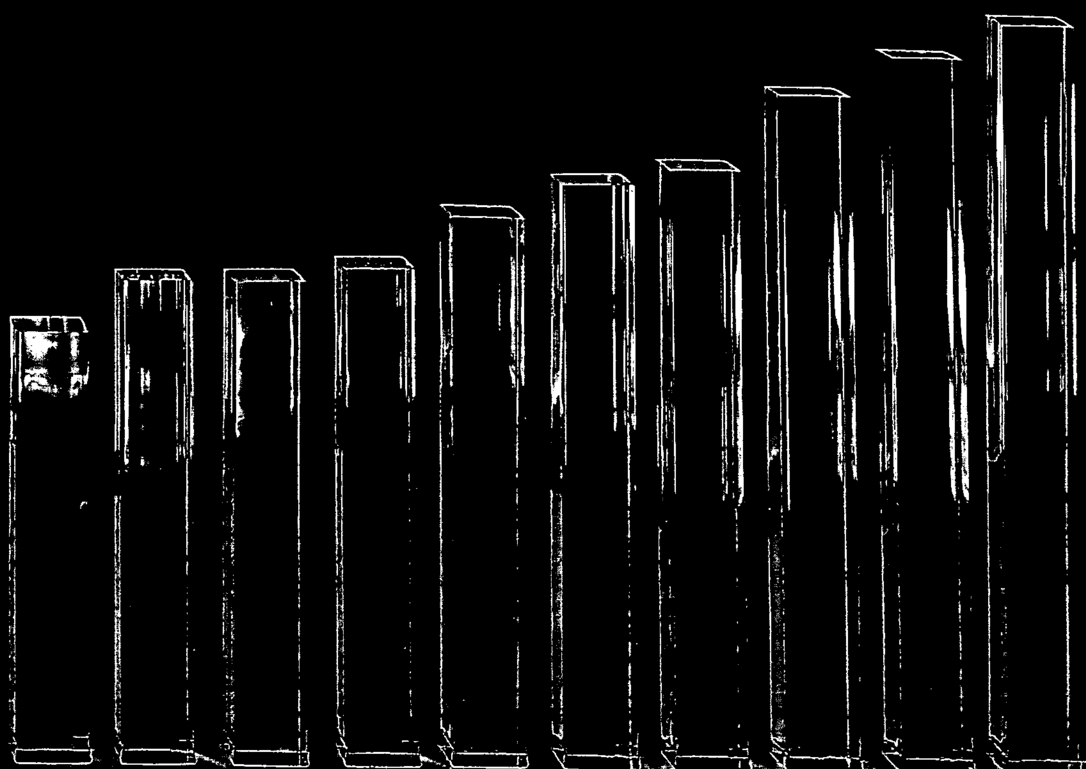
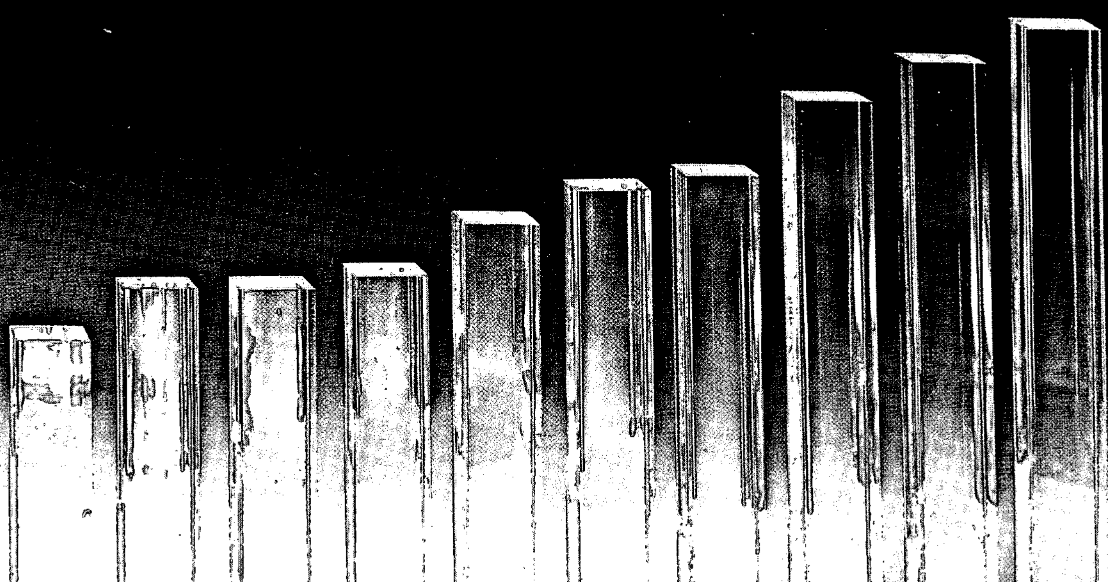
and Electric Company
1982 Annual Report



