGE Energy in a balanced portfolio. MGE Energy investors hold shares an average of 12 years. The compounded total return of \$100 invested 12 years ago grew to \$304 in 2008. Total return includes stock appreciation and reinvested dividends.

Annual Dividend per Share



12-Year Total Return



Bob Derr meets with Jerilyn Geishirt, an MGE Energy Shareholder Services specialist. Bob invests for himself and has separate accounts for his three grandchildren.



**Dividends for retirement.** When Bob Derr moved to Madison in 1990, he decided to invest directly in his local utility company. "What's great is that I invest the principal, and MGE Energy does the rest of the work for me," Bob says. As a retiree, he enjoys his quarterly dividend check and the stock's stable performance. Bob appreciates the convenience of meeting with MGE Energy's Shareholder Services staff and their help in managing his accounts.



The Helblings benefited from their grandfather's generosity and investment advice. Dan Helbling, 22, enjoys pizza with sisters Emily (left) and Natasha.



**Next generation.** Investment advice can go full circle in a family. The Helblings are learning from their grandfather, Kurt Hauser, an MGE Energy investor. About 10 years ago, he gave them money that their parents invested in MGE Energy. At age 19, Dan Helbling sold his stock and purchased a house in Racine County, Wis., where he grew up. He rented the home to make the mortgage payments while attending college. Dan has since moved up to a second home, completed his biology degree and works in medical research. Dan says, "Like my grandpa, I now invest in MGE Energy."

# Delivering dividends to our customers

We listen to customers so we can design services and products to meet their needs. We have responded with reliable power, innovative environmental initiatives and green energy options.



Regular maintenance is critical for a reliable electric system. Rob Priestley (left) and Bob Harper, MGE line technicians, replace a cross arm on a power pole.

**First in reliability.** MGE ranked No. 1 in electric service reliability in a 2007 nationwide utility industry survey. Our ranking reflects our excellent track record when it comes to dependable energy. For the five years ended in 2007, our electric service reliability ranked among the top 10 utilities in the country.

We are proud to deliver the dependability that our customers expect.

Maintaining a reliable electric system takes a dedicated team and an ongoing effort. Key to MGE's strong track record is a reliability committee that meets monthly to review service outages and to identify improvements to help prevent recurrences.

| MGE's electric system reliability |                  |
|-----------------------------------|------------------|
| Year                              | National Ranking |
| 2007                              | 1st              |
| 2006                              | 5th              |
| 2005                              | 2nd              |
| 2004                              | 6th              |
| 2003                              | 7th              |

100 years of delivering dividends:  
35% of our registered shareholders  
are also MGE customers.





MGE's newest wind farm came online in early 2008. MGE built its first wind farm in 1999 and purchases energy from three other wind projects.

**Renewable energy leader.** MGE now has the highest green pricing participation rate of any investor-owned utility in the country. About 10% of our residential customers purchase clean wind and solar energy.

Through our expanded Green Power Tomorrow program, approximately 12,000 residential customers buy renewable energy. Most customers choose to buy enough green power to offset 100% of the carbon dioxide emissions from their electricity use. In addition, green energy sales to our business customers has increased 10 fold.

In response to our customers, we expanded our wind capacity by 12 times and launched a new solar-energy program.

**Partners address climate change.** We are giving customers concerned about global climate change the tools they need to reduce their carbon impacts and save energy. CO2gether.org is an innovative Web site that allows our customers and others to measure, track and manage the carbon dioxide (CO<sub>2</sub>) emitted from their energy use.

Through the Web site, customers can collaborate and learn from each other. People also can track their transportation use. The Web site was developed by MGE, 1000 Friends of Wisconsin and the University of Wisconsin-Madison Center for Sustainability and the Global Environment.

Working on the new Web site CO2gether.org are (left to right) Brad Nordeng, an MGE Web services manager, Anne Shudy Palmer of the University of Wisconsin-Madison and Sonjia Short, an MGE communications manager.



**Solar energy.** MGE is working together with customers in a new pilot program, which supports the development of solar power. MGE's Clean Power Partners program encourages customers to install solar photovoltaic systems on their homes or businesses and then sell the energy back to MGE. Since the launch in 2008, we doubled the capacity of the program to meet customer demand. The solar energy is part of our overall green pricing program.

