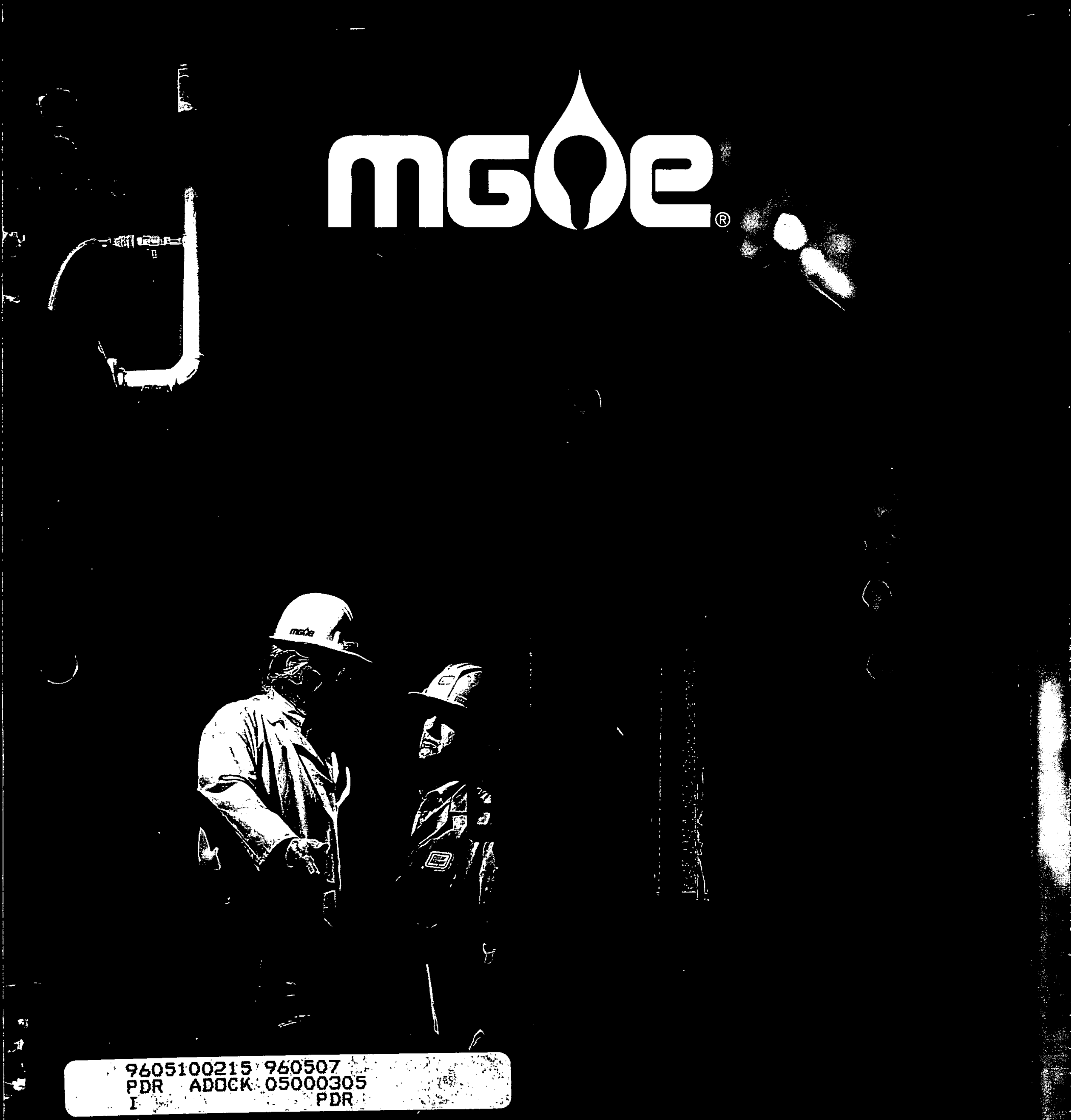
MADISON GAS AND ELECTRIC COMPANY 1995 ANNUAL REPORT



MAKING A DIFFERENCE

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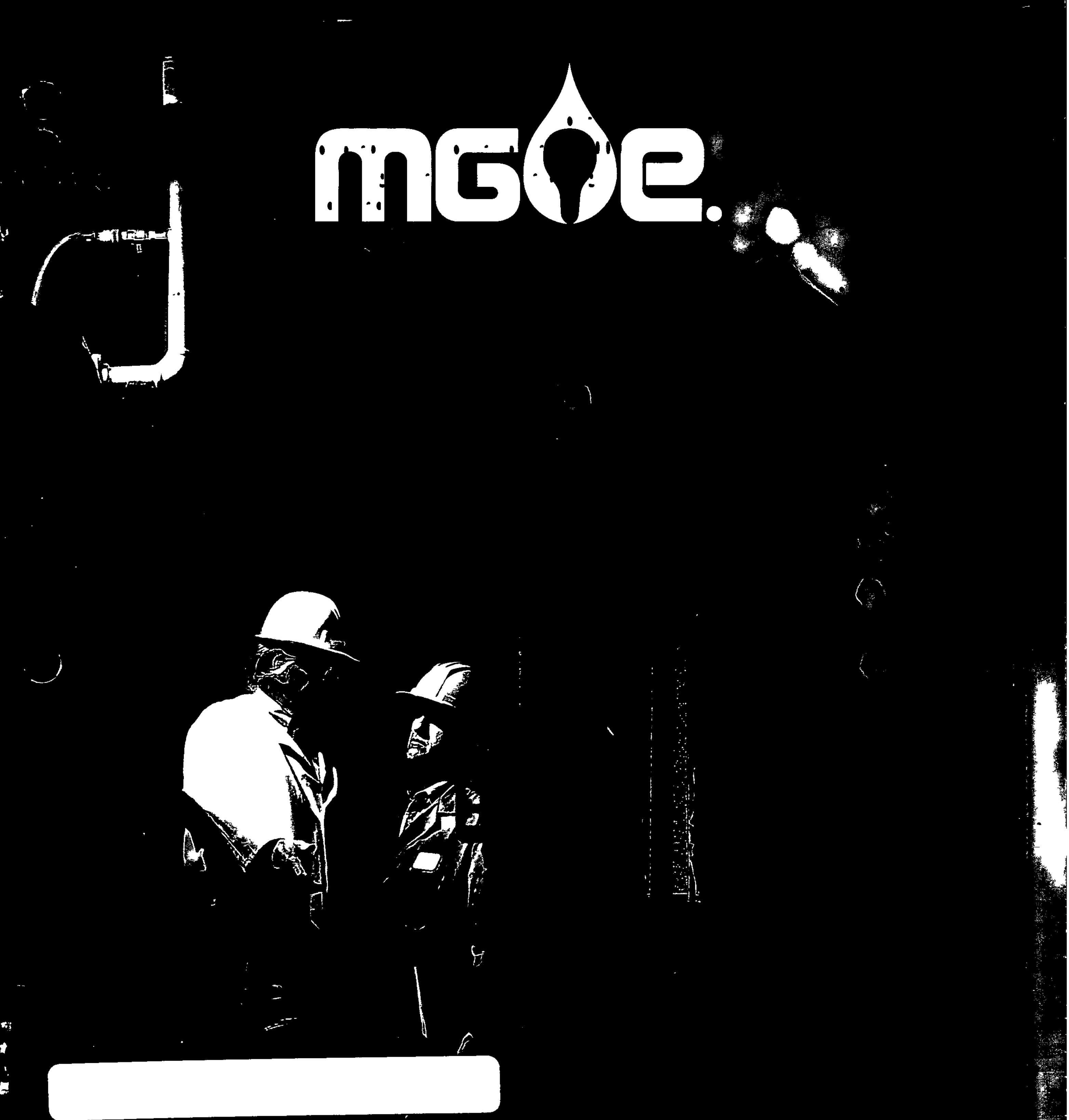


MAKING A DIFFERENCE

LOW-COST, RELIABLE ENERGY

American Energy Management Inc.

American Energy Management Inc. is a national energy marketing firm that provides gas marketing, energy management and conservation services in 12 states.

A Value-Added Energy Company

GLENCO

Great Lakes Energy Corp.

Great Lakes Energy Corp. markets fuels and energy services to commercial, industrial and governmental customers in the Upper Midwest.

CENTRAL WISCONSIN DEVELOPMENT CORP.

Central Wisconsin Development Corp. assists new and expanding businesses in central Wisconsin with planning, financing, property acquisition, joint ventures and associated activities.

COMPETITIVE INDUSTRY LEADER

Madison Gas and Electric Company

- Outperformed the industry average in total investment return over the last five years.
- Ranks high for competitive position and financial strength.
- Provides low-cost, reliable energy.
- Drives a thriving local economy.

MGE is an investor-owned public utility headquartered in Madison, Wis. The company generates, transmits and distributes electricity to almost 120,000 customers in a 250-square-mile area of Dane County. MGE also transports and distributes natural gas to nearly 103,000 customers in 1,325 square miles of service territory in seven counties. MGE has served the Madison area since 1896.

Two MGE subsidiaries, AEM and GLENCO, market nonregulated energy services to national, regional and local customers in 12 states. Services include purchase and transportation of natural gas and other fuels for commercial, industrial and governmental customers.

About the Cover

MGE makes a difference to customers like Oscar Mayer Foods Corp. With MGE's assistance, Oscar Mayer's Madison plant has achieved one of the lowest energy costs of any facility operated by its parent company, Kraft General Foods.

MGE and Oscar Mayer have worked together on a new substation, high-efficiency energy improvements, cogeneration options and other related issues. MGE's goal is to help customers compete.

On the cover: *Bill Kalscheur (left), senior marketing engineer, MGE; and Paul Carlstrom, facility maintenance manager, Oscar Mayer Foods Corp.*

Year at a Glance

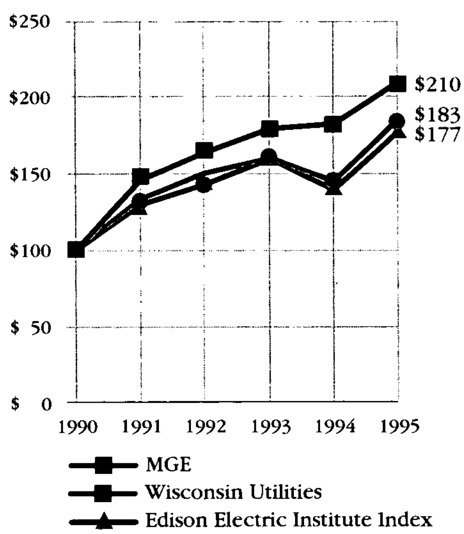
	1995	1994	Percent increase (decrease) 1995–1994
(Per Common Share)			
Earnings*	**$ 1.49**	$ 1.53	(2.6)%
Dividends*	**$ 1.260**	$ 1.247	1.0
Stock price closing*	**$ 23⅜**	$ 21⅝	8.1
Book value – year end*	**$ 12.01**	$ 11.79	1.9
Return on common equity	**12.45%**	13.04%	(4.5)
(Thousands of dollars)			
Operating revenues	**$ 248,590**	$ 244,972	1.5
Earnings on common stock	**$ 23,906**	$ 24,540	(2.6)
Total assets – year end	**$ 493,876**	$ 487,759	1.3
Electric sales to consumers (mwh)	**2,697,000**	2,519,000	7.1
Peak electric demand (kW)	**598,000**	551,000	8.5
Electric customers – year end	**119,886**	118,693	1.0
Gas deliveries (therms)	**220,330,000**	207,230,000	6.3
Gas customers – year end	**102,589**	100,128	2.5
Employees	**706****	683	3.4

**Reflects the three-for-two stock split effective Feb. 20, 1996.*
***Increase in 1995 employees is due to the purchase of American Energy Management, Inc., in January 1995.*

MGE Performance

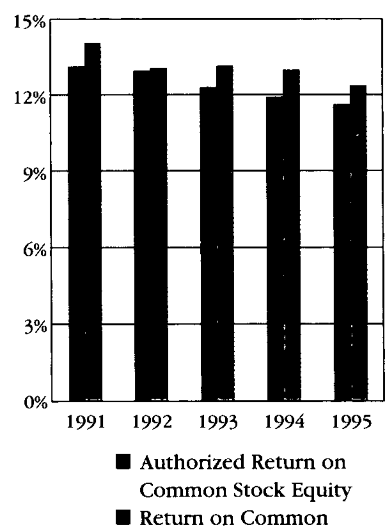
These graphs illustrate the Company's strong financial performance with a five-year cumulative total return comparison and Actual Return vs. Authorized Return on Common Stock Equity.

