



## INTERIM REPORT JUNE 15, 2018



Technology is paving the way for a more sustainable energy future.

New investments are advancing our clean energy goals. We are building a utility of the future, seizing opportunities to offer new products and services that build customer and shareholder value.

# Comments from the Chairman and the CEO

## Annual Meeting highlights clean energy investments, new technologies

Nearly 1,800 shareholders gathered in mid-May for the MGE Energy 2018 Annual Meeting during which they heard from company leadership on how Madison Gas and Electric (MGE), our regulated utility, is harnessing the power of new technologies to reach our clean energy goals.

President and CEO Jeff Keebler said MGE is committed to reducing carbon emissions 40% by 2030 and at least 80% by 2050, a target consistent with the U.S. Mid-Century Strategy for Deep Decarbonization (MCS). The MCS is the U.S. strategy for meeting the goals of the Paris Agreement on climate change to limit global warming to 2 degrees Celsius.

Keebler said recent investments and initiatives are significant steps to fulfill MGE’s commitment to a more sustainable future and to long-term shareholder value.

- MGE’s 66-megawatt (MW) Saratoga wind farm is under construction in northeast Iowa. When combined with the recent purchase of a 16-MW share of the Forward Energy Center wind farm in Wisconsin, the two wind energy investments grow MGE-owned wind resources by more than 200%.
- MGE also is actively exploring a second Shared Solar site similar to its project in partnership with the City of Middleton. MGE’s 500-kilowatt solar array in Middleton came online in January 2017. The Shared Solar program is fully subscribed with a waiting list being developed for MGE’s next project.
- MGE continues to expand its public charging network—with new charging stations in 2018—and its work with residential, business and fleet customers who seek charging options for electric vehicles. This includes the collaboration with the City of Madison to electrify 50% of its bus fleet by 2035 and to advance renewable energy and energy efficiency projects.

### Financial strength

MGE Energy Chief Financial Officer Jeff Newman said MGE Energy enjoys low short-term debt levels and high credit ratings, which help to finance our move to cost-effective, cleaner energy. Capital expenditures in 2018 are projected to be \$254 million, of which more than \$100 million will go toward construction of the Saratoga wind farm.

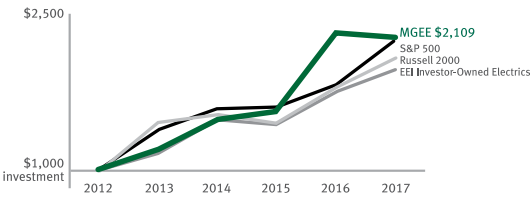
MGE Energy closed 2017 with a five-year annualized total return of 16%, which outpaced major indices. Within the last five years, MGE Energy shareholders also have seen 22% dividend growth.

### Election of directors

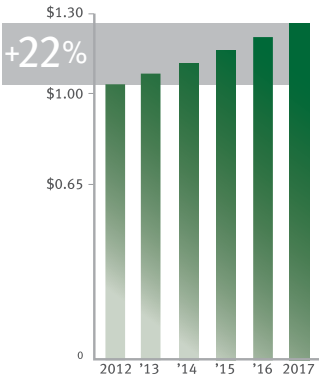
Directors Marcia Anderson and Jeff Keebler and Chairman Gary Wolter were elected at the annual meeting to serve three-year terms expiring in 2021.

### Cumulative Total Return Comparison

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



### Dividend Growth



## First-quarter earnings report

MGE Energy's earnings for the first quarter of 2018 were \$20 million, or 58 cents per share, compared to \$19.3 million, or 56 cents per share, for the same period in the prior year.

During the first quarter of 2018, gas net income increased due to an increase of over 14% in gas retail sales related to higher customer demand resulting from an increase in retail customers and colder weather experienced in the first quarter of 2018 compared to the same period in the prior year. The average temperature in February 2018 was 22 degrees compared to 33 degrees in February 2017. Normal average temperature in February is 24 degrees.

## MGE announces large-scale solar energy plans

MGE and WEC Energy Group (WEC), through its Wisconsin Public Service (WPS) subsidiary, announced plans in late May for a partnership on two major solar projects in Wisconsin. MGE, WPS and project developers, Invenergy and NextEra Energy Resources, filed applications with the Public Service Commission of Wisconsin for the two projects. Combined, the utilities would own a total of 300 megawatts (MW) at a projected total cost of approximately \$390 million.

The Badger Hollow Solar Farm would be located in southwestern Wisconsin in Iowa County. MGE would own 50 MW of Badger Hollow, which is being developed by Invenergy, based in Chicago, Ill.

The Two Creeks solar project would be located in the Town of Two Creeks and the City of Two Rivers in northeastern Wisconsin. MGE would own 50 MW of Two Creeks. The project is being developed by a subsidiary of NextEra Energy Resources, LLC, based in Juno Beach, Fla. The two projects advance MGE's renewable energy and carbon reduction goals.

If approved by the end of 2018, construction of both projects is expected to begin by spring 2019. Commercial operation would begin by the end of 2020.

## Partnering to strengthen our communities




MGE's commitment to those it serves extends far beyond reliable energy. As your community energy company, MGE is committed to improving the quality of life for all who live and work in our service area.