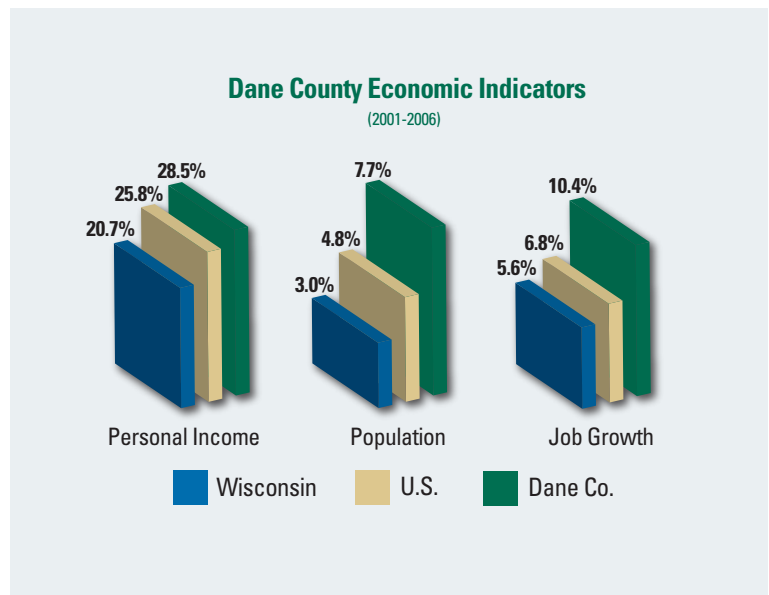
Jeff Ford, an MGE market analyst, meets with Becky Steinhoff, director of the Goodman Community Center in Madison. The center installed a 10-kilowatt solar system on the roof of its new gym and joined the Clean Power Partners program.





# Delivering dividends to our local economy

MGE is committed to helping create a vibrant and healthy economy. We work with others to support and maintain our community's economic strength.

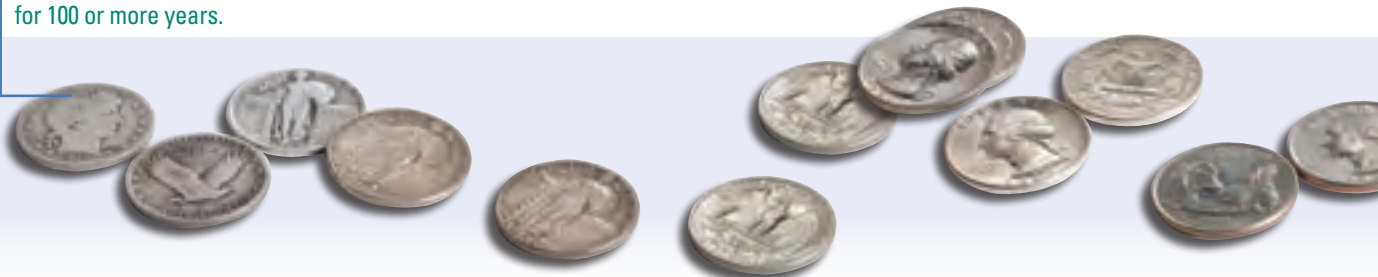


Our service area encompasses one of the strongest local economies in the nation. Madison is rated the top U.S. city for future job growth, according to a *Forbes.com* report. The study cites Madison's low unemployment rate, the University of Wisconsin-Madison as a major employer and the growth of biotech, health care and medical-device industries.

**Resilient economy.** MGE works with business and community leaders to ensure well-planned economic growth. We enjoy a strong local economy built on good jobs. Dane County's competitive economic growth outpaces the state and the nation in personal income, population and jobs.

In addition, Madison was named smartest city in the nation according to a *Bizjournals* survey. The survey cited three local employment sectors that place a premium on education. Specifically, the report points out that Madison is home to the University of Wisconsin-Madison, the state government of Wisconsin and many biotechnology firms.

100 years of delivering dividends: MGE Energy is one of only 58 U.S. companies to pay annual dividends for 100 or more years.





**Meeting energy needs.** Data centers are choosing to locate in our service area. MGE knows how to meet the critical electric reliability needs of these energy-intensive customers. Being a dependable energy partner is key to attracting and retaining these businesses. Data centers operate 24/7 with high-energy loads. They house computer servers and backup systems for major businesses. These hubs require redundant power sources and backup electric generation. MGE is able to provide the reliable energy these customers need.