Five-Year Cumulative Returns



Assumes $100 invested on Dec. 31, 1990, in each of the Company's common stock and reinvestment of dividends.

Return on Common Stock Equity vs. Authorized Return on Common Stock Equity



To Our Shareholders

MGE makes a difference to customers, investors and the communities we serve.

In 1995, we achieved solid financial results, expanded our business, advocated a careful approach to restructuring the utility industry and strengthened our competitive position.

Stock Split

The Public Service Commission of Wisconsin (PSCW) approved a common stock split for shareholders of record on Feb. 1, 1996. All earnings, dividends and stock prices in this report have been adjusted to reflect a three-for-two stock split effective Feb. 20, 1996. This is our second stock split in less than five years.

Our stock split and a new Investors Plus Plan make it easier for individuals to buy MGE stock. The new plan provides a comprehensive package of services for investors.

Strong Performance

MGE earned $1.49 per share in 1995, compared to record earnings of $1.53 per share in 1994. Unregulated businesses contributed 6 cents per share to earnings. We will seek more opportunities to expand our regulated and unregulated business.

MGE's five-year total return (15.7% yearly average) outperformed a composite of other Wisconsin utilities (12.8%) and a national index of 41 combination gas and electric utilities (12.05%). Total return includes dividends and stock price appreciation. MGE common stock closed 1995 at $23⅜ per share, a 52-week high.

Your board of directors increased the quarterly dividend paid on common stock to 31⅔ cents in September. MGE has increased dividends each year for the past 15 years and paid cash dividends annually since 1909. MGE was named a 1995 Dividend Champion by *Equities* magazine for increasing cash dividends each year for at least 10 years. Only 91 of the 3,500 companies traded on the Nasdaq National Stock Market qualified for this list. Our excellent market position permits us to continue a strategic commitment to strong dividends.

Changing Industry

Major changes are occurring in our industry. We want to be certain these changes benefit our customers and shareholders.

We are confident Wisconsin is taking the right approach toward deregulating the electric industry. The PSCW voted in December to cautiously restructure the electric industry in our state. This step-by-step approach will lay the foundation for future competition and ensure that all customers will benefit before permanent regulatory changes are made.

Two Wisconsin utilities announced plans to merge with out-of-state companies. MGE is encouraging federal and state regulators to closely examine these proposed mergers to ensure they will benefit customers and not obstruct competition. It is essential that no utility gain an unfair market advantage and drive up prices for customers.

Competitive Position

MGE scored second best in the nation in a study by Standard & Poor's (S&P). The study evaluated how electric revenues would be affected if customers could choose their energy suppliers. MGE is one of only 17 utilities in the nation that S&P predicts will gain revenues if this occurs. We have very competitive generating costs and a low percentage of revenues from industrial customers.

Our financial strength is viewed positively by the financial community. In December, MGE was one of only four utilities in the nation to receive the highest credit rating awarded by Bear Stearns, a New York investment firm. This is consistent with high credit ratings awarded by S&P and Moody's Investors Service.

National Recognition

Madison has received national attention from many publications including *USA Today* and *U.S. News & World Report*. Madison ranks among the best cities in the nation for housing, starting a business and quality of life.

We serve the fastest-growing area in Wisconsin. More than $1.2 billion has been invested in commercial and industrial projects in Dane County in the past five years. A survey of manufacturers shows that nearly 160 firms plan to add more than 1,500 jobs within the next two years. Our service territory will continue to thrive.

Management Changes

The board of directors elected the following individuals to new positions: Robert Domek, executive vice president; Mark Williamson, senior vice president - energy services; Gary Wolter, senior vice president - administration and secretary; and James Boll, vice president - law and corporate communications.

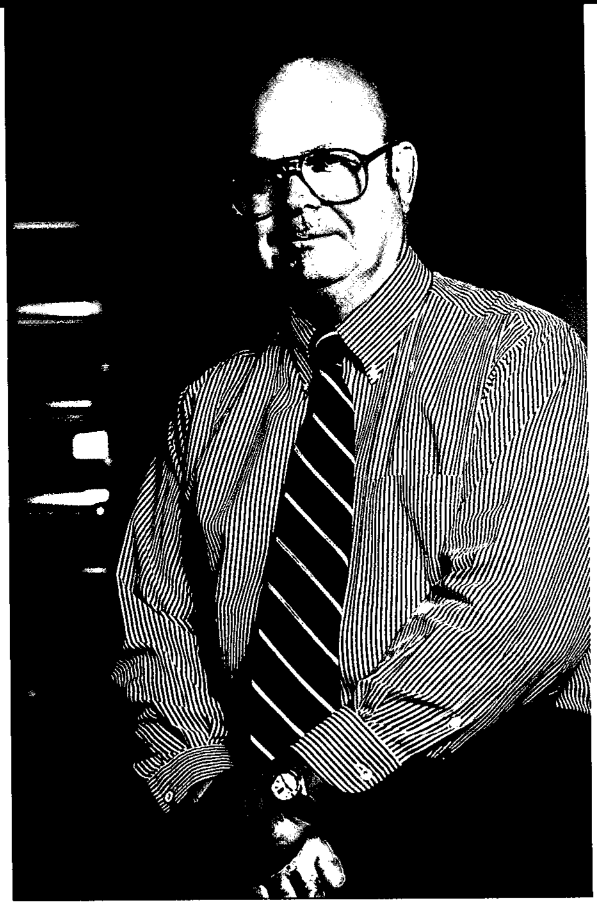
Making a Difference

In 1996, Madison Gas and Electric Co. celebrates 100 years of making a difference to our customers, investors and communities. One of our key strengths is outstanding customer service. Our dedicated employees will continue to provide excellent service and exceptional value for customers. We will support our communities and work hard to produce strong results.

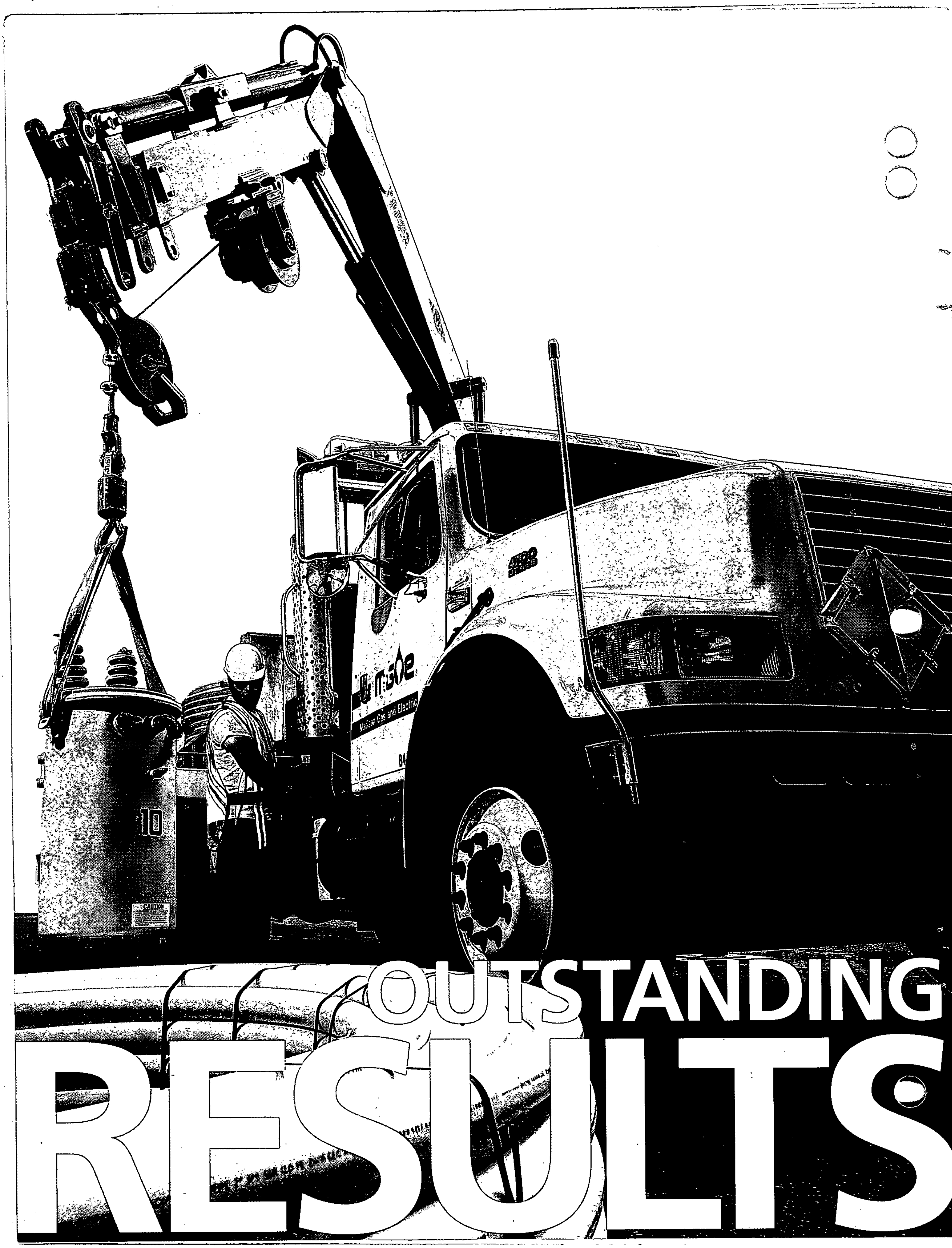
Thank you for your confidence and support.

David C. Mebane

David C. Mebane
Chairman, President
and Chief Executive Officer
Feb. 21, 1996



"MGE makes a difference. We provide exceptional customer service, opportunities for employee growth, strong community support and solid results for investors. With the dedication and commitment of our employees, MGE will continue to be a national leader."



OUTSTANDING RESULTS

Managing Costs

MGE produces outstanding results by aggressively managing costs and finding innovative ways to reduce expenses.

Efficient Production

MGE saved about $5 million last year by reducing total energy costs compared to 1994. The company cut costs while generating more electricity to meet greater demands.

The scorching summer pushed electric systems to their limits. MGE customers set a new record for peak demand on July 13 when temperatures soared above 100 degrees. Customers used 598 megawatts of electricity in one hour. MGE met electric demands through the extraordinary efforts of employees and the cooperation of customers.

Alternate Fuels

Burning alternate fuels saves MGE money and helps meet emission requirements. Nearly 5,000 tons of waste materials were burned at the Blount Generating Station in Madison last year.

