

innovation at work



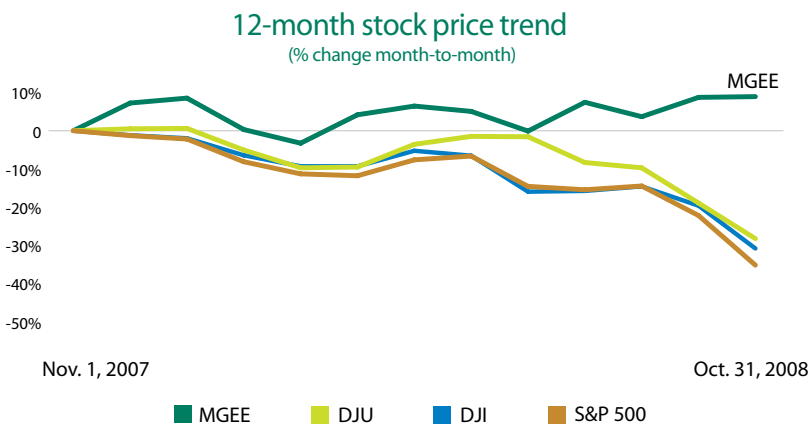
Gary J. Wolter, MGE Energy Chairman, President and Chief Executive Officer.

MGE Energy holds value in volatile stock market

The financial stress on Wall Street has been difficult for investors. Poor performance nearly across the board highlights the importance of MGE Energy in a balanced portfolio.

A one-year comparison shows that MGE Energy has held its value through the market's recent turmoil. On Oct. 31, 2008, our stock closed at \$35.63—more than \$3 higher than the \$32.55 close on Nov. 1, 2007. This performance is due to our credit quality, financial strength and commitment to steady dividend payments.

In August, MGE Energy raised its regular quarterly dividend—marking our 33rd year of consecutive dividend increases. We have paid dividends annually since 1909. In contrast, dividend declarations and payments have dropped for many companies trading on U.S. stock exchanges. The number of dividend declarations decreased more than 3% during the third quarter compared to a year earlier, according to Standard & Poor's. The number of dividend cuts was seven times more than in 2007. In the month of September alone, negative dividend actions removed nearly \$8 billion in payments to investors.



MGE Energy avoided the extreme market volatility experienced by Dow Jones Utilities, Dow Jones Industrials and the S&P 500.

Our service area encompasses one of the strongest economies in the nation. We are home to the seat of state government and the University of Wisconsin-Madison. Additionally, the technology business sector remains strong.

Value Line states: "We remain upbeat about MGE's prospects in the years ahead. The utility should continue to benefit from economic expansion within its service area."

MGE Energy produced earnings of \$0.78 per share from July through September 2008 compared to \$0.71 per share in the same period last year. For the first nine months, per-share earnings were \$1.89 in 2008 and \$1.77 in 2007.

MGE increases its wind capacity by 12 times

Madison Gas and Electric (MGE), our primary subsidiary, has increased its wind capacity by more than 12 times in 2008. Due to strong customer support, MGE's wind capacity has grown from 11 to 137 megawatts (MW) this year alone.

MGE recently signed a 10-year agreement to purchase 50 MW of wind power from Osceola Wind Power II, a subsidiary of FPL Energy. The green power is from FPL Energy's Endeavor II Wind Energy Center in northwest Iowa, an area with some of the most robust wind resources in the Midwest. The new facility started operation in October.



\$1 billion invested in area tech firms

Madison is known for its knowledge-based economy—especially in biotech and technology development. Local start-up tech companies have met with considerable success. Often these companies need investors and capital to take their products and services to the next level.

Four local companies have teamed up with larger corporations bringing a huge infusion of money—more than \$1 billion—to our local economy at a time when capital is tight. Rather than relocate, these companies were acquired and are staying in Madison because of its high-tech cluster and local workforce. The local companies and new parent firms include:



- Mirus Bio Corp., which develops gene therapies, and Roche, a Swiss drug and biotech company. \$125 million
- NimbleGen, a manufacturer of pharmaceutical research tools, and Roche. \$272.5 million
- Third Wave Technologies, which focuses on diagnostic tests, and Hologic, a developer of diagnostic products for women's health care. \$580 million
- Jellyfish, a comparison-shopping online search engine, and Microsoft. \$50 million

New shareholder services offerings

Direct Registration System

We soon will offer a safe, convenient way for shareholders to hold MGE Energy shares through the Direct Registration System (DRS). This system will allow your MGE Energy shares to be held and tracked electronically. DRS eliminates the need for physical stock certificates. If you choose to participate, your shares will be held in your name and tracked electronically on MGE Energy's records. You retain full ownership of your shares, and you have all the traditional rights and privileges as holders of shares held in certificate form. DRS offers benefits for shareholders. You no longer have to worry about keeping track of your certificates. In addition, you will be able to move shares to and from a brokerage account electronically. We plan to implement this system in January. Watch for more news about the system and how you can choose to participate.

Account Activity Statement

A combined Account Activity Statement and 2008 Form 1099-DIV will be mailed to all registered shareholders in late December. Registered holders who have signed up for online account access will receive e-mail notification. The statement will show detailed account activity for the entire year and will also contain IRS Form 1099-DIV for tax purposes. Please retain the statement. The new Account Activity Statement will take the place of the Fourth Quarter Dividend Reinvestment Statement.

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Competition Report is published periodically to provide investors with information about MGE Energy's position in a competitive industry. MGE Energy's primary asset, Madison Gas and Electric Co., provides highly reliable gas and electric service and promotes economic development in south-central and western Wisconsin.