Don Larson (left), director of operations at the TEAM Technologies data center in Fitchburg, meets with John Drury of MGE. TEAM Technologies plans to invest \$40 million in three phases at its center.



**Tapping success.** In 2008, MGE and its partners more than doubled important funding to help local emerging technology companies. The Venture Debt Fund is now capitalized at \$4.5 million. It provides loans to start-up companies with the potential of long-term success. Since it began in 2004, the fund has invested in 11 firms in the Madison area. The fund, which leverages new dollars from other investors, allows our economy to reap the dividend of future jobs and growing companies.

Lavanya Ranganathan works at Gentel Biosciences, which recently received a second round of financing from the Venture Debt Fund. Gentel Biosciences, located in the Fitchburg Technology Campus, provides novel products and services that allow biomedical researchers to more quickly discover and confirm disease biomarkers. This speeds better diagnostic test results to patients.



**Opening for entrepreneurs.** The Metro Innovation Center opened recently near Madison's vibrant downtown with the help of MGE. This offshoot from the successful University Research Park targets high-tech entrepreneurs. MGE donated a central computer server that will help save energy and provide added value to start-up companies looking to open in Madison.

The information technology sector of our economy continues to grow and add new, high-paying jobs. In 2008, both Google and Microsoft opened offices and labs in Madison near the new Metro Innovation Center.

Jim Mohrbacher (right), an MGE business development manager, checks out the new Metro Innovation Center's computer server with Greg Hyer, associate director of the University Research Park.



# Delivering dividends to our communities

MGE is a community energy company closely tied to the people and areas we serve. Together, we move forward on innovative energy and environmental initiatives.

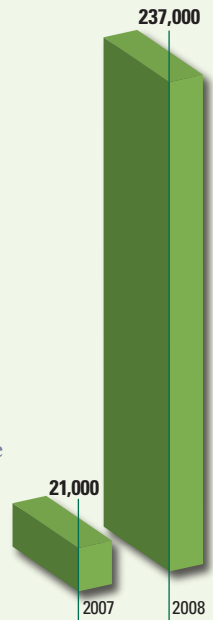


**Harvest the wind.** MGE Energy commissioned a new 30-megawatt wind farm in northern Iowa in 2008. This wind farm, along with new wind power purchases, allowed us to dramatically expand our wind power production in 2008.

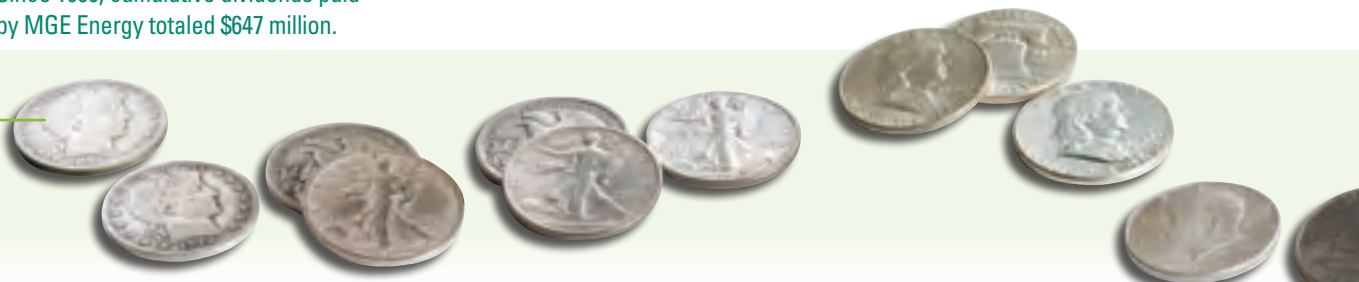
Farming communities benefit from wind projects. Gary Knudtson farms the land owned by his mother Arlene. They support helping the environment and using locally produced energy. "Northern Iowa is like a wind tunnel. The wind blows in this county every day so why not capture it and use it," Gary says. Only a small amount of farmland is taken out of production when locating new turbines. This allows farmers to harvest their crops while MGE harvests the wind for its customers.