MGE leads the nation in testing switchgrass as a fuel. Switchgrass, an easy-to-grow prairie grass, may be another low-cost fuel to replace coal. This project is funded jointly by MGE, the Electric Power Research Institute and the Council of Great Lakes Governors.

Recycling Waste

Superior Lamp Recycling, an MGE subsidiary, processed 2.7 million fluorescent lamps since 1993. A new device was also installed to recycle mercury-contaminated powder from the lamps and remove mercury from materials used in other industries.

A project started in 1995 will save MGE about $250,000 each year in landfill costs. Fly ash from the Blount plant is recycled to form a cement-like material that provides structural support in limestone mines.

Lower Overhead

MGE has cut inventory levels by $3.5 million since 1990, greatly reducing overhead costs. Dozens of items are received on consignment. MGE pays for them only when they are used.

Materials are now delivered to work sites more easily. A truck equipped with a crane was added to the fleet last year. Deliveries that used to require two people can now be done by one person, improving efficiency and reducing costs.

Pedro Peña, MGE storekeeper.
***Above:** Craig Weiss (left), MGE director-special projects; and Timothy Baye, associate professor, business management agent, University of Wisconsin-Extension; collect switchgrass for testing.*

"I started investing in MGE with savings from my first teaching job. My grandson, Matthew, is the fourth generation in our family to own MGE stock.

MGE has been a wise investment and the rewards have been generous. It is a well-managed utility. I strongly believe in investing for the generations ahead. Even if you start small, it's important for the future."

Joyce Hoffman
MGE Investor

Costs

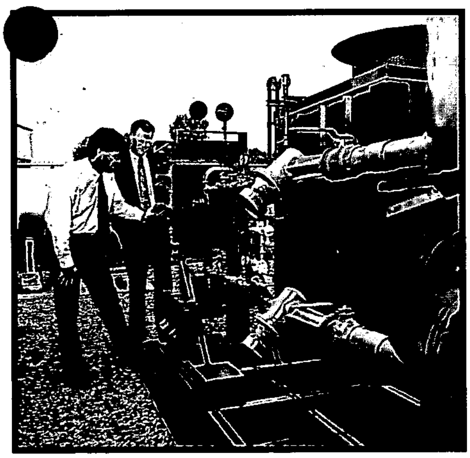
Above and Beyond

The best service at the best price. That winning combination results in outstanding value for customers. MGE knows how to compete and win customers' confidence.

Unregulated Markets

Great Lakes Energy Corp. (GLENCO) and American Energy Management Inc. (AEM) serve customers at more than 3,500 locations across the nation.

These MGE subsidiaries delivered nearly 300 million therms of gas to commercial, industrial and governmental customers in 1995. They also helped customers reduce utility bills through lighting improvements and other energy management techniques.



Money-Saving Ideas

MGE financing has helped nearly 200 customers install high-efficiency equipment to reduce energy costs. The company has invested more than $4 million in energy-saving projects through its leasing and shared savings programs.

Wisconsin Centrifugal, Waukesha, Wis., ENCO customer.

Above: *Tom Kotopka (left), plant manager, Cintas Uniform; and Steve Dykstra, key account manager, MGE; examine a new propane air plant.*

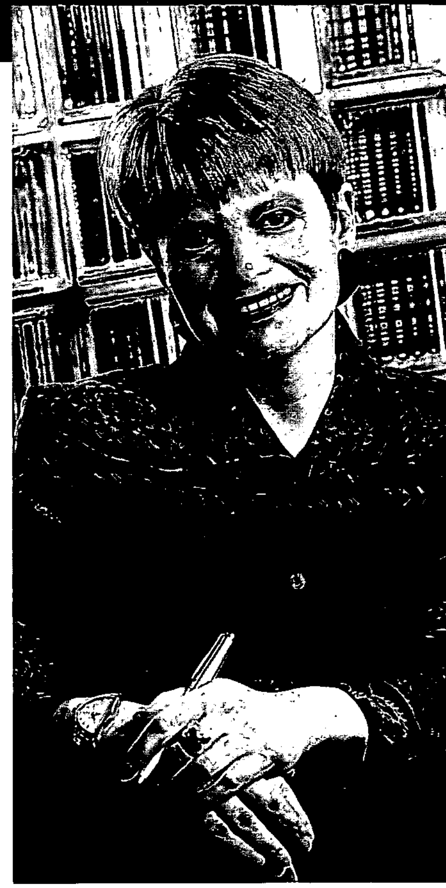
Customized solutions are also developed. MGE analyzed options and showed Cintas Uniform how it could save money on natural gas by installing a propane air plant. The plant serves as an alternate fuel source and qualifies Cintas for a lower gas rate. Cintas' energy savings will pay for its investment within three years.

New Rules

State and federal regulators are considering ways to restructure the utility industry. MGE welcomes competition wherever it benefits customers and shareholders. However, any changes in the electric industry should do the following:

- Provide fair access to transmission lines and guarantee fair prices for all energy users in a region.
- Limit market power to prevent any one company from controlling prices.
- Create vigorous competition for new power plants.
- Encourage utilities to offer customers a wider variety of services and prices.

MGE is participating in discussions at both the state and federal levels about utility industry restructuring. The goal is to maintain fair pricing and outstanding value for customers and shareholders.



"MGE helps customers improve their bottom line by reducing energy costs. We analyze options and help finance projects that meet customers' needs. We provide the best service at the best price so our customers can focus on the things they do best. We help our customers stay competitive."

Lynn Hobbie
MGE Assistant
Vice President-Marketing

OUTSTANDING SERVICE

Finding Solutions

MGE's outstanding service goes beyond gas and electric meters. The company helps customers find energy solutions. From saving customers money to meeting tight deadlines, MGE meets customers' needs with innovation and dedication.

Convenience Counts

Customers want faster, better service than ever before. MGE knows that convenience counts.

- MGE's expanded Customer Center received nearly 314,000 calls in 1995. All requests are entered in a central computer system to improve response time and efficiency.
- Gas and electric lines are installed simultaneously for new homes. A time is arranged in advance to meet customers' needs.
- Customers can have monthly payments automatically withdrawn from checking accounts.

Left: *Victor Balczewski (left), laborer-fuser, InterCon Construction; Francis Stanek, foreman, MGE; and Dale Watterson, senior trainer, MGE.*

Above: *Bill Hamilton (left), manager-planning and development and Tom Grundahl, master electrician-team leader, Corning Hazleton, Inc.; learn more about MGE's electric system from Ken Wilke, director-transmission and distribution construction operations, MGE.*

- Customized, on-site training for businesses shows customers how MGE's transmission and distribution systems bring electricity to their facilities.
- An on-line computer service provides free information about energy programs and related issues.
- MGE works with a nonprofit agency to transcribe energy bills to braille for visually impaired customers.

Customer Feedback

MGE conducts customer focus groups and surveys to get feedback about its service. The company learns what customers want so it can develop new ideas or improve existing programs. In 1995, more than 80% of customers surveyed said they turn to MGE for energy-saving advice.

One way MGE provides this advice to customers is with its "Check with the Experts" program. This new service helps customers make informed decisions when buying energy-saving products. Retailers place MGE's "seal of approval" on selected items, from air conditioners to light bulbs, that meet the company's standards for high efficiency. Customers know they are making a wise choice when they buy a product approved by MGE.

"MGE is helping us create something innovative in the recycling industry. MGE provided financing for new equipment when we wanted to expand. We now recycle about 12 million disposable plastic cake pans each year. This operation provides a good revenue stream and adds to our profits. I'm impressed with everything MGE can do for businesses."

Dan Reed, Woodland Plastics Recycling

Finding Solutions

M

Strong Commitment

MGE is committed to provide outstanding support for the customers and communities it serves.

New Jobs

MGE helped PanVera Corp. grow in just a few years from a biotechnology start-up to a firm with 25 employees. The MGE Innovation Center provided PanVera with cost-effective laboratory facilities to get started. Central Wisconsin Development Corp., an MGE subsidiary, also provided an investment loan to support PanVera's growth.

MGE helped stimulate manufacturing growth in Madison by teaming up with the Madison Development Corp. and a private developer. The partners constructed a 45,000-square-foot building to accommodate the needs of growing manufacturers.

Work Force Issues

A summer job program in Madison helps teach youth responsibility and

***Left:** Janean Lenius, development scientist, PanVera Corp.*

***Above left:** Margaret Monskey (left), Elroy resident; and Marie Preuss, student participant in the Gatekeeper Program.*

***Above right:** Larry Hamilton (left), Terry Dixon and Carlton Dardon, participants in the Street Teams program.*

basic skills they'll need to be good workers. MGE donated $50,000 to the city of Madison's "Street Teams" program. Youth ages 14 to 16 were hired to clean up city streets and neighborhoods.

MGE and the Greater Madison Chamber of Commerce surveyed manufacturers in Dane County to learn how labor force issues are affecting businesses. The results show a strong commitment to the area.

- Nearly 160 manufacturers plan to create more than 1,500 jobs in the next two years.
- About 125 firms plan to invest more than $112 million in equipment within three years.

Meeting Special Needs

MGE worked with citizens in Elroy, Wis., to develop a special Gatekeeper Program. It links high school students with older adults who need assistance with home projects. Students learn the value of contributing to the community and older adults learn new ways to help young people.

"It's important for people to reach out to help each other. MGE worked with many people in Elroy to develop the Gatekeeper Program, which bridges the gap between young and old.

Having a company like MGE interested in the community has really made a difference. People are finding new ways to contribute."

Roberta Monty
Juneau County
Department of Aging

Results of Operations

Earnings Overview

Earnings per share of Madison Gas and Electric Company's (the Company) common stock decreased to $1.49 in 1995, a decrease of 2.6 percent compared to the $1.53 earned in 1994. Factors that led to slightly lower earnings were industry restructuring costs and costs associated with various regulatory filings in relation to the proposed utility mergers within the state of Wisconsin. Also, the Public Service Commission of Wisconsin (PSCW) authorized a slightly lower return on common stock equity effective January 1, 1995.

Electric Sales and Revenues

Electric retail sales for 1995 increased approximately 7 percent from 1994. Electric retail sales were impacted by the significantly warmer summer which resulted in an increased use of electricity. The electric sales breakdown by customer class is shown in the table below:

Electric Sales

Megawatt Hours	**1995**	1994	% Change
Residential	**735,442**	679,211	8.3
Commercial	**1,347,947**	1,448,474	(6.9)
Industrial	**292,649**	221,384	32.2
Other	**320,869**	169,755	89.0
Total Retail	**2,696,907**	2,518,824	7.1
Resale – Utilities	**26,344**	34,990	(24.7)
Total Sales	**2,723,251**	2,553,814	6.6

As a result of the increase in electric sales, electric revenues increased $3.9 million or 2.6 percent in 1995 compared to 1994. The increase in electric revenues reflects a 3.3 percent reduction to electric rates effective January 1, 1995. The Company's electric margin (revenues less fuel and purchased power) increased $4 million or 3.5 percent during 1995 compared with 1994. The primary factors for the increased margin are the hot and humid weather conditions in July and August which contributed to higher sales, along with positive economic conditions that contributed to increased customer growth.

Electric retail sales for 1994 increased 4.0 percent from 1993. The increase in electric sales for 1994 over 1993 was attributable to a 1.4 percent increase in the electric customer base. Also, the addition of a large, baseload industrial customer resulted in increased sales. Electric revenues increased 1.7 percent in 1994 compared to 1993. Electric rates were reduced in June 1993 by 2.9 percent on an annual basis.