Madison Gas and Electric Company 1982 Annual Report



William McNamara

Donald Helfrecht

Frank Vondrasek

Gerald Wilson

Officers

William A. McNamara
Chairman of the Board
Age 74, Years of Service, 24

Donald J. Helfrecht
President and Chief Executive Officer
Age 61, Years of Service, 36

Frank C. Vondrasek
Executive Vice President
Age 54, Years of Service, 12

Gerald A. Wilson
Senior Vice President—Administration
Age 60, Years of Service, 16

Richard M. Lawrence
Vice President—Public Affairs
Age 56, Years of Service, 32

Terrence J. Schuh
Vice President—Customer Services
Age 40, Years of Service, 14

Kent M. Barlow
Vice President—Electric Production
Age 48, Years of Service, 21

G. Howard Phipps
Vice President—Finance and Treasurer
Age 39, Years of Service, 10

Dale W. St. John
Secretary and Assistant Treasurer
Age 58, Years of Service, 18

Billie C. Moore
Assistant Vice President and
Director—Consumer Services
Age 61, Years of Service, 37

David C. Mebane
General Counsel
Age 49, Years of Service, 5

Beverly R. Duncan
Assistant Secretary—Corporate Affairs
Age 51, Years of Service, 32

Carol A. Bethke
Assistant Secretary—Administration
and Investor Relations
Age 43, Years of Service, 16

Richard Lawrence

Terrence Schuh

Kent Barlow

G. Howard Phipps

Dale St. John

Billie Moore

Beverly Duncan

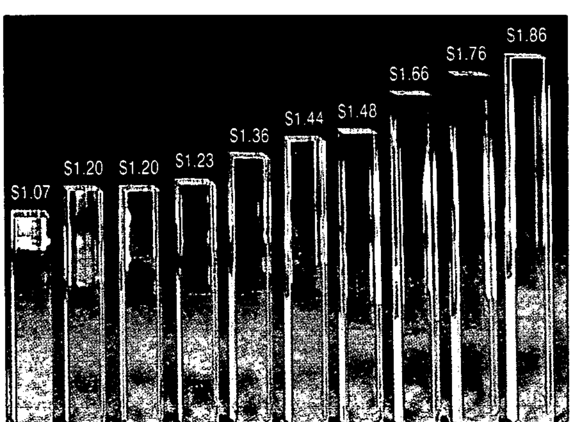
Carol Bethke

The Year At A Glance

	1982	1981	Percent increase (decrease) 1982-1981
Operating revenues	**$189,204,000**	$162,082,000	16.7%
Operating expenses	**$165,351,000**	$141,200,000	17.1
Net income	**$ 14,956,000**	$ 12,583,000	18.9
Earnings on common stock	**$ 12,114,000**	$ 9,542,000	27.0
Earnings per common share outstanding	**$2.05**	$1.66	23.5
Cash dividends paid per common share	**$1.86**	$1.76	5.7
Weighted average number of shares outstanding	**5,911,401**	5,756,254	2.7
Book value—year end	**$18.09**	$17.97	.7
Electric sales to consumers	**1,725,000 mwh**	1,686,000 mwh	2.3
Electric customers in service—year end	**100,279**	99,173	1.1
Average use per residential customer	**6,101 kwh**	6,073 kwh	.5
Electric system one-hour net peak demand	**387,000 kw**	372,000 kw	4.0
Gas sales to consumers	**155,975,000 therms**	149,997,000 therms	4.0
Gas customers in service—year end	**68,514**	67,727	1.2
Gas system peak day	**1,438,000 therms**	1,346,000 therms	6.8
Investment in plant	**$400,969,000**	$380,303,000	5.4
Total capitalization (incl. interim loans)	**$250,959,000**	$244,351,000	2.7
Number of employees—year end	**656**	643	2.0