Arlene Knudtson and son Gary have two wind turbines on the Iowa land they have farmed since 1965. The steady lease payments from MGE helps family farmers through the ups and downs of commodity prices, fuel costs and weather. To learn more, watch a Harvest the Wind video at [www.mgeenergy.com/harvestwind](http://www.mgeenergy.com/harvestwind).

**Production from Wind**  
(MWh)



100 years of delivering dividends:  
Since 1909, cumulative dividends paid  
by MGE Energy totaled \$647 million.







**Plug in for the future.** MGE began piloting plug-in electric hybrid vehicles in 2008. MGE employees are testing this new technology to see how it can help consumers better control energy use and reduce our dependence on foreign fuel sources. Our Toyota Prius and Ford Escape can be charged by plugging into standard household electrical outlets. The vehicles can then travel 30 to 40 miles before engaging the gasoline fuel system.

MGE is participating in a federal Department of Energy study that tracks the performance, electricity use and emissions from plug-in vehicles as we use them throughout our community.

John Coleman, MGE's business ally manager, watches as Joshua Block of Waunakee, Wis., checks out how MGE's plug-in Prius works. MGE employees drive the plug-ins to test them as typical commuting vehicles.



MGE's new 10-kilowatt urban turbine, located in McKee Farms Park in Fitchburg, Wis., has a rotating helix that sits on a 30-foot pole. It is designed to fit well into a residential landscape.

**Demonstrating technology.** MGE is in the forefront with a variety of pilot technology projects. We locate these projects in public places so the community can learn first-hand from these renewable energy innovations. In 2008, we installed a 42-foot-tall urban wind turbine in a popular Fitchburg park. This vertical axis turbine is one of only a few in the U.S.

We also built one of the largest solar-powered lighting projects in the country. The 9.25-kilowatt solar system features 5-foot-by-5-foot solar panels on 37 light poles along a bike path bordering the University of Wisconsin-Madison campus.

**Energy improvements.** MGE offers grants that help rejuvenate neighborhoods and provide affordable, energy-efficient housing. MGE has awarded more than \$760,000 in Neighborhood Revitalization Grants since 1998 to fund energy-efficient designs, equipment and construction.

Recently, MGE worked with Stone House Development on a new apartment building. "The expertise and assistance that MGE provided through the Neighborhood Revitalization program has proved invaluable. It allowed us to maximize the energy efficiency of this development, which has significantly reduced energy costs for us and our residents," said Rich Arnesen, vice president of Stone House Development.

Rich Arnesen, vice president of Stone House Development, checks high-efficiency water heaters in the new 76-unit Park Central Apartments on Madison's east side.



# Consolidated Statements of Income

For the years ended December 31

(in thousands, except per-share amounts)

|   | 2008             | 2007             | 2006             |
|---|------------------|------------------|------------------|
| <b>Operating Revenues</b>   |                  |                  |                  |
| Regulated revenues .....  | \$ 588,560       | \$ 532,413       | \$ 504,138       |
| Nonregulated revenues .....   | 7,433            | 5,181            | 3,408            |
| Total Operating Revenues .....                                      | 595,993          | 537,594          | 507,546          |
| <b>Operating Expenses</b>   |                  |                  |                  |
| Fuel for electric generation .....                                  | 54,748           | 56,694           | 49,227           |
| Purchased power .....   | 74,676           | 77,594           | 77,164           |
| Cost of gas sold .....  | 171,545          | 140,838          | 129,331          |
| Other operations and maintenance .....                              | 151,176          | 130,831          | 126,086          |
| Depreciation and amortization .....                                 | 39,273           | 32,199           | 31,342           |
| Other general taxes .....   | 16,793           | 15,771           | 15,402           |
| Total Operating Expenses .....                                      | 508,211          | 453,927          | 428,552          |
| <b>Operating Income</b> .....                                       | <b>87,782</b>    | <b>83,667</b>    | <b>78,994</b>    |
| Other income, net .....   | 8,044            | 6,069            | 4,329            |
| Interest expense, net .....   | (14,002)         | (13,056)         | (15,001)         |
| Income before income taxes .....                                    | 81,824           | 76,680           | 68,322           |
| Income tax provision .....  | (29,056)         | (27,855)         | (25,899)         |
| <b>Net Income</b> .....   | <b>\$ 52,768</b> | <b>\$ 48,825</b> | <b>\$ 42,423</b> |
| <b>Earnings Per Share of Common Stock</b> (basic and diluted) ..... |                  |                  |                  |
|   | \$ 2.38          | \$ 2.27          | \$ 2.06          |
| <b>Dividends Paid Per Share of Common Stock</b> .....               |                  |                  |                  |
|   | \$ 1.43          | \$ 1.41          | \$ 1.39          |
| <b>Average Shares Outstanding</b> (basic and diluted) .....         |                  |                  |                  |
|   | 22,197           | 21,520           | 20,564           |