Gas Sales and Revenues

Total gas therms delivered by the Company increased 6.3 percent in 1995 compared to 1994, largely reflecting the colder weather experienced during the fourth quarter of 1995. Gas therms delivered during the fourth quarter of 1995 increased approximately 25 percent over the same 1994 period. The table below shows total gas deliveries by customer class:

Therms Delivered

Thousands	**1995**	1994	% Change
Residential	**89,099**	84,326	5.7
Commercial and Industrial	**94,729**	100,441	(5.7)
Total Retail System	**183,828**	184,767	(0.5)
Transport	**36,502**	22,463	62.5
Total Gas Deliveries	**220,330**	207,230	6.3

Despite the increase in gas delivered in 1995, gas revenues remained constant when compared to 1994. Gas margin (revenues less natural gas purchased) increased by $1.9 million or over 5 percent in 1995 compared to 1994. A shift in a number of customers from retail system rates to transportation rates (see table) is the main reason gas revenues did not increase in proportion to gas deliveries. Gas transport customers' revenue is recorded on a margin basis (revenue less cost of gas), whereas retail system customers' revenue is recorded on a total revenue basis.

Gas delivered to customers in 1994 increased 6.3 percent from 1993. The extremely cold first quarter of 1994 along with the increase in customer base, due in part to the Company's expansion of its gas service territory in western Wisconsin, were the main factors that attributed to the increased gas deliveries. Gas revenues decreased $1.6 million or approximately 2 percent in 1994 compared to 1993. This was the result of lower unit gas costs. Lower gas costs are passed on to customers in the form of lower rates through the purchased gas adjustment clause (PGAC), thus lowering natural gas revenues on a one-for-one basis.

Electric Fuel and Natural Gas Costs

Electric fuel costs and purchased power costs remained constant in 1995 compared to 1994, despite the hot and humid weather experienced in July and August. During July 1995, the Company set a record for peak demand at 598 megawatts for one hour. The Company relied more on its generating plants and purchased less energy in 1995 versus 1994, due to lower unit fuel costs of Company owned generation.

Natural gas costs decreased $2.2 million or approximately 4 percent during 1995 compared to 1994. This was due to a shift in customers from retail system rates to transport rates and a decrease in the cost per therm of approximately 3 percent from the previous year.

Other Operating Expenses

Other operations increased $4.7 million or 8 percent during 1995 compared to 1994. This is due to an increase in industry restructuring costs and costs associated with participation in proposed utility merger filings. Another contributing factor was increased costs associated with postretirement benefits other than pensions. Depreciation expenses increased $2.4 million or 11 percent in 1995 when compared to 1994. This is primarily due to an increase in nuclear decommissioning costs recorded as depreciation expense that has been included in rates. Other interest increased in 1995 when compared to 1994 and 1993 due to a higher level of commercial paper outstanding during 1995 because of the redemption of the Series E, Preferred Stock, in February 1995. Income taxes charged to operations decreased 3.6 percent in 1995 from 1994, reflecting the reduction in net operating income before income taxes for 1995 relative to 1994.

Electric and Gas Operations Outlook

The Company anticipates electric sales to grow at a compound annual rate of approximately 1.5 percent to 2.0 percent over the next five-year period ending December 31, 2000. The service territory appears well insulated against industry or economic downturns. The Company's competitive position in a deregulated market remains favorable because of its low generation costs, competitive rates, and low percentage of industrial customers. Natural gas deliveries are estimated to grow at a compound annual rate of 2.0 percent.

The Company will continue efforts to expand its unregulated gas marketing activities and its gas service territory. The Company's unregulated gas marketing subsidiaries provide gas supply and marketing services to customers traditionally served by regulated utilities. These companies can be impacted by volatility in natural gas supply prices because they do not have a recovery mechanism, such as a PGAC. In January and February 1996, extremely cold weather caused natural gas supply prices to rise rapidly. While results were negatively impacted during this period, it is not expected to have a material effect on the Company.

Liqnidity and Capital Resources

Capital Requirements and Investing Activities

The Company's liquidity is primarily affected by the requirement of its ongoing construction program. In 1995, capital expenditures decreased approximately $7.3 million or 27 percent, as compared to 1994, due in part to management's efforts to control capital spending. Also, significant capital expenditures were required by the Company when it expanded its gas service territory into two new areas in 1994. It is anticipated that capital expenditures will be in the range of $24 million to $25 million for the years 1996 through 2000. For the five-year period ending December 31, 2000, the Company estimates that internally generated cash will provide, on average, more than 100 percent of the utility plant and nuclear fuel expenditures.

Expenditures for construction and nuclear fuel estimated for 1996, actual for 1995, and the average for the three-year period 1992 to 1994 are shown below:

Expenditures for Construction and Nuclear Fuel

For the years ended December 31: *(Thousands of dollars)*	1996 Estimated		**1995**		Annual Average 1992 to 1994	
Electric						
Production	$ 1,498	6.2%	**$ 2,485**	**13.0%**	$ 2,522	11.3%
Transmission	1,456	5.9	**357**	**1.9**	1,261	5.7
Distribution and General	8,382	34.2	**9,157**	**47.8**	8,146	36.8
Nuclear Fuel	5,099	20.8	**526**	**2.7**	2,803	12.7
Total Electric	16,435	67.1	**12,525**	**65.4**	14,732	66.5
Gas	4,800	19.6	**4,220**	**22.0**	5,663	25.6
Common	3,265	13.3	**2,417**	**12.6**	1,751	7.9
Total	$24,500	100.0%	**$19,162**	**100.0%**	$22,146	100.0%

On January 3, 1995, the Company purchased American Energy Management, Inc. (AEM). AEM is a national energy-marketing firm that provides gas marketing, energy management, energy auditing, and conservation services to customers in 12 states.

Cash Provided by Operating and Financing Activities

Cash provided by operating activities increased $9.9 million or 24 percent, due in large part to an increase in current liabilities for natural gas purchases associated with higher gas sales for the Company and its subsidiaries.

In February 1995, the Company redeemed all of its outstanding 8.70%, Series E, Preferred Stock.

The Company redeemed its 7¾%, 2001 Series, First Mortgage Bonds on November 22, 1995, and replaced them with a long-term debt obligation at a fixed rate of 6.01%. On November 1, 1995, the Company used the balance from its Pollution Control Bond Fund to redeem a portion of its 6½%, 2006 Series, Pollution Control Revenue Bonds.

As of December 15, 1995, the Company has completed the drawdown of its Industrial Development Revenue Bond–Construction Fund.

Capitalization Matters

At December 31, 1995, bank lines of credit available to the Company were $40 million, which includes $5 million for Great Lakes Energy Corp. (GLENCO), a wholly owned subsidiary of the Company, and AEM, a subsidiary of GLENCO. The bank lines are generally used to support commercial paper issued, which represents a primary source of short-term financing. The Company's dealer-issued commercial paper carries the highest ratings assigned by Moody's Investors Service and Standard & Poor's Corporation.

The Company's existing bonds are rated AA by Standard & Poor's and Aa2 by Moody's Investors Service. Capitalization ratios are shown in the Summary of Selected Financial and Operating Data on page 29.

In 1995, the Company revised its Automatic Dividend Reinvestment and Stock Purchase Plan to the Investors Plus Plan (the Plan). The Plan now allows interested investors to make purchases of the Company's stock directly through the Plan. The Plan has a minimum initial investment and increased its maximum quarterly contributions.

The Company anticipates it will be able to meet its construction requirements and sinking fund debt requirements with internally generated funds over the next three years.

Kewaunee Nuclear Plant

The Kewaunee Nuclear Power Plant (Kewaunee) is operated by Wisconsin Public Service Corporation (WPSC). The Company has a 17.8 percent ownership interest in Kewaunee, which it owns jointly with two other utilities. Kewaunee is operating with a license that expires in 2013.

Operating and maintenance costs at Kewaunee have been reduced more than 25 percent over the last three years. Continued reduction of costs, while not sacrificing safety and reliability, is planned to keep Kewaunee costs competitive in the near future. The Nuclear Regulatory Commission (NRC) recently rated Kewaunee superior (Category 1) in all areas: maintenance, operations, engineering, and plant support.

The steam generator tubes at Kewaunee are susceptible to corrosion characteristics seen throughout the nuclear industry.

The owners of Kewaunee are continuing to evaluate various economic alternatives to deal with the potential future loss of capacity resulting from the continuing degradation of the steam generator tubes. These alternatives range from repairing/replacing the existing steam generators to early plant closure with replacement power options. Replacement of steam generators is estimated to cost $100 million (the Company's share would be 17.8%), excluding additional purchased power costs associated with an extended shutdown.

The Company is evaluating the need to accelerate the collection of funds through rates for decommissioning and the recovery of the existing net plant.

Regulatory and Accounting Issues

The Public Service Commission of Wisconsin (PSCW) voted in December 1995 to carefully pursue the restructuring of the electric utility industry in Wisconsin. This approach is largely consistent with a plan developed and supported by the Company. The process will include a report by the Commissioners to the legislature, a draft work plan, and a series of dockets and proceedings over the next three to seven years to implement the work plan. The restructuring could affect the eligibility of the Company to continue applying Statement of Financial Accounting Standard No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation." Continued accounting under SFAS 71 would require that the Company's regulated operations meet the following criteria: rates for regulated services/products are subject to approval by an independent third party regulator; the regulated rates are designed to recover the Company's costs of providing regulated services/products; and the regulated rates set can be charged to and recovered from its customers.

Although the Company believes it will continue to meet the SFAS 71 criteria in the future, it cannot predict what outcome future PSCW actions will have on its ability to continue to do so. The PSCW has stated they will develop, if necessary, a program allowing appropriate recovery for commitments made under prior regulatory structures. The Company believes local distribution services will continue to be regulated by the PSCW.

The Statement of Financial Accounting Standard No. 121 (SFAS 121), "Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to be Disposed Of," is effective for fiscal years beginning on or after December 15, 1995. SFAS 121 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. SFAS 121 also amends SFAS 71 to require the write-off of a regulatory asset if it is no longer probable that future revenues will recover the asset. The adoption of SFAS 121 will not have a material impact on the Company's financial position or results of operations. However, the Company cannot predict what effect a competitive marketplace or future regulatory actions will have on the outcome of the application of SFAS 121.

Inflation

The current financial statements report operating results in terms of historical cost. Even though the statements provide a reasonable, objective, quantifiable statement of financial results, they do not evaluate the impact of inflation. For ratemaking purposes, projected normal operating costs include impacts of inflation which are recoverable in revenues. However, electric and gas utilities, in general, are adversely impacted by inflation because depreciation of the utility plant is limited to the recovery of historical costs. Thus, cash flows from the recovery of existing utility plant may, to a certain extent, not be adequate to provide replacement of plant investment.

Environmental Issues

Phase II of the Federal Clean Air Act amendments of 1990 sets stringent SO_2 and nitrogen oxide emission limitations which may result in increased capital and operating and maintenance expenditures. Phase II emission compliance strategies for the Company could include the following: fuel switching, emission trading, purchased power agreements, new emission control devices, or installation of new fuel-burning technologies and clean coal technologies. Phase II emission compliance strategies and their costs are currently being evaluated. The Company expects no major capital expenditures as a result of Phase II.