Business Description

Madison Gas and Electric Company generates, transmits, and distributes electric power, and purchases and distributes natural gas in the Madison trading area. The electric service area covers about 250 square miles, and natural gas is distributed throughout a 750-square-mile area. While its service area is compact, it is a growing community with a population of about 250,000 in the cities of Madison, Middleton, Monona, two adjoining villages, surrounding areas including ten outlying villages, and the cities of Lodi and Verona.



Front Cover—Dividends paid on common stock from 1973 through 1982

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MGE™
MADISON GAS AND ELECTRIC

To Our Shareholders

We are pleased to report successes for your company in a number of areas during 1982. The rate of increase in inflation slowed substantially during the year, giving some relief from the pressure on earnings from previously rapid increases in expenses. Rate increases authorized in July improved our revenue situation and earnings along with it.

Earnings Increase

Total revenues in 1982 were $189 million, an increase of 17% over the $162 million in 1981. But operating expenses also increased 17%, to $165 million in 1982 from $141 million in 1981.

Earnings in 1982 were $2.05 per share, an increase of 23% over the $1.66 per share earned in 1981 but still less than the $2.21 per share reached in 1980. Continued growth in earnings is anticipated as a result of the rate increase authorized in July, 1982, as well as the action expected on the currently pending rate increase request and the possibility of further increases in future years.

Dividend Increased

Last September, the common stock dividend was increased from $1.80 to $1.92 per share on an annual basis. This increase recognizes the continuing need to adequately compensate those who have invested in our company. As the front cover of this report indicates, we believe that our policy regarding dividends has been progressive, and reflects the importance we place on it. We will continue to review this policy into the future, relating it to the long-run best interests of the company and its shareholders.

Participation in the company's Dividend Reinvestment Plan has increased to over 22% in both numbers of shareowners and shares outstanding. We believe that this increase, nearly double the level of participation a year ago, is mainly due to the eligibility of our dividends for the reinvestment tax benefit provided by the Economic Recovery Tax Act of 1981.

Rate Increases Authorized

A permanent increase in electricity and gas rates was authorized by the Public Service Commission of Wisconsin (PSCW), effective July 24, 1982. The new rates are designed to produce additional annual revenues of $22.1 million, consisting of $13.9 million for retail electricity service and $8.2 million for gas service. These increases in total represent over 75% of the amount the company requested.

The PSCW order increased the authorized rate of return on common stock equity from 13 to 14.5%. The original 1982 test year was moved forward to a fiscal period ending July 31, 1983. The fuel and purchased gas adjustments remain in effect. The order also contained certain minor rate design changes.

New Rate Application Filed

On June 18, 1982, the company filed with the PSCW for increases in electricity and gas rates for calendar 1983. On Jan. 14, 1983, a supplemental filing was submitted that reflected current and additional information on which to estimate results of operations. The amended filing included requests for increases, over currently estimated revenues, of $10 million, or about 9%, in retail electricity service revenues and $4.2 million, or about 4%, in gas service revenues. These increase requests are based on a 16% return on common stock equity.

This application follows the procedure for annual filings recently agreed on with the PSCW. Hearings on the request will take place in March, with action expected in the second quarter of 1983. The move to annual consideration of rates by the

PSCW will lead to more timely adjustments, thereby reducing the impact of increases on our customers.

Industrial Revenue Bonds Issued

Last December, $25 million of Industrial Development Revenue Bonds secured by first mortgage bonds of the company were issued by the city of Madison at an interest rate of 10.60%. The company is ultimately responsible for payment of interest and principal on the bonds which will mature on Dec. 1, 2012. The proceeds from this tax-free bond issue will be used to finance construction of qualifying utility facilities. That construction will occur during the next three years. The ability to take advantage of the tax-free interest rate will result in lower financing costs to the company and our customers.