# Consolidated Statements of Cash Flows

For the years ended December 31

(in thousands)

## Operating Activities

|   | 2008      | 2007      | 2006      |
|---|-----------|-----------|-----------|
| Net income.....   | \$ 52,768 | \$ 48,825 | \$ 42,423 |
| Items not affecting cash:   |           |           |           |
| Depreciation and amortization.....                                    | 39,273    | 32,199    | 31,342    |
| Deferred income taxes.....  | 8,583     | 750       | 5,241     |
| Amortization of investment tax credits.....                           | (351)     | (410)     | (432)     |
| AFUDC – equity funds.....   | (858)     | (1,927)   | (554)     |
| Equity earnings in ATC*.....  | (7,241)   | (6,047)   | (5,317)   |
| Employee benefit plan expenses.....                                   | 7,891     | 8,101     | 10,178    |
| Provision for doubtful accounts receivable.....                       | 4,273     | 3,080     | 3,230     |
| Amortization of debt issuance costs and discount.....                 | 545       | 543       | 595       |
| Reserve for fuel refund.....  | 5,506     | —         | 2,312     |
| Gain on sale of investments.....                                      | (3,113)   | (778)     | —         |
| Gain on sale of property.....   | (295)     | —         | —         |
| Other items.....  | 1,663     | 1,950     | 653       |
| Changes in working capital items:                                     |           |           |           |
| (Increase) decrease in current assets.....                            | (39,202)  | (12,312)  | 13,042    |
| Increase (decrease) in current liabilities.....                       | 1,616     | 3,818     | (4,299)   |
| Proceeds from Congestion Cost and Line Loss Allocation Agreement..... | —         | 2,545     | —         |
| Dividend income from ATC*.....  | 5,272     | 4,441     | 4,003     |
| Cash contributions to pension and other postretirement plans.....     | (7,665)   | (6,346)   | (5,779)   |
| Other noncurrent items, net.....                                      | 6,047     | (1,846)   | 4,401     |
| Cash Provided by Operating Activities.....                            | 74,712    | 76,586    | 101,039   |

## Investing Activities

|  |           |           |          |
|--|-----------|-----------|----------|
| Capital expenditures.....  | (105,777) | (136,258) | (92,575) |
| Capital contributions to ATC* and other investments.....                       | (3,678)   | (255)     | (1,974)  |
| Proceeds from sale of investments.....   | 3,612     | 910       | —        |
| Proceeds from sale of property.....  | 304       | 724       | —        |
| Advance to Wisconsin Electric Power Co. for ATC* work related to Elm Road..... | (330)     | (138)     | (808)    |
| Other.....   | 1,587     | 226       | 916      |
| Cash Used for Investing Activities.....  | (104,282) | (134,791) | (94,441) |

## Financing Activities

|   |          |          |          |
|---|----------|----------|----------|
| Issuance of common stock, net.....                    | 30,997   | 32,786   | 17,050   |
| Issuance of treasury stock.....                       | —        | —        | 119      |
| Cash dividends paid on common stock.....              | (31,780) | (30,295) | (28,513) |
| Repayment of long-term debt.....                      | (30,000) | (15,000) | —        |
| Issuance of long-term debt.....                       | 40,000   | 25,000   | 30,000   |
| Increase (decrease) in short-term debt.....           | 21,000   | 46,500   | (25,500) |
| Other.....  | (330)    | —        | (82)     |
| Cash Provided by/(Used for) Financing Activities..... | 29,887   | 58,991   | (6,926)  |

## Change in Cash and Cash Equivalents.....

|   |          |          |          |
|---|----------|----------|----------|
| Cash and cash equivalents at beginning of period..... | 3,789    | 3,003    | 3,331    |
| Cash and cash equivalents at end of period.....       | \$ 4,106 | \$ 3,789 | \$ 3,003 |

\* American Transmission Co.