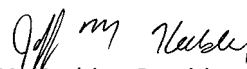
Our 2017 Annual Report on Giving, "Partnering to Strengthen Our Communities," is now available online at [mgeenergy.com/foundation](http://mgeenergy.com/foundation). MGE's first-ever annual giving report captures some of the numerous ways in which we contribute, partner and support the communities we are privileged to serve, demonstrated in three different ways:

- Charitable giving through MGE's philanthropic arm, the MGE Foundation, which was established in 1967 to help enhance the long-term health and vitality of our community. In the last five years, the Foundation has given more than \$5 million to more than 350 community organizations.
- Corporate giving by MGE through partnerships, collaborations and projects with hundreds of local organizations and stakeholders to advance shared goals and initiatives, from extending service to those in need to building a healthy economy.
- Volunteerism of our employees who give of their time to serve local boards, committees, nonprofit organizations and more.

Visit [mgeenergy.com/foundation](http://mgeenergy.com/foundation) to see the full report.



Gary J. Wolter, Chairman



Jeffrey M. Keebler, President and CEO

## Balance Sheet

(Unaudited) (in thousands)	Mar 31 2018	Dec 31 2017	(in thousands)	Mar 31 2018	Dec 31 2017
<b>Assets</b>			<b>Capitalization and Liabilities</b>		
<b>Plant:</b>			<b>Capitalization:</b>		
Property, Plant and Equipment, net. . .	\$1,290,148	\$1,283,313	Common shareholders' equity. . . . .	\$787,007	\$778,187
Construction work in progress. . . . .	76,066	58,044	Long-term debt. . . . .	397,133	398,161
<b>Total Plant. . . . .</b>	<b>1,366,214</b>	<b>1,341,357</b>	<b>Total Capitalization. . . . .</b>	<b>1,184,140</b>	<b>1,176,348</b>
<b>Investments. . . . .</b>	<b>72,176</b>	<b>67,772</b>	<b>Current Liabilities:</b>		
<b>Current Assets:</b>			Accounts payable. . . . .	35,026	47,645
Cash and cash equivalents. . . . .	101,157	107,952	Other. . . . .	71,204	78,869
Accounts receivable, net. . . . .	43,307	42,299	<b>Total Current Liabilities. . . . .</b>	<b>106,230</b>	<b>126,514</b>
Other current assets. . . . .	104,276	140,380	<b>Other Credits:</b>		
<b>Total Current Assets. . . . .</b>	<b>248,740</b>	<b>290,631</b>	Deferred income taxes. . . . .	224,309	225,130
Other Long-Term Assets. . . . .	156,448	155,422	Other. . . . .	328,899	327,190
<b>Total Assets. . . . .</b>	<b>\$1,843,578</b>	<b>\$1,855,182</b>	<b>Total Other Credits. . . . .</b>	<b>553,208</b>	<b>552,320</b>
			<b>Total Capitalization and Liabilities. . . .</b>	<b>\$1,843,578</b>	<b>\$1,855,182</b>

## Income Statement

(Unaudited) (in thousands, except per-share amounts)	Three Months Ended Mar 31	
	2018	2017
<b>Operating Revenues:</b>		
Electric revenues. . . . .	\$94,867	\$98,397
Gas revenues. . . . .	62,765	58,426
<b>Total Operating Revenues. . . . .</b>	<b>157,632</b>	<b>156,823</b>
<b>Operating Expenses:</b>		
Fuel used for electric generation and purchased power. . . . .	28,933	27,553
Cost of gas sold. . . . .	39,626	35,784
Other operations and maintenance. . . . .	44,393	43,764
Depreciation and amortization. . . . .	13,623	12,959
Other general taxes. . . . .	4,869	4,927
<b>Total Operating Expenses. . . . .</b>	<b>131,444</b>	<b>124,987</b>
<b>Operating Income. . . . .</b>	<b>26,188</b>	<b>31,836</b>
Other income, net. . . . .	4,919	3,525
Interest expense, net. . . . .	(4,739)	(4,894)
Income before income taxes. . . . .	26,368	30,467
Income tax provision. . . . .	(6,367)	(11,167)
<b>Net Income. . . . .</b>	<b>\$20,001</b>	<b>\$19,300</b>
Earnings Per Share of Common Stock (basic and diluted). . . . .	\$0.58	\$0.56
Average Shares of Common Stock Outstanding (basic and diluted). . . . .	34,668	34,668

For detailed financial information, see the March 31, 2018, 10-Q.

## Statistics

Electric	Three Months Ended: Mar 31		
<b>Sales</b> (thousands of kilowatt-hours)	2018	2017	% Change
Residential. . . . .	207,151	197,674	4.8%
Commercial. . . . .	440,891	433,389	1.7%
Industrial. . . . .	42,867	51,765	(17.2%)
Other-retail/municipal. . . . .	89,245	92,087	(3.1%)
Sales to the market. . . . .	32,559	35,862	(9.2%)
<b>Total Sales. . . . .</b>	<b>812,713</b>	<b>810,777</b>	<b>0.2%</b>
<b>Gas</b>	Three Months Ended: Mar 31		
<b>Deliveries</b> (thousands of therms)	2018	2017	% Change
Residential. . . . .	49,712	43,038	15.5%
Commercial/Industrial. . . . .	42,307	37,176	13.8%
Gas Transportation. . . . .	21,941	21,035	4.3%
<b>Total Gas Deliveries. . . . .</b>	<b>113,960</b>	<b>101,249</b>	<b>12.6%</b>



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