For the years ended December 31 (Thousands of dollars, except per-share amounts)	1995	1994	1993
Operating Revenues			
Electric	**$153,554**	$149,665	$147,201
Gas	**95,036**	95,307	96,932
Total Operating Revenues	**248,590**	244,972	244,133
Operating Expenses			
Fuel used for electric generation	**28,017**	26,167	23,125
Purchased power	**8,048**	10,015	11,190
Natural gas purchased	**57,488**	59,693	62,479
Other operations	**61,499**	56,795	56,103
Maintenance	**11,858**	12,416	13,029
Depreciation and amortization	**24,815**	22,383	21,791
Other general taxes	**8,709**	8,619	8,222
Income taxes	**14,285**	14,822	13,964
Total Operating Expenses	**214,719**	210,910	209,903
Net Operating Income	**33,871**	34,062	34,230
Allowance for funds used during construction – equity funds	**57**	132	81
Other income, net	**1,549**	1,939	1,988
Income Before Interest Expense	**35,477**	36,133	36,299
Interest Expense			
Interest on long-term debt	**10,331**	10,558	11,195
Other interest	**1,205**	639	478
Allowance for funds used during construction – borrowed funds	**(29)**	(75)	(49)
Net Interest Expense	**11,507**	11,122	11,624
Net Income	**23,970**	25,011	24,675
Preferred stock dividend requirements	**64**	471	489
Earnings on Common Stock	**$ 23,906**	$ 24,540	$ 24,186
Earnings Per Share of Common Stock (Average shares outstanding – 16,079,718, 16,079,718, and 16,055,337, respectively) (Note 2a)	**$1.49**	$1.53	$1.51

CONSOLIDATED STATEMENTS OF RETAINED INCOME

For the years ended December 31 (Thousands of dollars)	1995	1994	1993
Balance — Beginning of Year	**$ 60,851**	$ 56,357	$ 51,872
Add – Net income	**23,970**	25,011	24,675
Deduct – Cash dividends on common stock	**(20,258)**	(20,046)	(19,701)
Preferred stock dividend	**(64)**	(471)	(489)
Balance — End of Year	**$ 64,499**	$ 60,851	$ 56,357

The accompanying notes are an integral part of the above statements.

For the years ended December 31 *(Thousands of dollars)*	1995	1994	1993
Operating Activities			
Net income	**$23,970**	$25,011	$24,675
Income items not affecting working capital			
Depreciation and amortization	**24,815**	22,383	21,791
Deferred income taxes	**(2,442)**	2,428	3,255
Amortization of nuclear fuel	**2,740**	2,803	2,486
Amortization of investment tax credits	**(768)**	(783)	(803)
Allowance for funds used during construction – equity funds	**(57)**	(132)	(81)
Other	**1,729**	994	(462)
Net Funds Provided from Operations	**49,987**	52,704	50,861
Changes in working capital, excluding cash equivalents, sinking funds, maturities, and interim loans –			
Increase in current assets	**(12,168)**	(10,789)	(4,647)
Increase/(decrease) in current liabilities	**11,287**	(2,127)	(2,941)
Other noncurrent items, net	**1,716**	1,171	(1,878)
Cash Provided by Operating Activities	**50,822**	40,959	41,395
Financing Activities			
Common stock issued	**—**	—	143
Cash dividends on common and preferred stock	**(20,322)**	(20,517)	(20,190)
Sale of First Mortgage Bonds	**—**	—	25,000
Maturities/redemptions of First Mortgage Bonds	**(5,423)**	—	(33,788)
Maturity of 5.45%, 1996 Series	**(7,840)**	—	—
Increase in other long-term debt	**11,000**	—	—
Other decreases in First Mortgage Bonds	**(199)**	(58)	(122)
Decrease in preferred stock	**(5,300)**	(200)	(200)
Decrease in bond construction funds, net	**8,090**	10,892	6,943
(Decrease)/increase in interim loans	**(8,100)**	5,100	6,500
Cash Used for Financing Activities	**(28,094)**	(4,783)	(15,714)
Investing Activities			
Acquisition of nonregulated subsidiary	**(8,036)**	—	—
Additions to utility plant and nuclear fuel	**(19,162)**	(26,429)	(23,648)
Allowance for funds used during construction – borrowed funds	**(29)**	(75)	(49)
Increase in decommissioning fund	**(4,191)**	(2,316)	(2,399)
Cash Used for Investing Activities	**(31,418)**	(28,820)	(26,096)
Change in Cash and Cash Equivalents	**(8,690)**	7,356	(415)
Beginning of period	**11,534**	4,178	4,593
Cash and cash equivalents – end of period	**$ 2,844**	$11,534	$ 4,178

The accompanying notes are an integral part of the above statements.

At December 31 *(Thousands of dollars)*	**1995**	1994
Assets		
Utility Plant, at original cost		
In service – Electric	**$489,399**	$479,346
– Gas	**173,890**	167,710
Gross Plant in Service	**663,289**	647,056
Less – Accumulated provision for depreciation	**(348,254)**	(323,511)
Net Plant in Service	**315,035**	323,545
Construction work in progress	**9,061**	11,920
Nuclear decommissioning fund	**36,965**	27,815
Nuclear fuel, net	**6,172**	8,386
Total Utility Plant	**367,233**	371,666
Other Property and Investments	**17,176**	9,843
Current Assets		
Cash and cash equivalents	**2,844**	11,534
Accounts receivable, less reserves of $1,379 and $921, respectively	**36,817**	25,998
Unbilled revenue	**13,529**	10,411
Materials and supplies, at average cost	**5,987**	6,424
Fossil fuel, at average cost	**2,986**	2,130
Stored natural gas, at average cost	**6,203**	8,551
Prepaid taxes	**5,846**	5,838
Other prepayments	**1,608**	1,456
Total Current Assets	**75,820**	72,342
Deferred Charges (Note 7)	**33,647**	33,908
Total Assets	**$493,876**	$487,759
Capitalization and Liabilities		
Capitalization (see statement)	**$322,185**	$325,389
Current Liabilities		
Long-term debt sinking fund requirements	**200**	430
Preferred stock sinking fund requirements	—	200
Maturity of 5.45%, 1996 Series	**7,840**	—
Interim loans – commercial paper outstanding	**20,500**	28,600
Accounts payable	**25,928**	18,360
Accrued taxes	**1,500**	1,143
Accrued interest	**2,359**	2,803
Other	**7,903**	4,327
Total Current Liabilities	**66,230**	55,863
Other Credits		
Accumulated deferred income taxes	**54,153**	56,595
Regulatory liability (Note 1f)	**25,177**	25,204
Investment tax credit deferred	**12,231**	12,998
Other (Note 7)	**13,900**	11,710
Total Other Credits	**105,461**	106,507
Commitments	—	—
Total Capitalization and Liabilities	**$493,876**	$487,759

The accompanying notes are an integral part of the above balance sheets.

At December 31 *(Thousands of dollars)*	**1995**	1994
Common Shareholders' Equity (Note 2a)		
Common stock— Par value $8 per share		
Authorized: 28,000,000 shares		
Outstanding: 16,079,718 shares	**$128,638**	$128,638
Retained income	**64,499**	60,851
Total Common Shareholders' Equity	**193,137**	189,489
Redeemable Preferred Stock, cumulative, $25 par value, authorized 1,175,000 and 1,191,000 shares, respectively		
Series E, 8.70%, 0 and 212,000 shares outstanding, respectively, less current sinking fund requirements of $0 and $200, respectively	**—**	5,100
First Mortgage Bonds		
5.45%, 1996 Series	**7,840**	7,920
7¾%, 2001 Series	**—**	11,478
6½%, 2006 Series, Pollution Control Revenue Bonds, principal amount $7,075 and $8,780, respectively, less construction fund of $0 and $1,618, respectively	**7,075**	7,162
8.50%, 2022 Series	**40,000**	40,000
6.75%, 2027A Series, Industrial Development Revenue Bonds, principal amount $28,000, less construction fund of $0, and $6,472, respectively	**28,000**	21,528
6.70%, 2027B Series, Industrial Development Revenue Bonds	**19,300**	19,300
7.70%, 2028 Series	**25,000**	25,000
First Mortgage Bonds Outstanding	**127,215**	132,388
Unamortized discount and premium on bonds, net	**(1,127)**	(1,158)
Long-term debt sinking fund requirement	**(200)**	(430)
Maturity of 5.45%, 1996 Series	**(7,840)**	—
Total First Mortgage Bonds	**118,048**	130,800
Other Long-Term Debt		
6.01%, interest rate SWAP agreement	**11,000**	—
Total Capitalization	**$322,185**	$325,389

The accompanying notes are an integral part of the above statements.

1. Summary of Significaut Accouutiug Policies

a. General

Madison Gas and Electric Company (the Company) is an investor-owned public utility headquartered in Madison, Wisconsin. The Company generates, transmits, and distributes electricity to about 120,000 customers in a 250-square-mile area of Dane County. The Company also transports and distributes natural gas to nearly 103,000 customers in 1,325 square miles of service territories in seven counties. The Company has served the Madison area since 1896. Two of the Company's subsidiaries, American Energy Management, Inc. (AEM) and Great Lakes Energy Corp. (GLENCO), market nonregulated energy services to national, regional, and local accounts in 12 states. Services include purchase and transportation of natural gas and other fuels for commercial, industrial, and governmental customers.

The consolidated financial statements reflect the application of certain accounting policies described in this note. The financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company records unbilled revenue on the basis of service rendered. Gas revenues are subject to an adjustment clause related to periodic changes in the cost of gas.

Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

b. Utility plant

Utility plant is stated at the original cost of construction, which includes indirect costs consisting of payroll taxes, pensions, postretirement benefits, other fringe benefits, administrative and general costs, and an allowance for funds used during construction (AFUDC).

AFUDC represents the approximate cost of debt and equity capital devoted to plant under construction. The Company presently capitalizes AFUDC at a rate of 10.62 percent on 50 percent of construction work in progress. The AFUDC rate approximates the Company's cost of capital. The portion of the allowance applicable to borrowed funds is presented in the Consolidated Statements of Income as a reduction of interest expense, while the portion of the allowance applicable to equity funds is presented as other income. Although the allowance does not represent current cash income, it is recovered under the ratemaking process over the service lives of the related properties.

Substantially all of the Company's utility plant is subject to a first mortgage lien.

c. Nuclear fuel

The cost of nuclear fuel used for electric generation is being amortized to fuel expense and recovered in rates based on the quantity of heat produced for the generation of electric energy by the Kewaunee Nuclear Plant (Kewaunee). Such cost includes a provision for estimated future disposal costs of spent nuclear fuel. The Company currently pays disposal fees to the Department of Energy based on net nuclear generation. The Company has recovered through rates and satisfied its known fuel disposal liability for past nuclear generation.

The National Energy Policy Act enacted in 1992 contains a provision for all utilities that have used federal enrichment facilities to pay a special assessment for decontamination and decommissioning for these facilities. This special assessment will be based on past enrichment, and the Company has accrued and deferred an estimate of $2.6 million for the Company's portion of the special assessment. The Company believes all costs will be recovered in future rates.

d. Joint plant ownership

The Company and two other Wisconsin investor-owned utilities jointly own two electric generating facilities, which account for 54 percent (325 mw) of the Company's net generating capability. Power from the facilities is shared in proportion to the companies' ownership interests. The Company's interests are 22 percent (232 mw) of the coal-fired Columbia Energy Center (Columbia) and 17.8 percent (93 mw) of Kewaunee. Each owner provides its own financing and reflects its respective portion of facilities and operating costs in its financial statements. The Company's portions of these facilities, included in its gross utility plant in service, and the related accumulated depreciation reserves at December 31, were as follows:

(Thousands of dollars)	Columbia		Kewaunee	
	1995	1994	**1995**	1994
Utility plant	**$85,075**	$85,092	**$57,853**	$57,534
Accumulated depreciation	**(44,366)**	(44,238)	**(34,263)**	(32,793)
Net Plant	**$40,709**	$40,854	**$23,590**	$24,741

e. Depreciation

Provisions at composite straight-line depreciation rates, excluding decommissioning costs discussed as follows, approximate the following percentages of the cost of depreciable property: electric, 3.3 percent in 1995 and 1994 and 3.5 percent in 1993; gas, 3.5 percent in 1995 through 1993. Depreciation rates are approved by the Public Service Commission of Wisconsin (PSCW) and are generally based on the estimated economic lives of property.