# Consolidated Balance Sheets

At December 31

(in thousands)

## Assets

### Current Assets

|  | 2008                | 2007                |
|--|---------------------|---------------------|
| Cash and cash equivalents.....   | \$ 4,106            | \$ 3,789            |
| Restricted cash.....   | 4,805               | 2,896               |
| Accounts receivable, less reserves of \$4,076 and \$3,709, respectively.....   | 45,266              | 43,668              |
| Other accounts receivable, less reserves of \$200 and \$114, respectively..... | 7,659               | 3,397               |
| Unbilled revenues.....   | 34,701              | 30,370              |
| Materials and supplies, at average cost.....                                   | 15,592              | 14,809              |
| Fossil fuel.....   | 3,228               | 5,136               |
| Stored natural gas, at average cost.....                                       | 42,146              | 28,483              |
| Prepaid taxes.....   | 15,671              | 14,696              |
| Regulatory assets – current.....   | 9,876               | 189                 |
| Other current assets.....  | 10,828              | 8,242               |
| Total Current Assets.....  | 193,878             | 155,675             |
| Other long-term receivables.....   | 3,005               | 6,166               |
| Special billing projects.....  | 464                 | 999                 |
| Regulatory assets.....   | 116,165             | 53,375              |
| Other deferred charges.....  | 5,620               | 5,881               |
| <b>Property, Plant and Equipment, Net</b> .....                                | <b>702,549</b>      | <b>638,774</b>      |
| Construction work in progress.....   | 198,694             | 205,214             |
| Total Property, Plant, and Equipment.....                                      | 901,243             | 843,988             |
| <b>Other Property and Investments</b> .....                                    | <b>47,900</b>       | <b>45,503</b>       |
| <b>Total Assets</b> .....  | <b>\$ 1,268,275</b> | <b>\$ 1,111,587</b> |

## Liabilities and Capitalization

### Current Liabilities

|  |                     |                     |
|--|---------------------|---------------------|
| Long-term debt due within one year.....                | \$ —                | \$ 30,000           |
| Short-term debt.....                                   | 124,500             | 103,500             |
| Accounts payable.....                                  | 47,229              | 58,498              |
| Accrued interest and taxes.....                        | 4,070               | 3,964               |
| Deferred income taxes.....                             | 3,306               | 4,153               |
| Regulatory liabilities – current.....                  | 5,974               | 2,924               |
| Pension liability – current.....                       | 813                 | 607                 |
| Other current liabilities.....                         | 19,349              | 16,466              |
| Total Current Liabilities.....                         | 205,241             | 220,112             |
| <b>Other Credits</b> .....                             | <b>117,505</b>      | <b>107,393</b>      |
| Deferred income taxes.....                             | 2,736               | 3,087               |
| Investment tax credit – deferred.....                  | 18,814              | 20,885              |
| Regulatory liabilities.....                            | 137,286             | 74,056              |
| Accrued pension and other postretirement benefits..... | 36,083              | 25,982              |
| Other deferred liabilities.....                        | 312,424             | 231,403             |
| Total Other Credits.....                               | 312,424             | 231,403             |
| <b>Capitalization</b> .....                            | <b>478,202</b>      | <b>427,726</b>      |
| Common shareholders' equity.....                       | 272,408             | 232,346             |
| Long-term debt.....                                    | 750,610             | 660,072             |
| Total Capitalization.....                              | 750,610             | 660,072             |
| Commitments and Contingencies.....                     | —                   | —                   |
| <b>Total Liabilities and Capitalization</b> .....      | <b>\$ 1,268,275</b> | <b>\$ 1,111,587</b> |

# Consolidated Statements of Capitalization

At December 31

(in thousands)

## Common Shareholders' Equity

Common stock – par value \$1 per share:

Authorized 50,000,000 shares

Issued 22,904,573 and 21,950,335 shares, respectively.....

Additional paid-in capital .....

Retained earnings.....

Accumulated other comprehensive income, net of tax.....

Total Common Shareholders' Equity .....

