

# Inside View

## MGE Energy

A report from our annual meeting

May 2017



Jeff Keebler, President and Chief Executive Officer, and Gary Wolter, Chairman



## Financial strength and long-term shareholder value

MGE Energy has taken a steady approach to growing investor value. We have grown our assets by investing in our core utility business. In the last 10 years, MGE Energy's assets have nearly doubled to \$1.8 billion.

We project an increase in our capital expenditures as we develop additional renewable energy facilities, new information technology infrastructure, metering capabilities and other resources to meet customers' needs. (See page 2.)

Our continued growth and prudent financial management has resulted in long-term shareholder value.

Last year, MGE Energy's market value reached \$2.3 billion. In the last 10 years, our market value has tripled. This represents significant value for our investors. Market value is determined by multiplying the number of shares outstanding by the price per share.

In addition to market value, several other financial milestones were achieved in 2016.

Last year, MGE Energy's Board of Directors approved a 4.2% dividend increase. Our annual dividend paid per share reached \$1.21. MGE Energy has increased its dividend for 41 consecutive years and has paid dividends since 1909.

Our total return is another significant measure of MGE Energy's performance. A \$1,000 investment in MGE Energy, with dividends reinvested, would have grown

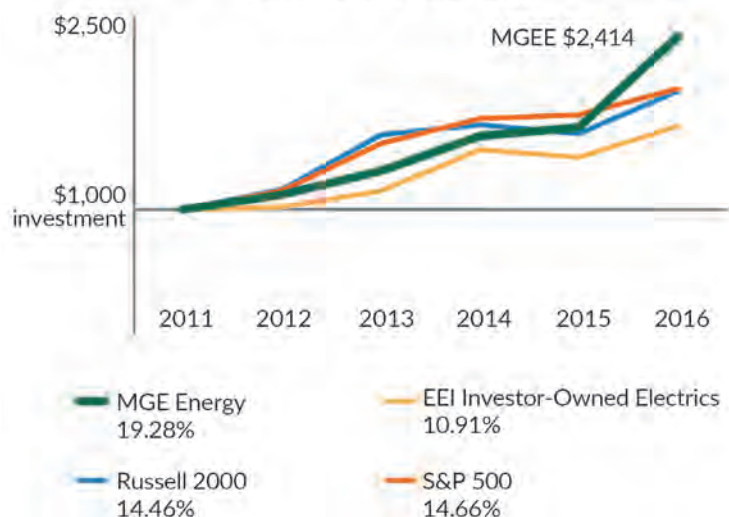
to \$2,414 during the five years ending Dec. 31, 2016. Over that five-year period, MGE outperformed the major indices of the Russell 2000, S&P 500 and the EEI Investor-Owned Electrics.

Our company has produced solid earnings. MGE Energy reported earnings of \$2.18 per share in 2016, compared to \$2.06 per share in 2015.

We remain committed to disciplined financial management and to growth in long-term shareholder value.

### Cumulative Total Return Comparison

(assumes \$1,000 investment on 12/31/11 with dividends reinvested)



## High national rankings for financial performance

- **Dividend Achiever:** MGE Energy is recognized as a Dividend Achiever by Mergent, a financial publisher. Compared to combination utility holding companies nationwide, MGE Energy is one of only four to increase its dividend for 41 or more consecutive years.
- **Highest credit rating:** Our regulated utility, Madison Gas and Electric (MGE), continues to achieve high credit ratings.

For 2016, Standard & Poor's and Moody's gave MGE the highest credit ratings in the nation for investor-owned, combination utilities.

- **Strength and safety:** Value Line, Inc., gave us top ratings for both financial strength and investment safety. MGE Energy has maintained these high ratings for more than a decade.

MGEE Dividend Achiever	MGE Top Credit Quality	MGEE Value Line Ratings
41 Consecutive Years of Dividend Increases	<b>S&amp;P</b> Corporate Credit: <b>AA-</b> Outlook: <b>Stable</b>	Safe Investment <b>No. 1</b>
108 Consecutive Years of Dividend Payments	<b>Moody's</b> Secured: <b>Aa2</b> Unsecured: <b>A1</b> Outlook: <b>Stable</b>	Financial Strength <b>A</b>

## Investments projected for a more sustainable future

Our investments have been driven by our high standards for energy reliability, by new technologies and by our goals for a more sustainable energy future. Under our long-range Energy 2030 framework, we project an increase in our capital expenditures.

For example, we have proposed a new \$107 million wind farm. If approved by state regulators, construction could begin in 2018.

