

Inside View

MGE Energy



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

Financial strength to power a cleaner, smarter energy future

MGE Energy is building shareholder and customer value by investing in a more sustainable energy future. Our key strategies to advance renewable energy, promote the electrification of transportation and increase engagement around energy efficiency will create a cleaner future while incorporating new technologies for the benefit of our customers, shareholders and community.

Capital Expenditures

In 2017, our capital expenditures totaled \$108 million. By comparison, this year, we project an estimated \$254 million in capital spending.

We will invest about \$108 million for construction of our new, highly efficient wind farm near Saratoga, Iowa. The 66-megawatt project is one of two wind energy investments. Madison Gas and Electric (MGE) recently purchased a share of the Forward Energy Center in Wisconsin. When combined with Saratoga, we will grow MGE-owned wind resources by more than 200%. These two wind farms further grow the company's \$1.9 billion in assets, which have nearly doubled in the last 10 years.

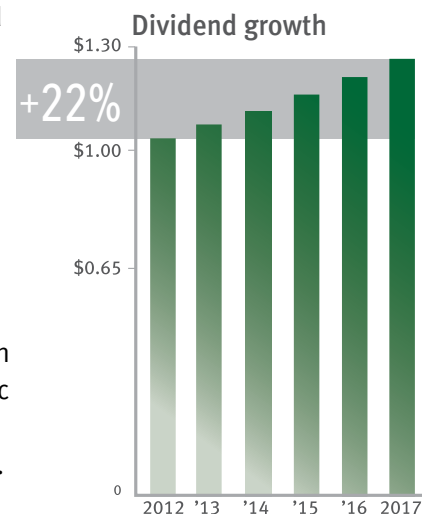
Total Return

Total return is the combination of reinvested dividends and stock price appreciation. For the five years ending with 2017, MGE Energy's average total return was 16% per year, outpacing comparable market indices. If you invested one thousand dollars in 2012, your investment would have grown to \$2,109 by the end of last year.

In 2017, your Board of Directors approved our largest dividend increase in the last 30 years, increasing the regular quarterly dividend rate by nearly 5%. Our annual dividend paid per share reached \$1.26. For the last five years, MGE Energy shareholders have seen 22% dividend growth. MGE Energy has increased its dividend for 42 consecutive years.

Earnings

In 2017, our GAAP (Generally Accepted Accounting Principles) earnings for the full year were \$2.82 per share. Earnings for 2017 included a 62 cent per share one-time, noncash tax benefit from nonregulated operations as a result of the Tax Cuts and Jobs Act (Tax Act) and a 3 cent per share expense from a voluntary contribution to the Madison Gas and Electric Foundation. Excluding these amounts, adjusted non-GAAP earnings were \$2.23 per share for the full year. Residential customer growth helped to drive earnings. MGE added an estimated 2,000 electric customers and 4,000 gas customers last year.



Earning national recognition as a top performer

MGE Energy is building a utility of the future by way of its strong financial position.

Regulatory Research Associates (RRA), a division of S&P Global Market Intelligence, which provides financial and industry data, cited MGE Energy as a top financial performer among electric utilities. The 2017 report reviewed 36 electric utilities nationwide.

MGE Energy ranked among the top five companies in the eight financial quality metrics in the RRA study. For example, MGE Energy received the No. 1 ranking for its return on total capital, which is a profitability ratio based on both debt and equity capital, and the No. 2 ranking for its capital structure, which is how a company finances its overall operations and growth.

MGE Energy also has earned these distinctions:

MGEE Dividend Achiever

MGE Energy is recognized consistently as a Dividend Achiever by Mergent, a financial publisher.

MGE Top Credit Quality

MGE, our regulated utility, received the highest credit ratings in the nation from S&P and Moody's for investor-owned, combination utilities.

MGEE Strength and Safety

Value Line, Inc., gave MGEE top ratings for both financial strength and investment safety. MGEE has maintained these high ratings for more than a decade.

42 Consecutive Years
of Dividend Increases

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

Safe Investment
No. 1 Rating

109 Consecutive Years
of Dividend Payments

Moody's
Secured: **Aa2**
Unsecured: **A1**
Outlook: **Stable**

Financial Strength
A Rating

Investing to advance a utility of the future

A major, enterprise-wide project is under way at our regulated utility, MGE. Known as Enterprise Forward, the five-year, multimillion dollar initiative lays the foundation for MGE becoming a utility of the future.

The capital project, which will touch every part of the company, is transforming internal processes and capabilities, enabling MGE to offer more customized programs, products and services to meet customers' needs and expectations. A modernization of the company's business processes and

consolidation of legacy systems will help MGE to reduce operational costs and offer flexibility to adjust to a changing energy marketplace.