## Redeemable Preferred Stock

Cumulative, \$25 par value, 1,175,000 authorized but unissued.....

## First Mortgage Bonds

7.70%, 2028 Series .....

## Other Long-Term Debt

6.02%, due 2008 .....

4.875% 2012 Series, Industrial Development Revenue Bonds.....

5.875% 2034 Series, Industrial Development Revenue Bonds.....

6.58%, due 2012 .....

5.26%, due 2017 .....

5.25%, due 2017 .....

5.59%, due 2018 .....

7.12%, due 2032 .....

6.12%, due 2028 .....

5.68%, due 2033 .....

5.19%, due 2033 .....

6.247%, due 2037 .....

Total Other Long-Term Debt.....

Long-term debt due within one year .....

Unamortized discount .....

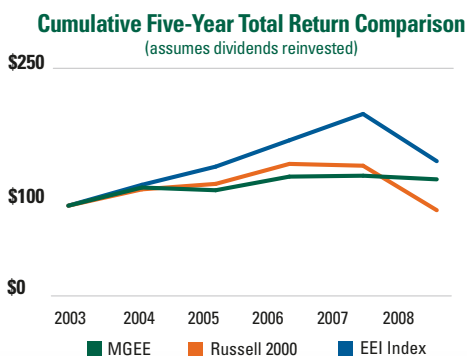
Total Long-Term Debt.....

## Total Capitalization .....

|  | 2008       | 2007       |
|--|------------|------------|
| Common stock – par value \$1 per share:                            |            |            |
| Authorized 50,000,000 shares                                       |            |            |
| Issued 22,904,573 and 21,950,335 shares, respectively.....         | \$ 22,905  | \$ 21,950  |
| Additional paid-in capital .....                                   | 310,202    | 280,217    |
| Retained earnings.....   | 144,904    | 123,916    |
| Accumulated other comprehensive income, net of tax.....            | 191        | 1,643      |
| Total Common Shareholders' Equity .....                            | 478,202    | 427,726    |
| 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   |            |            |
| 6.02%, due 2008 .....  | —          | 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     |
| 5.59%, due 2018 .....  | 40,000     | —          |
| 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     | 25,000     |
| Total Other Long-Term Debt.....                                    | 272,300    | 262,300    |
| Long-term debt due within one year .....                           | —          | (30,000)   |
| Unamortized discount .....   | (1,092)    | (1,154)    |
| Total Long-Term Debt.....  | 272,408    | 232,346    |
| Total Capitalization .....   | \$ 750,610 | \$ 660,072 |

## Cumulative Five-Year Total Return Comparison

Assumes \$100 invested on Dec. 31, 2003, in each of the Company's Common Stock, Russell 2000 and the EEI Index.



|      | MGEE  | Russell 2000 | EEI Index |
|------|-------|--------------|-----------|
| 2003 | \$100 | \$100        | \$100     |
| 2004 | \$120 | \$118        | \$123     |
| 2005 | \$117 | \$124        | \$143     |
| 2006 | \$132 | \$146        | \$172     |
| 2007 | \$133 | \$144        | \$201     |
| 2008 | \$129 | \$95         | \$149     |



# Corporate Leadership

## Directors of MGE Energy and MGE



**Richard E. Blaney**  
Retired President  
Richard Blaney Seeds Inc.  
Age 72  
Director since 1974



**John R. Nevin**  
Executive Director, Grainger Center for  
Supply Chain Management; Grainger  
Wisconsin Distinguished Professor,  
School of Business; and Chair,  
Marketing Department, University  
of Wisconsin-Madison  
Age 65  
Director since 1998



**Londa J. Dewey**  
President  
The QTI Group, Inc.  
A human resources and staffing company  
Age 48  
Director since 2008



**Thomas R. Stolper**  
Chief Financial Officer and an owner,  
TRAC Microbiology, Inc., a food and  
consumer products testing, research,  
auditing and consulting corp.; and an  
owner, Pro Chemicals LLC, a cleaning  
and sanitizing products manufacturer  
Age 60  
Director since 2008



**F. Curtis Hastings**  
Chairman  
J. H. Findorff & Son, Inc.  
Commercial and industrial  
general contractors  
Age 63  
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 70  
Director since 1988