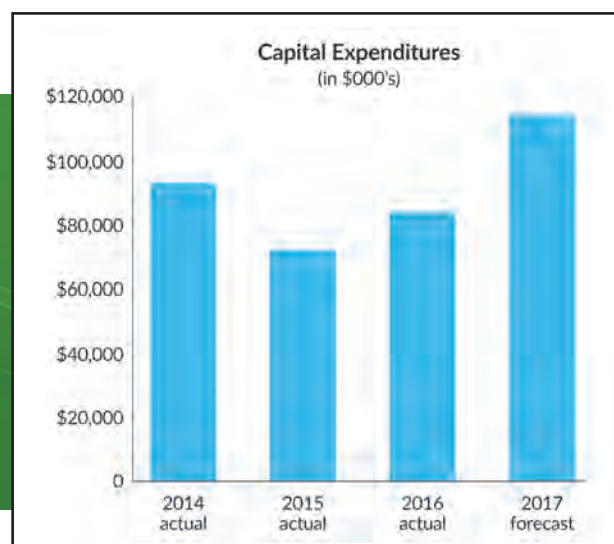
Other projected investments include emission control technologies, electric distribution and metering expenditures, and continued customer additions in MGE's

gas service area. We also anticipate increased expenditures on other renewable energy resources and natural gas generation.

To meet the needs of a more technology-driven future, we expect to invest a significant amount of capital in information technology infrastructure that will allow us to continue developing a more dynamic, integrated electric grid.

Also, investments in a new customer information system, smart meters and other systems will help enhance the grid and provide customers more energy-use information.

MOVING FORWARD  
TOGETHER WITH  
INVESTMENTS FOR A MORE  
SUSTAINABLE FUTURE



## Partnering to advance our Energy 2030 objectives

Energy 2030 is our ambitious framework for the future. Energy 2030 continues our long-term direction of reducing carbon emissions, greater use of renewables, innovative products and services, and ongoing partnerships.

By working with our customers, we are developing programs, products and services responsive to their needs. We also are building shareholder value as we invest in new technologies.

Our Energy 2030 framework includes high-level goals of further increasing renewable energy resources and decreasing carbon dioxide emissions. We are building on our history of renewable energy investments:

- MGE is proposing to construct, own and operate its largest wind farm to date located near Saratoga, Iowa. The proposed site is well situated due to its strong winds and proximity to transmission infrastructure. If the project receives regulatory approval, the wind farm could serve approximately 47,000 homes.



The Saratoga wind project is located in northern Iowa, about 45 miles east of MGE's Top of Iowa wind farm (pictured above).

- We completed construction of MGE's Shared Solar pilot project in partnership with the City of Middleton. MGE owns and maintains the 500-kilowatt solar installation, which delivers locally generated solar power to the electric grid.

We also are introducing pilot projects that advance new technologies and offer opportunities to partner with customers:

- Our Smart Thermostat Demand Response pilot program for residential customers will explore the use of smart technology to manage peak power demands. For customers who choose to participate, MGE will be able to use smart thermostats to manage the electricity use of residential air conditioners to reduce summer energy peaks.
- Charge@Home is MGE's new electric vehicle charging pilot program that offers drivers a faster way to charge at their homes. MGE installs and maintains the chargers. Customers enjoy faster, more convenient charging that can be controlled remotely with a smartphone.

The new products and services customers want to use are becoming more available, and they're becoming available at a price that makes economic sense.

During this dynamic period in the energy world, MGE looks for new opportunities. New technologies offer us innovative ways to partner with customers to help them better manage their use of energy.



MGE's smart thermostat pilot program will help reduce air-conditioning loads during summer energy peaks while maintaining comfort.



## Helping local businesses

MGE's Shared Savings program helps businesses looking to expand or renovate in our service area. Shared Savings is a revolving loan program that assists local business owners who want to invest in more efficient equipment and energy upgrades. Over the last 10 years, we have loaned nearly \$10 million for more than 100 Shared Savings projects.

"Shared Savings can be a key factor in a project moving ahead," said Randy Popp, Senior Engineer at MGE. "The capital investment for an upgrade can be substantial, and everyone benefits from MGE making the financing process and the energy efficiency upgrade process seamless."

For example, a local developer and real estate company recently used a Shared Savings loan to upgrade the lighting at nine properties totaling 527,800 square feet.

"MGE was very responsive and showed a real willingness to make this project happen," said Nicolas Alexander of Alexander Real Estate Services.



Nicolas Alexander's company Alexander Real Estate Services used a Shared Savings loan to install new lighting and become more energy efficient.

## Growing our local economy

MGE serves one of the strongest economies in the nation. The Madison area was ranked 12th among 382 metro areas nationwide by the independent research firm Policom Corp. According to Policom, the highest ranked areas have experienced consistent economic growth in both size and quality for an extended period of time.

This competitive economic growth has resulted in an unemployment rate of approximately 3% for our area.

In addition, the Madison area was listed as one of four U.S. "tech hubs" by the Atlantic Council, a nonpartisan think tank. The council's study cited Madison's growth of high-tech companies often spurred by scientific and technical research at the University of Wisconsin-Madison.

The university is a research powerhouse, which had just under \$1.1 billion in annual expenditures for research across all fields.

At MGE, we work with business and community leaders to help ensure our economic growth continues.



A lab technician works behind protective sheeting at the research company Primorigen Biosciences Inc., located in the UW Research Park.

### Contact shareholder services

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- Stock price
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- Dividends and earnings

### Inside View

The *Inside View* is published periodically to provide investors with information about MGE Energy. MGE Energy's primary asset, Madison Gas and Electric, provides highly reliable gas and electric service and promotes economic development in south-central and western Wisconsin.