Nuclear decommissioning costs are accrued over the estimated service life of Kewaunee, which is through the year 2013. These costs are currently recovered from customers in rates and are deposited in external trusts. For 1995, the decommissioning costs recovered in rates were $3.1 million.

Decommissioning costs are recovered through depreciation expense, excluding earnings on the trusts. Net earnings on the trusts are included in other income. The long-term, after-tax earnings assumption on these trusts is 6.2 percent. As of December 31, 1995, the decommissioning trusts, totaling $37 million (fair market value), are shown on the balance sheet in the utility plant section and offset by an equal amount under accumulated provision for depreciation (Note i).

The Company's share of Kewaunee decommissioning costs is estimated to be $66.9 million in current dollars based on a site-specific study performed in 1992 using immediate dismantlement as the method of decommissioning. Decommissioning costs are assumed to inflate at an average rate of 6.1 percent. Physical decommissioning is expected to occur during the period 2014 through 2021, with additional expenditures being incurred during the period 2022 through 2050 related to the storage of spent nuclear fuel at the plant site.

f. Income taxes

The Company adopted Statement of Financial Accounting Standard No. 109 (SFAS 109), "Accounting for Income Taxes," effective January 1, 1993. This statement replaced the deferred method of income tax accounting with the liability method. The liability method requires the recognition of deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts. The statement was adopted prospectively and the cumulative effect of implementation on 1993 net income was insignificant.

Excess accumulated deferred income taxes, resulting chiefly from taxes provided at rates higher than current rates, have been recorded as a net regulatory liability ($25,177,000 and $25,204,000 at December 31, 1995 and 1994, respectively), refundable through future rates.

Investment tax credits from regulated operations are amortized over the service lives of the property to which they relate.

Total income taxes in the Consolidated Statements of Income are as follows:

(Thousands of dollars)	**1995**	1994	1993
Income taxes charged to operations	**$14,285**	$14,822	$13,964
Income taxes charged to other income	**786**	612	491
Total income taxes	**$15,071**	$15,434	$14,455

Total income taxes consist of the following provision (benefit) components for the years ended December 31:

(Thousands of dollars)	**1995**	1994	1993
Currently payable			
Federal	**$14,602**	$10,985	$ 9,485
State	**3,679**	2,804	2,518
Net deferred			
Federal	**(2,217)**	1,756	2,432
State	**(225)**	672	823
Amortized investment tax credits	**(768)**	(783)	(803)
Total income taxes	**$15,071**	$15,434	$14,455

The differences between the federal statutory income tax rate and the Company's effective rate are as follows:

	1995	1994	1993
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
Restoration of investment tax credit	**(2.0)**	(1.9)	(2.1)
State income taxes, net of federal benefit	**5.8**	5.6	6.3
Amortization of excess deferred taxes	**(1.6)**	(1.1)	(1.3)
Other, individually insignificant	**1.4**	0.6	(1.0)
Effective income tax rate	**38.6%**	38.2%	36.9%

The significant components of deferred tax liabilities (assets) that appear on the Consolidated Balance Sheets as of December 31, 1995 and 1994, are as follows:

(Thousands of dollars)	**1995**	1994
Property-related	**$ 59,069**	$ 60,295
Energy conservation expenses	**5,601**	6,168
Automated mapping and facilities management system	**482**	860
Bond transactions	**2,145**	2,131
Nuclear fuel	**698**	412
Other, individually insignificant	**307**	411
Gross deferred income tax liabilities	**68,302**	70,277
Allowance for bad debts	**(553)**	(370)
Deferred compensation	**(1,201)**	(1,061)
Vacation pay	**(849)**	(772)
Stored natural gas	**(473)**	(977)
Accrued expenses, not deductible	**(968)**	(386)
Deferred tax regulatory account	**(10,105)**	(10,116)
Gross deferred income tax assets	**(14,149)**	(13,682)
Accumulated deferred income taxes	**$ 54,153**	$ 56,595

Valuation allowances for deferred tax assets as of December 31, 1995 and 1994, were deemed unnecessary.

g. Pension plans

The Company maintains two defined benefit plans for its employees. The pension benefit formula used in the determination of pension costs is based on the average compensation earned during the last five years of employment for the salaried plan and career earnings for the nonsalaried plan subject to a monthly maximum.

Effective January 1, 1995, the Company began recovering pension costs in customer rates under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS 87). Prior to this date, pension costs were recovered in rates as funded. Of these funded pension costs, $810,000 and $861,000 were charged to operating expenses in 1994 and 1993, respectively. The plans' assets are in a master trust with a bank.

The funded status of the plans at December 31 is as follows:

(Thousands of dollars)	**1995**	1994
Fair value of plan assets	**$50,152**	$41,230
Actuarial present value of benefits rendered to date – Accumulated benefits based on compensation to date, including vested benefits of $44,554 and $36,066, respectively	**45,574**	36,895
Additional benefits based on estimated future salary levels	**9,943**	7,010
Projected benefit obligation	**$55,517**	$43,905
Plan assets less than projected benefit obligation	**(5,365)**	(2,675)
Unrecognized net asset at date of initial application	**(1)**	(40)
Unrecognized net (gain)/loss	**1,587**	(156)
Unrecognized prior service cost	**1,130**	1,256
Net liability	**$(2,649)**	$(1,615)

Components of net pension costs for the years ended December 31 are:

(Thousands of dollars)	**1995**	1994	1993
Service costs (benefits earned during the period)	**$ 1,416**	$ 1,462	$ 1,596
Interest costs on projected benefit obligation	**3,724**	3,462	3,196
Actual loss/(return) on plan assets	**(10,033)**	412	(3,663)
Net amortization and deferral	**6,466**	(4,056)	347
Regulatory effect based on funding	**0**	(186)	(401)
Net pension costs	**$ 1,573**	$ 1,094	$ 1,075

The assumed rates for calculations used in the above tables were:

	1995	1994	1993
Expected long-term rate of return on plan assets	**9.50%**	9.00%	9.00%
Average rate of increase in salaries	**5.00%**	5.00%	5.00%
Weighted average discount rate	**7.25%**	8.25%	7.50%

In addition to the noted plans, the Company also maintains two defined-contribution 401(k) benefit plans for its employees. The Company's costs of the 401(k) plan for the years 1995 through 1993 were $199,000, $199,000, and $186,000, respectively.

h. Postretirement benefits other than pensions

The Company adopted Statement of Financial Accounting Standards No. 106 (SFAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective January 1, 1993. This statement requires that postretirement benefits be accrued over the period in which employees provide services to the Company. The Company provides health care and life insurance benefits for its retired employees and substantially all of the Company's employees may become eligible for these benefits upon retirement.

The Company has elected to recognize the cost of its transition obligation (the accumulated postretirement benefit obligation as of January 1, 1993) by amortizing it on a straight-line basis over 20 years. The Company's SFAS 106 obligation and costs are based on a discount rate of 7.25 percent in 1995, 8.25 percent in 1994, and 7.50 percent in 1993. The assumed rate of increase in health care costs (health-care-cost trend rate) is 12 percent in 1995 and 13 percent in 1994 and 1993 decreasing gradually to 5 percent in 2003, and remaining constant thereafter. Increasing the health-care-cost trend rates of future years by one percentage point would increase the accumulated postretirement benefit obligation by $1.9 million and would increase annual aggregate service and interest costs by $283,000.

The PSCW ruled that Wisconsin utilities are required to implement SFAS 106 for ratemaking purposes. The Company is phasing in, over a four-year period, the effect of implementing SFAS 106, which resulted in a regulatory asset of $402,000 at December 31, 1995, and $497,000 at December 31, 1994.

The Company's policy is to fund the SFAS 106 obligation to the yearly maximum through tax-advantaged vehicles. The plan's assets are in trust or on reserve with an insurance company.

The funded status of the plan at December 31 is as follows:

(Thousands of dollars)	**1995**	1994
Accumulated postretirement benefit obligation (APBO):		
Retirees	**$(4,054)**	$(4,064)
Fully eligible active plan participants	**(1,701)**	(1,399)
Other active plan participants	**(7,986)**	(6,562)
Total	**(13,741)**	(12,025)
Plan assets at fair value	**2,666**	1,465
APBO in excess of plan assets	**(11,075)**	(10,560)
Unrecognized transition obligation	**7,379**	7,813
Unrecognized prior service costs.	**2,166**	0
Unrecognized loss/(gain)	**(1,129)**	666
Accrued postretirement benefit liability	**$(2,659)**	$(2,081)

Components of net periodic benefit costs for the years ended December 31 are as follows:

(Thousands of dollars)	**1995**	1994	1993
Service cost	**$ 429**	$ 402	$ 413
Interest cost on APBO	**989**	772	747
Actual return on plan assets	**(177)**	(91)	(131)
Amortization of transition obligation over 20 years	**434**	434	434
Net amortization and deferral	**172**	(7)	56
Regulatory effect based on phase in	**95**	(115)	(382)
Net periodic benefit cost	**$1,942**	$1,395	$1,137

i. Fair value of financial instruments

At December 31, 1995, the carrying amount of cash and cash equivalents approximates fair value. The estimated fair market value of the Nuclear Decommissioning Fund is $37 million, and the estimated fair market value of the Company's First Mortgage Bonds, and other long-term debt, based on quoted market prices at December 31, is as follows:

(Thousands of dollars)	**1995**	1994
Carrying amount (includes sinking funds)	**$138,215**	$132,388
Fair market value	**$149,469**	$124,677

2. Capitalization Matters

a. Common stock-stock split

On December 15, 1995, the Board of Directors authorized a three-for-two stock split effected in the form of a stock dividend. The stock dividend was distributed on February 20, 1996, to shareholders of record as of February 1, 1996. All current and prior year per share amounts have been adjusted to reflect this split.

To account for the three-for-two split, the number of common shares outstanding was increased by 5,359,906 shares in 1995 and 1994. As a result, common stock par value was increased by $42,879,248 for 1995 and 1994, with an offsetting decrease to amounts received in excess of par value and retained earnings.

In December 1995, the Company amended, in its entirety, the Automatic Dividend Reinvestment and Stock Purchase Plan with its new Investors Plus Plan (the Plan). The Plan is designed to provide investors with a convenient way to purchase shares of the Company's common stock.

b. Redeemable preferred stock

The Company redeemed all 212,000 shares outstanding of its Series E, 8.70%, preferred stock on February 21, 1995. The total amount of approximately $5.5 million was financed with short-term borrowings.

c. First mortgage bonds and other long-term debt

The annual sinking fund requirements of the outstanding first mortgage bonds is $200,000 in 1996 through 2000. In addition, approximately $8 million will be required in 1996, to retire at maturity, the 5.45%, 1996 Series, First Mortgage Bonds.