New Office Construction on Schedule

Construction of our new General Office Facility is proceeding on schedule. Occupancy will begin in early April. This will consolidate in one place many employees who now are located in several buildings in downtown Madison. Having all employees together is expected to improve our overall efficiency and eliminate present rental expense for office space. The new facility includes the latest in office technology and incorporates many innovative features that will make it extremely energy efficient.

Future Outlook Positive

As we reported to you last year and again elsewhere in this report, the area we serve is one of growth and economic vitality. New facilities are being added throughout our service areas. An increase of 4% in the peak electric demand last summer, from 372,000 to 387,000 kilowatts, is an indication of this growth.

Our ability to readily satisfy increased demand for a number of years into the future indicates the adequacy of our electricity generation capability. Similarly, we will be able to supply our customers' natural gas requirements for the next several years. The adequacy of the gas supply available to us results from both the continuing efforts to conserve on the part of customers as well as the acquisition policy of our pipeline supplier.

More than a year ago, an industry-sponsored campaign was launched to reach regulatory officials and others with the message that a financially healthy utility industry ultimately benefits the consumer. We have reason to be optimistic that some degree of success has been achieved. Initial indicators for 1983 point to an increasing level of informed dialogue among the media, regulators and consumers on regulatory and financial matters of importance to our industry. We will continue to support these efforts to make the case that a strong utility industry serves the best interests of the nation.

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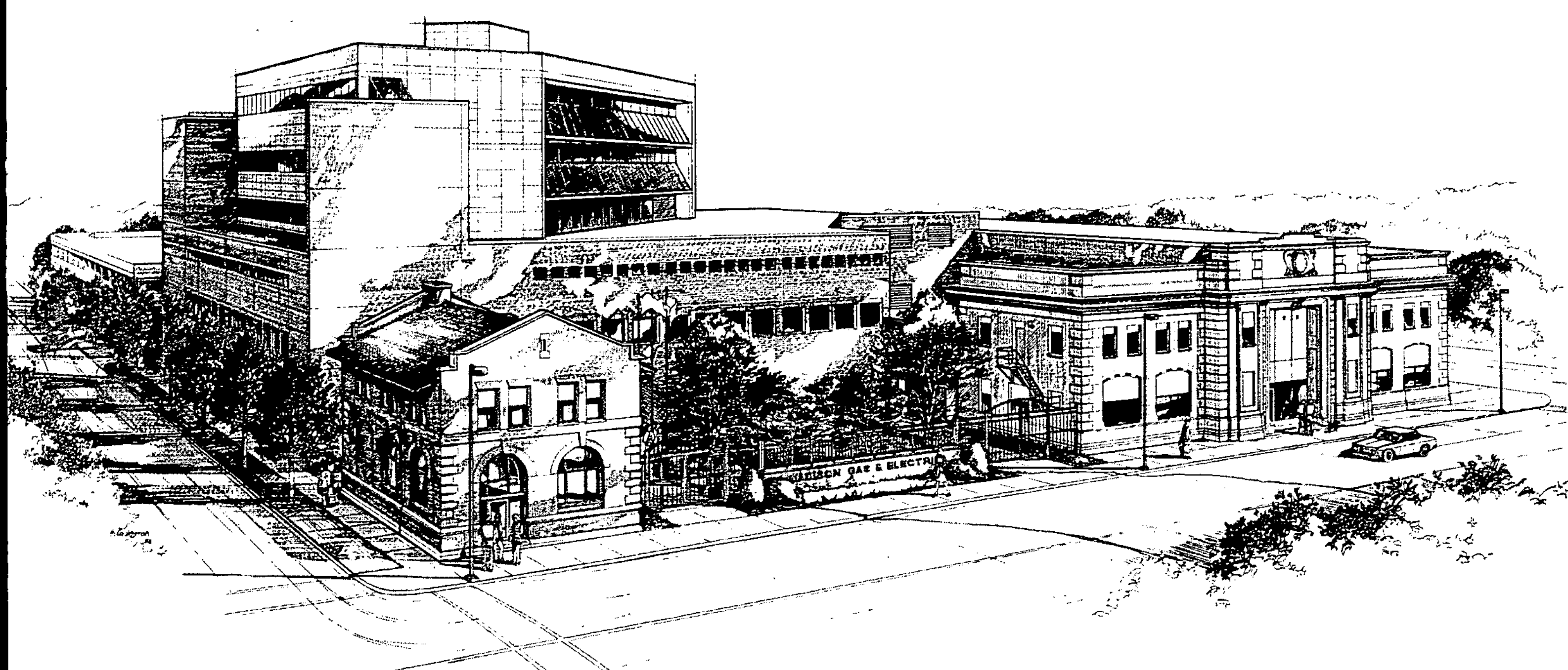