**Regina M. Millner**  
President  
RMM Enterprises Inc.  
Attorney, analyst and broker  
Age 64  
Director since 1996



**Gary J. Wolter**  
Chairman, President and Chief  
Executive Officer  
MGE Energy, Inc., and  
Madison Gas and Electric Co.  
Age 54  
Director since 2000



**Frederic E. Mohs**  
Partner  
Mohs, MacDonald, Widder  
& Paradise, Attorneys at Law  
Age 71  
Director since 1975

*Note: Ages as of Dec. 31, 2008.  
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 54  
Years of Service, 24



**Jeffrey C. Newman\* (a)**  
Vice President,  
Chief Financial Officer,  
Secretary and Treasurer  
Age 46  
Years of Service, 24



**Lynn K. Hobbie**  
Senior Vice President  
Age 50  
Years of Service, 23



**James G. Bidlingmaier**  
Vice President –  
Administration and  
Chief Information Officer  
Age 62  
Years of Service, 36



**Kristine A. Euclide**  
Vice President and  
General Counsel  
Age 56  
Years of Service, 7



**Scott A. Neitzel**  
Vice President –  
Energy Supply  
Age 48  
Years of Service, 11



**Peter J. Waldron**  
Vice President and  
Operations Officer  
Age 51  
Years of Service, 28



**Gregory A. Bollom**  
Assistant Vice President –  
Energy Planning  
Age 48  
Years of Service, 26



**Craig A. Fenrick**  
Assistant Vice President –  
Electric Transmission  
and Distribution  
Age 49  
Years of Service, 26



**Joseph P. Pellitteri**  
Assistant Vice President –  
Human Resources  
Age 60  
Years of Service, 9



**John M. Yogerst**  
Assistant Vice President –  
Gas Operations  
Age 51  
Years of Service, 28

*\* Officers of MGE Energy and MGE. All others are MGE officers.*

*(a) Assumed the titles of chief financial officer and secretary as of Jan. 1, 2009, replacing Terry A. Hanson, who retired.*

*Note: Ages and years of service as of Dec. 31, 2008.*

# Shareholder Information

## 2009 Annual Shareholder Meeting

Tuesday, May 19, 2009  
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

## Shareholder Services



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

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.

## 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.

## NAIC® 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](http://betterinvesting.org)

## 2009 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](mailto:investor@mgeenergy.com)  
Web Address: [mgeenergy.com](http://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 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](http://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](http://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

# Corporate Profile



## MGE Electric Services

Generation and Distribution  
 Customers: 137,000  
 Population: 292,000  
 Area: 316 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 service in 2010.

## MGE Natural Gas Services

Purchase and Distribution  
 Customers: 141,000  
 Population: 408,000

Area: 1,631 square miles  
 Counties served: Columbia, Crawford, Dane, Iowa, Juneau, Monroe and Vernon

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

## MGE Energy, Inc.

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.

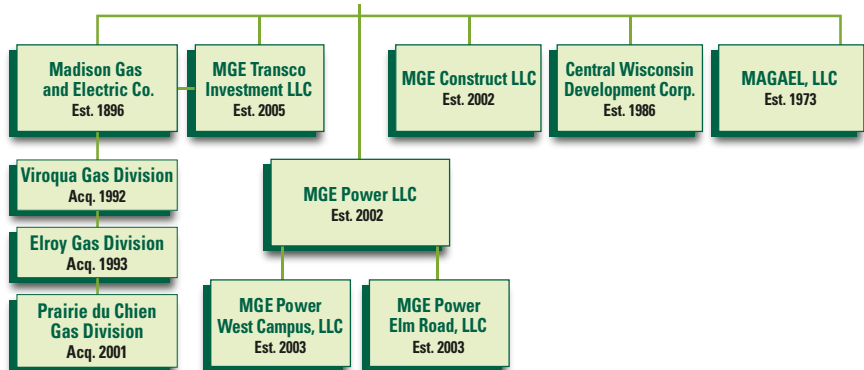
MGE Transco Investment owns interest in the American Transmission Co. through its members, MGE and MGE Energy.

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.

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





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

[mgeenergy.com](http://mgeenergy.com)



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100 years of delivering dividends:  
MGE Energy is one of only six  
investor-owned electric utilities in  
the U.S. to raise annual dividends  
for 30 or more years.