On November 1, 1995, the Company used the balance from its Pollution Control Bond Fund to redeem $1.7 million of its 6½%, 2006 Series, Pollution Control Revenue Bonds. Also, on November 22, 1995, the Company redeemed $11.5 million of the 7¾%, 2001 Series, First Mortgage Bonds. The Company used the proceeds from an interest rate SWAP agreement with a commercial bank, in a principal amount of $11.0 million to redeem the 2001 Series. The SWAP agreement effectively changes the fixed rate from 7¾% to 6.01%. The agreement matures on November 10, 2000.

d. Notes payable to banks, commercial paper, and lines of credit

For short-term borrowings, the Company generally issues commercial paper (issued at the prevailing discount rate at the time of issuance) which is supported by unused bank lines of credit. Through negotiations with several banks, the Company has $40 million in bank lines of credit, which includes $5 million for GLENCO and AEM.

Information concerning short-term borrowings at December 31 is set forth below:

(Thousands of dollars)	**1995**	1994	1993
Available lines of credit (MGE)	**$35,000**	$32,000	$25,000
Available lines of credit (GLENCO)	**$ 5,000**	—	—
Commercial paper outstanding	**$20,500**	$28,600	$23,500
Weighted average interest rate	**5.86%**	6.06%	3.45%
During the year:			
Maximum short-term borrowings	**$28,600**	$29,500	$26,000
Average short-term borrowings	**$16,091**	$16,549	$14,056
Weighted average interest rate	**6.03%**	4.57%	3.31%

3. Rate Matters

In December 1994, the PSCW issued its rate order that effectively reduced electric rates by $5.1 million and froze gas rates for the test period ending December 31, 1995. These rates will remain in place until the next test year, which is scheduled to begin July 1, 1997. The current rates are based on a return on common stock equity of 11.7 percent.

4. Commitments

Utility plant construction expenditures for 1996, including the Company's proportional share of jointly owned electric power production facilities and purchases of fuel for Kewaunee, are estimated to be $24 million to $25 million, and substantial commitments have been incurred in connection with such expenditures. Significant commitments have also been made for fuel for Columbia.

5. Segments of Bnsiness

The table below presents information pertaining to the Company's segments of business:

Information regarding the distribution of net assets between electric and gas for the years ended December 31 is set forth on page 29.

(Thousands of dollars)	**1995**	1994	1993
Electric Operations			
Total revenues	**$153,554**	$149,665	$147,201
Operation and maintenance expenses	**89,994**	87,748	86,060
Depreciation and amortization	**19,503**	17,337	16,948
Other general taxes	**6,908**	6,907	6,651
Pre-tax Operating Income	**37,149**	37,673	37,542
Income taxes	**11,193**	11,717	11,104
Net Operating Income	**$ 25,956**	$ 25,956	$ 26,438
Construction and Nuclear Fuel Expenditures (Electric)	**$ 14,006**	$ 16,804	$ 18,064
Gas Operations			
Operating revenues	**$ 95,036**	$ 95,307	$ 96,932
Revenues from sales to electric utility	**3,100**	1,671	2,861
Total Revenues	**98,136**	96,978	99,793
Operation and maintenance expenses	**80,017**	79,009	82,727
Depreciation and amortization	**5,312**	5,046	4,843
Other general taxes	**1,801**	1,712	1,571
Pre-tax Operating Income	**11,006**	11,211	10,652
Income taxes	**3,091**	3,105	2,860
Net Operating Income	**$ 7,915**	$ 8,106	$ 7,792
Construction Expenditures (Gas)	**$ 5,156**	$ 9,625	$ 5,584

6. Supplemental Cash Flow Information

For purposes of the Consolidated Statements of Cash Flows, the Company considers cash equivalents to be those investments that are highly liquid with maturity dates of less than three months.

Cash payments for interest and income taxes for the years ended December 31 were as follows:

(Thousands of dollars)	**1995**	1994	1993
Interest paid, net of amounts capitalized	**$11,894**	$11,235	$11,704
Income taxes paid	**$18,016**	$13,602	$10,954

7. Regulatory Assets and Liabilities

Pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71), the Company capitalizes, as deferred charges, incurred costs that are expected to be recovered in future electric and natural gas rates. The Company also records, as other credits, obligations to customers to refund previously collected revenue or to spend revenue collected from customers on future costs.

The Company's regulatory assets and liabilities consisted of the following as of December 31:

	1995		1994	
(Thousands of dollars)	**Assets**	**Liab.**	Assets	Liab.
Demand-side management	**$ 14,169**	**$ 213**	$15,369	$ —
Decommissioning & decontamination	**2,569**	**2,569**	2,845	2,845
Unamortized debt expense	**5,448**	**—**	6,283	—
Other	**11,461**	**11,118**	9,411	8,865
Total	**$33,647**	**$13,900**	$33,908	$11,710

The management of Madison Gas and Electric Company is responsible for the preparation and presentation of the financial information in this Annual Report. The following financial statements have been prepared in accordance with generally accepted accounting principles consistently applied and reflect management's best estimates and informed judgments as required.

To fulfill these responsibilities, management has developed and maintains a comprehensive system of internal operating, accounting, and financial controls. These controls provide reasonable assurance that the Company's assets are safeguarded, transactions are properly recorded, and the resulting financial statements are reliable. An internal audit function assists management in monitoring the effectiveness of the controls.

The Report of Independent Accountants on the financial statements by Coopers & Lybrand L.L.P. appears below. The responsibility of the independent accountants is limited to the audit of the financial statements presented and the expression of an opinion as to their fairness.

The Board of Directors maintains oversight of the Company's financial situation through its monthly review of operations and financial condition and its selection of the independent accountants. The Audit Committee, comprised of all Board members who are not employees or officers of the Company, also meets periodically with the independent accountants and the Company's internal audit staff who have complete access to and meet with the Audit Committee, without management representatives present, to review accounting, auditing, and financial matters. Pertinent items discussed at the meetings are reviewed with the full Board of Directors.

David C. Mebane

David C. Mebane
Chairman, President and
Chief Executive Officer

Joseph T. Krzos

Joseph T. Krzos
Vice President - Finance

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors,
Madison Gas and Electric Company:

We have audited the accompanying consolidated balance sheets and statements of capitalization of MADISON GAS AND ELECTRIC COMPANY and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income and retained income and cash flows for the years ended December 31, 1995, 1994 and 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Madison Gas and Electric Company and subsidiaries as of December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for the years ended December 31, 1995, 1994 and 1993, in conformity with generally accepted accounting principles.

Coopers & Lybrand LLP

Milwaukee, Wisconsin
February 9, 1996

(Thousands of dollars, except per-share amounts)	Quarters Ended (Unaudited) March 31	June 30	Sept. 30	Dec. 31
1995				
Operating Revenues:				
Electric	**$34,612**	**$35,980**	**$47,316**	**$35,646**
Gas	**39,840**	**12,540**	**7,407**	**35,249**
Total	**74,452**	**48,520**	**54,723**	**70,895**
Operating Expenses	**64,323**	**43,752**	**44,709**	**61,935**
Net Operating Income	**10,129**	**4,768**	**10,014**	**8,960**
Interest, Preferred Dividends, and Other	**1,566**	**1,986**	**2,489**	**3,924**
Earnings on Common Stock	**$ 8,563**	**$ 2,782**	**$ 7,525**	**$ 5,036**
Earnings per Common Share	**53.3¢**	**17.3¢**	**46.8¢**	**31.3¢**
Dividends Paid per Common Share	**31.3¢**	**31.3¢**	**31.7¢**	**31.7¢**
Price per Common Share – High	**$ 21⅞**	**$ 21⅞**	**$ 22⅝**	**$ 23⅜**
– Low	**$ 20⅝**	**$ 20½**	**$ 20⅜**	**$ 21⅞**
1994				
Operating Revenues:				
Electric	$ 35,262	$ 36,434	$ 43,577	$ 34,392
Gas	46,871	13,938	8,615	25,883
Total	82,133	50,372	52,192	60,275
Operating Expenses	70,479	45,504	43,405	51,522
Net Operating Income	11,654	4,868	8,787	8,753
Interest, Preferred Dividends, and Other	2,249	2,206	2,439	2,628
Earnings on Common Stock	$ 9,405	$ 2,662	$ 6,348	$ 6,125
Earnings per Common Share	58.7¢	16.7¢	39.3¢	38.0¢
Dividends Paid per Common Share	31.0¢	31.0¢	31.3¢	31.3¢
Price per Common Share – High	$ 22⅞	$ 22½	$ 23⅜	$ 22½
– Low	$ 20⅝	$ 21⅛	$ 21⅛	$ 21⅛

Notes:

(1) The quarterly results of operations within a year are not comparable because of seasonal and other factors.

(2) The sum of earnings per share of common stock for any four quarterly periods may vary slightly from the earnings per share of common stock for the equivalent 12-month period due to the effect of rounding each quarterly period separately.

(3) There were 15,895 shareholders as of February 1, 1996. Currently, there are no restrictions on the Company's ability to pay dividends and none are expected in the foreseeable future. The Company has regularly paid dividends to its shareholders and expects that it will continue to do so in the future.

(4) The Company's common stock trades on The Nasdaq Stock Market under the symbol MDSN.

(5) Earnings, dividends and price per common share for the quarterly periods have been restated to reflect the Company's three-for-two stock split.

Electric

	1995	1994	1993	1992	1991	1985
Operating Revenues ($000s)						
Residential	**$ 54,928**	$ 51,751	$ 51,718	$ 49,479	$ 53,216	**$ 40,640**
Commercial power and lighting	**72,885**	79,295	78,085	76,042	75,946	**63,336**
Industrial power and lighting	**10,245**	9,022	7,999	7,930	7,583	**5,663**
Street and highway lighting and public authorities	**13,855**	7,684	8,076	7,692	8,478	**9,718**
Other utilities	**1,092**	1,584	367	602	620	**4,046**
Miscellaneous	**549**	329	956	901	535	**337**
Total Operating Revenues	**$ 153,554**	$ 149,665	$ 147,201	$ 142,646	$ 146,378	**$ 123,740**
Kilowatt-hour Sales (000s)						
Residential	**735,442**	679,211	666,991	625,231	675,563	**558,167**
Commercial power and lighting	**1,347,947**	1,448,474	1,405,857	1,345,730	1,345,954	**1,030,828**
Industrial power and lighting	**292,649**	221,384	173,266	166,807	160,589	**104,177**
Street and highway lighting and public authorities	**320,869**	169,755	176,389	166,419	185,337	**197,266**
Other utilities	**26,344**	34,990	12,510	30,765	18,566	**102,709**
Total Sales	**2,723,251**	2,553,814	2,435,013	2,334,952	2,386,009	**1,993,147**
Average Number of Customers						
Residential	**103,624**	102,255	100,721	99,244	98,089	**90,139**
Commercial power and lighting	**15,581**	15,348	15,037	14,840	14,637	**13,114**
Industrial power and lighting	**75**	75	77	80	80	**90**
Street and highway lighting and public authorities	**52**	51	53	51	51	**54**
Other utilities	**5**	4	3	3	2	**4**
Total Average Customers	**119,337**	117,733	115,891	114,218	112,859	**103,401**