Artist's rendering of new General Office Facility

Employees

Agreements with our employees belonging to both the International Brotherhood of Electrical Workers, Local No. 2304, and the Office and Professional Employees International Union, Local No. 39, expire April 30, 1983. Discussions concerning renewal of both agreements will begin in March.

Director Changes

On Dec. 17, 1982, Jean N. Manchester was elected to the company's board of directors. Mrs. Manchester is chairman of the board and chief executive officer of Neesvig's Inc., a wholesale meat business located in Madison. She was elected to fill the vacancy caused by the death of Jon Gruber, who had been a director of MGE since 1978. Mr. Gruber had furnished valuable guidance and counsel while on the board of directors and we deeply mourn his passing.

Management Growth Continues

Last year marked a continuation of our management development program. Kent Barlow was elected vice president—electric production and now is responsible for power production and power supply planning. He has worked for the company for over 20 years.

A Facilities Management Department was created in January, 1982, to centralize responsibility for the operation and maintenance of MGE-owned buildings and grounds. The department is responsible also for project management of the new General Office Facility construction.

We appreciate your continued interest in, and support of, your company's operations. Your comments about any aspect of them are invited and welcomed.

For the Board of Directors:

William A. McNamara

William A. McNamara
Chairman of the Board

Donald J. Helfrecht

Donald J. Helfrecht
President

February 21, 1983

Corporate Objectives

MGE's corporate objectives are summarized as follows:

- To effectively and fairly serve all the Company's constituencies—customers, investors, employees, governmental bodies and suppliers—to best balance the mutual interests of all.
- To furnish reliable service in a safe, courteous, competent and timely manner and at a reasonable cost to customers that also will provide sufficient earnings to adequately compensate our investors for use of their money.
- To recognize our social responsibilities as a corporation as an integral part of dealing with our various constituencies.
- To encourage and reward employee initiative, career development, productivity and responsible performance.
- To encourage prudent growth in the use of our energy services, including the development of new technologies and applications.

Gas Operations

MGE added 787 new gas customers in 1982. At year-end, the company served 68,514 customers in its 750-square-mile gas service area.

During 1982, 1,531 gas customers were reclassified from commercial to residential service after those categories were redefined by the PSCW. Previously, buildings containing more than one living unit were classified as commercial. Now, only those buildings containing five or more living units are included in the commercial category.

A total of 893 customers converted from other fuels to natural gas for space heating in 1982.

Gas sales totaled 156 million therms in 1982, an increase of 4% over the previous year.

Revenues from gas sales were $83.1 million in 1982, 21% higher than 1981.

Natural gas supply continues to be excellent, both for the company and the nation. Gas will continue to be readily available for the rest of this century and well beyond, according to many industry authorities including Michigan Wisconsin Pipe Line Company, MGE's supplier.

The Natural Gas Policy Act of 1978, which provides for phased-in deregulation of wellhead prices, is one of the reasons for the adequate supply outlook. The law provides producers, particularly independent producers, with financial incentive to search for harder-to-reach gas below 15,000 feet. They have had success in reaching such previously untapped deep deposits.