One of the objectives of MGE's Energy 2030 framework for a more sustainable future is advancing new products and services to offer customers more control and value. The Enterprise Forward initiative will allow MGE to better deliver new products and services to our customers.

Committed to reduced carbon emissions

MGE continues to move forward a number of initiatives and projects to reach our clean energy goals under our Energy 2030 framework. Under Energy 2030, MGE committed to reducing carbon emissions 40% by 2030, a target consistent with U.S. emissions targets established as part of the Paris Agreement on climate change. Beyond 2030, MGE is committed to reducing carbon emissions at least 80% by 2050.

These commitments align with the goals of the U.S. Mid-Century Strategy (MCS) for Deep Decarbonization. The MCS is the U.S. strategy for meeting the goals of the Paris Agreement to limit global warming to 2 degrees Celsius.

In addition to building the Saratoga wind farm and purchasing a share of the Forward Energy Center, MGE is partnering



MGE's 66-megawatt Saratoga wind farm, currently under construction, is located in northern Iowa, about 45 miles east of MGE's Top of Iowa wind farm (pictured above).

with WEC Energy Group to build two large solar projects. The company plans to seek regulatory approval this year. MGE's ownership share is expected to be at least 50 megawatts.

MGE also continues to work aggressively to electrify transportation. MGE has partnered with the City of Madison Metro Transit in support of the City's goal to electrify 50% of its bus fleet by 2035, committing financial and in-kind support and expertise.

Additionally, the company is working with residential customers through our electric vehicle home charging program, Charge@Home, which is a turnkey charging option for electric vehicle drivers. MGE owns, installs and maintains the units, which charge electric vehicles up to six times faster than a standard electrical outlet.

Beyond our clean energy and electric vehicle initiatives, MGE is partnering with customers to advance energy efficiency programs, such as our Smart Thermostat Demand Response program in partnership with Nest. Several hundred residential electric customers enrolled in the pilot program to reduce their use during periods of high energy use. The program will provide research into how MGE may use smart technologies to better manage the grid during peak demand.



MGE owns, installs and maintains electric vehicle charging units at customers' homes under its new Charge@Home program.

Updates to corporate governance



Marcia Anderson



James Berbee

In March 2018, two new directors, Marcia Anderson and James Berbee, joined MGE Energy's and MGE's Boards of Directors. Director Anderson and Director Berbee bring extensive

professional and deep community experience to the board.

The board also made several updates to strengthen its corporate governance guidelines and policies. On Jan. 19, 2018, the board adopted a clawback policy, which under

certain circumstances provides for recoupment of short-term incentive compensation. Board members also approved a "no pledging" policy that prohibits directors and executive officers from pledging their shares to secure indebtedness.

The anti-pledging policy follows a "no hedging" policy, approved in 2012, that prohibits directors and executive officers from engaging in hedging transactions that seek to reduce or limit that person's economic risk associated with his or her ownership in shares of the company's common stock.

In addition, the board enacted enhanced stock ownership guidelines and amended the corporate bylaws to incorporate the director resignation policy, which previously was part of the governance guidelines. Please visit mgeenergy.com/governance for additional information.

A partner in community growth

Consistently top-ranked for electric reliability, MGE is a partner in our community's healthy growth and economic vitality. Dane County is Wisconsin's fastest-growing county. Fueled by a research university as well as growing tech and biotech industries, the capital city of Madison is recognized as one of the best for young entrepreneurs.

The vibrancy is apparent in downtown Madison's Capitol East district where construction cranes dot the landscape. More than \$350 million in redevelopment is expected by 2020 throughout the urban corridor that stretches northeast from the State Capitol building.

MGE works with multifamily developers to facilitate electric vehicle charging in the new high-rise buildings lining East Washington Avenue. The company also serves as a resource for developers and local stakeholders to enable smart growth throughout this up-and-coming area.

For example, one of the corridor's newest redevelopment projects is at the site of an old lumberyard. The landmark riverfront project involved installing more than 230 gas meters.

Across the street, Madison's first-ever public market is slated for development. A mix of public and private investment, the market and its surrounding residential and commercial redevelopment are one indicator of the Madison region's growth in recent years.



The redevelopment of an old lumberyard is one of several redevelopment projects along Madison's East Washington Avenue.

For information on MGE Energy's Direct Stock Purchase and Dividend Reinvestment Plan, contact

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Learn more at mgeenergy.com

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- Stock purchase plan
- Company news
- 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.