Gas

	1995	1994	1993	1992	1991	1985
Operating Revenues ($000s)						
Residential	**$ 53,021**	$ 51,812	$ 52,598	$ 48,263	$ 48,856	**$ 49,320**
Commercial	**33,550**	33,436	35,757	29,730	29,614	**39,518**
Industrial	**2,361**	2,547	2,088	1,900	1,781	**3,966**
Best efforts (includes interruptible boiler fuel)	**4,147**	5,782	5,723	4,949	4,723	**7,026**
Gas transport, net	**1,540**	968	151	488	624	—
Miscellaneous	**417**	762	615	26	224	**294**
Total Operating Revenues	**$ 95,036**	$ 95,307	$ 96,932	$ 85,356	$ 85,822	**$ 100,124**
Therms Sold and Transported (000s)						
Residential	**89,099**	84,326	84,713	79,031	79,790	**73,378**
Commercial	**73,307**	73,752	83,807	65,285	64,588	**70,544**
Industrial	**6,279**	8,056	6,651	4,587	4,313	**7,843**
Best efforts (includes interruptible boiler fuel)	**15,143**	18,633	18,079	15,860	15,703	**17,243**
Gas transport, net	**36,502**	22,463	1,678	10,104	9,232	—
Total Sold and Transported	**220,330**	207,230	194,928	174,867	173,626	**169,008**
Average Number of Customers						
Residential	**89,952**	87,194	83,129	80,508	78,481	**64,602**
Commercial	**11,483**	11,053	10,477	10,184	9,950	**7,802**
Industrial	**74**	68	71	71	70	**72**
Best efforts (includes interruptible boiler fuel)	**60**	64	53	49	46	**6**
Total Average Customers	**101,569**	98,379	93,730	90,812	88,547	**72,482**

	1995	1994	1993	1992	1991	1985
	(Thousands of dollars, except per-share amounts)					
Income, Earnings, and Dividends						
Net income	$ 23,970	$ 25,011	$ 24,675	$ 23,807	$ 24,880	$ 21,321
Earnings on common stock	$ 23,906	$ 24,540	$ 24,186	$ 23,301	$ 24,356	$ 19,515
Earnings per average common share	$ 1.49	$ 1.53	$ 1.51	$ 1.45	$ 1.52	$ 1.35
Cash dividends paid per common share	$1.260	$1.247	$1.227	$1.193	$1.167	$0.993
Assets (year end)						
Electric	$327,053	$323,870	$328,048	$325,510	$330,136	$253,592
Gas	119,968	118,210	114,626	106,837	104,381	89,823
Assets not allocated	46,855	45,679	22,690	20,390	20,548	33,846
Total	$493,876	$487,759	$465,364	$452,737	$455,065	$377,261
Internal Generation of Cash						
Total cash used for construction expenditures and nuclear fuel	$ 19,162	$ 26,429	$ 23,648	$ 16,364	$ 19,836	$ 29,670
Percent generated internally	126.0%	120.8%	128.3%	180.6%	157.1%	93.2%
Long-term Debt and Redeemable Preferred Stock, Net (year end)	$129,048	$135,900	$125,796	$127,963	$130,659	$129,116
Capitalization Ratios (year end)						
Common shareholders' equity	55.1%	53.4%	55.3%	55.4%	54.6%	50.3%
Redeemable preferred stock	0.0	1.5	1.7	1.8	1.8	4.9
Long-term debt	39.1	37.0	36.0	37.6	41.8	44.0
Short-term debt (interim loans)	5.8	8.1	7.0	5.2	1.8	0.8
Common Stock Data (year end)*						
Per share – Close	$ 23⅜	$ 21⅝	$ 22½	$ 21⅝	$ 20⅜	$ 12¼
– Book value	$ 12.01	$ 11.79	$ 11.51	$ 11.25	$ 10.98	$ 9.10
Shares (000s) – Outstanding	16,080	16,080	16,055	16,046	16,046	14,637
– Authorized	28,000	28,000	28,000	28,000	14,000	14,000
Price/earnings ratio	15.7	14.2	14.9	15.0	13.5	9.1
Yield on common stock	5.4%	5.8%	5.5%	5.6%	5.7%	8.3%
Dividend payout ratio	84.8%	81.7%	81.5%	82.2%	76.7%	73.6%
Interest Coverages (excludes AFUDC)						
Pre-tax	4.31	4.54	4.30	3.72	4.08	4.98
After-tax	3.07	3.22	3.10	2.77	2.94	2.99
Sources of Energy Generated and Purchased Power						
Coal	61.3%	55.6%	47.1%	56.1%	57.1%	59.1%
Nuclear	23.5	26.2	26.6	27.4	26.2	31.2
Purchased Power	11.6	16.4	23.1	12.5	14.8	7.5
Gas	3.4	1.6	3.2	3.6	1.5	1.8
Other	0.2	0.2	—	0.4	0.4	0.4
Cooling Degree Days (Normal – 597)	982	637	630	342	858	496
Heating Degree Days (Normal – 7,479)	7,431	7,170	7,351	7,050	7,055	7,821

**Per-share amounts have been restated to reflect a three-for-two stock split effective Feb. 20, 1996. Outstanding shares for 1991 and 1985 appear higher than authorized shares because authorized shares cannot be restated for the split.*

Jean Manchester Biddick
Retired Chief Executive Officer,
Neesvig's Inc.
Age 69
Director Since 1982

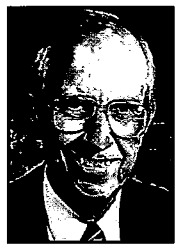
Richard E. Blaney
Retired President,
Richard Blaney Seeds Inc.
Age 59
Director Since 1974

Robert M. Bolz
Retired Vice Chairman,
Oscar Mayer Foods Corp.
Age 73
Director Since 1972

David C. Mebane
Chairman, President and
Chief Executive Officer
Age 62
Director Since 1984

Frederic E. Mohs
Partner,
Mohs, MacDonald,
Widder & Paradise,
Attorneys at Law
Age 58
Director Since 1975

Robert B. Rennebohm
President Emeritus
and Consultant,
University of Wisconsin
Foundation
Age 72
Director Since 1983



Phillip C. Stark
Chairman of the Board,
The Stark Company
Age 70
Director Since 1985

H. Lee Swanson
Chief Executive Officer,
President and Director,
State Bank of Cross Plains
Age 57
Director Since 1988

Frank C. Vondrasek
Vice Chairman
Age 67
Director Since 1982

Audit Committee

Directors Biddick, Blaney, Bolz, Mohs, Rennebohm, Stark, Swanson and Vondrasek

Compensation Committee

Directors Blaney, Bolz and Mohs

Executive Committee

Directors Biddick, Blaney, Mebane, Mohs and Vondrasek

Personnel Committee

Directors Biddick, Mebane, Mohs, Swanson and Vondrasek

David C. Mebane
Chairman, President and
Chief Executive Officer
Age 62
Years of Service, 18

Robert E. Domek
Executive Vice President
Age 65
Years of Service, 26

Mark C. Williamson
Senior Vice President -
Energy Services
Age 42
Years of Service, 9

Gary J. Wolter
Senior Vice President -
Administration and
Secretary
Age 41
Years of Service, 11

James C. Boll
Vice President -
Law and Corporate
Communications
Age 60
Years of Service, 5

Joseph T. Krzos
Vice President - Finance
Age 51
Years of Service, 13

Richard H. Thies
Vice President -
Gas Systems Operation
Age 54
Years of Service, 32

Deborab L. Burgess
Assistant Vice President -
Gas Rates and Fuels
Age 36
Years of Service, 7

Lynn K. Hobbie
Assistant Vice President -
Marketing
Age 37
Years of Service, 10

Thomas R. Krull
Assistant Vice President -
Electric Transmission
and Distribution
Age 46
Years of Service, 23

Carol A. Wiskowski
Assistant Vice President -
Administration
and Assistant Secretary
Age 56
Years of Service, 29

Terry A. Hanson
Treasurer
Age 44
Years of Service, 14

Note: Ages and years of
service as of Dec. 31, 1995.

Shareholder Services

We welcome calls from shareholders. Please use the toll-free telephone numbers below for questions about your account, dividend payments, dividend reinvestment, lost certificates and stock transfers:

Madison calling area, (608) 252-4744
Other Wisconsin areas, 1-800-362-6423
Outside Wisconsin, 1-800-356-6423
(Continental U.S.)

If you prefer to write to us, address correspondence to:

MGE Shareholder Services
Post Office Box 1231
Madison, WI 53701-1231

Be sure to notify us in writing when a stock certificate is lost or stolen. Also notify us if you do not receive a dividend check within 10 days of the scheduled payment date. Please report name and address changes to us promptly.

Dividend Payment Dates

Dividends on the company's common stock in 1996 are expected to be paid quarterly on the 15th of March, June, September and December. The record date for dividend payments is the first day of the payment month.

Transfer Agent & Registrar

Harris Trust and Savings Bank
Post Office Box 755
Chicago, IL 60690

Investors Plus Plan

MGE's new Investors Plus Plan offers investors the opportunity to purchase company stock directly from MGE. Investors can make cash payments of $25 to $25,000 per quarter per account. A minimum of $50 is required for a first-time investment.

Shareholders may reinvest all or a portion of cash dividends received on any or all shares of common stock in their account. Cash dividends can be paid by check or electronic deposit.

This plan replaces the Automatic Dividend Reinvestment and Stock Purchase Plan. Shareholders enrolled in the previous plan are automatically enrolled in the new plan. A new enrollment form is necessary only if investors want to take advantage of additional features.

For more information or to receive the plan prospectus, contact MGE Shareholder Services.

Stock Listing

The company's common stock trades on the Nasdaq National Stock Market under the symbol MDSN. It is listed in most newspaper stock tables as MadsnGas or MadGE.

1996 Annual Meeting

The annual meeting of shareholders will be held Monday, May 6, 1996, at 11 a.m.

Holiday Inn-Madison West
1313 John Q. Hammons Drive
Greenway Center, Middleton, Wis.

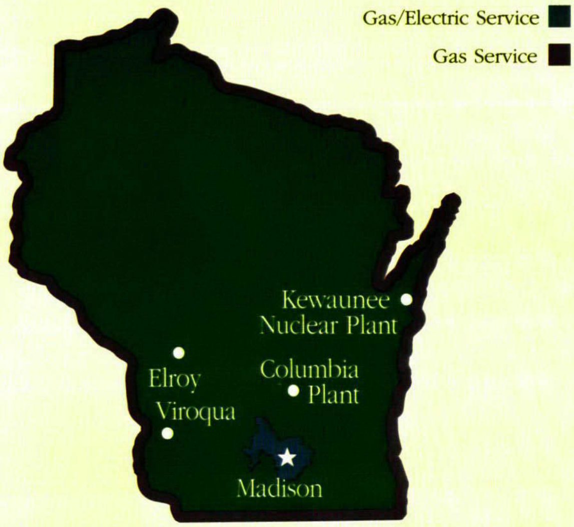
Reports Available

Upon request, we will provide you with a copy of Form 10-K, our 1995 Annual Report to the Securities and Exchange Commission. A Statistical Supplement to this Annual Report to shareholders also is available. It contains additional financial and operating data. Please address requests for these reports to:

Joseph T. Krzos
Madison Gas and Electric Company
Post Office Box 1231
Madison, WI 53701-1231

MGE General Offices
133 S. Blair St.
Post Office Box 1231
Madison, WI 53701-1231
Telephone (608) 252-7000

Business hours: 8 a.m. to 4:30 p.m. Central Time, Monday through Friday



Electric Service

MGE provides electric service in Madison, Monona, Fitchburg, Middleton, Cross Plains and other Dane County communities. The population totals 257,000. Generating facilities include the Blount Generating Station and several combustion turbines at Madison, the Columbia Energy Center at Portage and the Kewaunee Nuclear Power Plant at Kewaunee.

Natural Gas Service

MGE provides natural gas service in Columbia, Crawford, Dane, Iowa, Juneau, Monroe and Vernon counties. The population is 339,000. Gas is transported via ANR Pipeline Co., Northern Natural Gas Co. and others.

This entire report is printed on recycled paper.

MGE P.O. Box 1231
Madison, Wisconsin 53701-1231