Future gas utilization, with supplies assured, is now receiving considerable attention within MGE. A Gas Requirements Planning Committee was created in January, 1982, to forecast short- and long-term requirements of MGE customers. Members of this permanent committee represent the Corporate Planning, Gas Systems Operation, Consumer Services, Energy Utilization and Rates Departments.

In August, the committee completed a study of the gas requirements of residential customers (single-family detached housing) through 1991. The study indicated that gas use per customer in this category can be expected to decrease throughout the period, continuing a current trend. Reasons for the decreased use include weatherization activity, installation of more efficient utilization equipment and smaller dwelling units. However, it is expected that enough new customers will be added to offset the decrease in use per customer, resulting in a net increase of 3% by the end of the study period.

The committee is now studying the requirements of commercial gas customers, which include multi-unit dwellings.

Although MGE's gas supply is assured, the rising cost of the gas obtained from our supplier is a matter of great concern. The company is continuing to explore avenues that would moderate increases in gas rates in the future.

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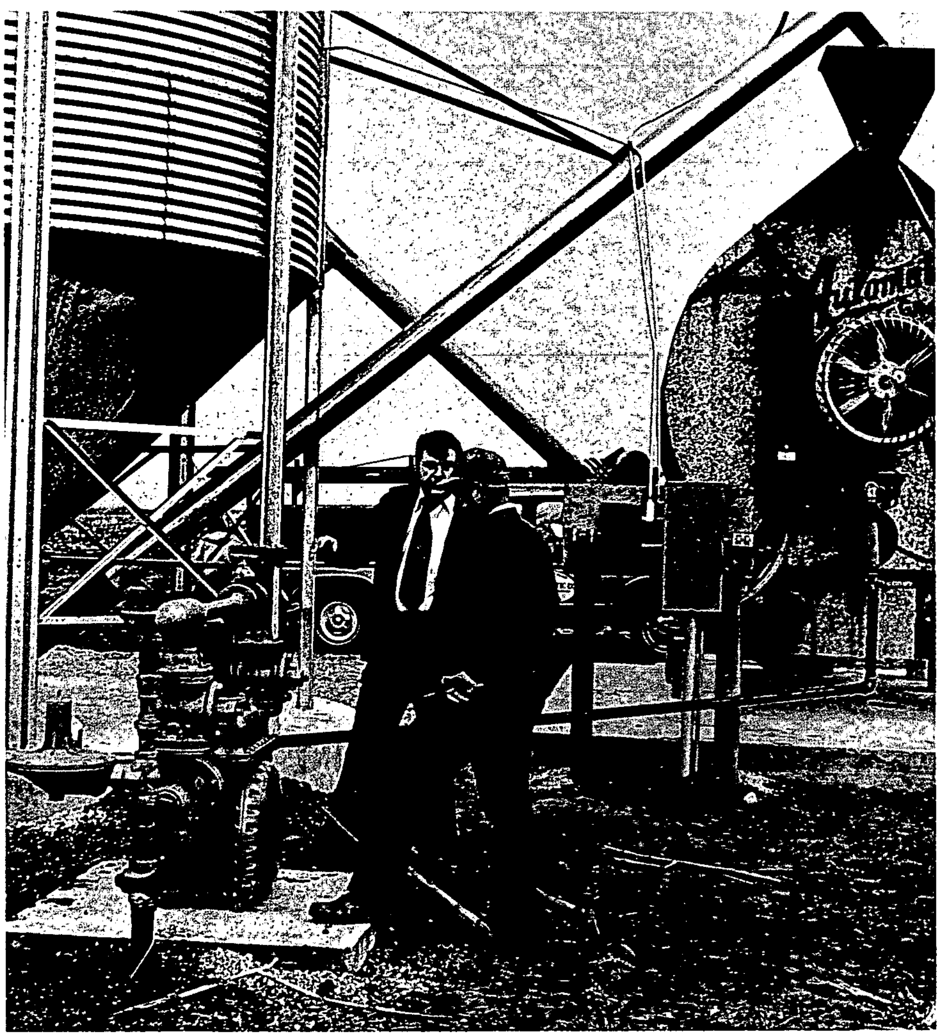


Jerry Kieffer, MGE district representative at DeForest, meets with Gilbert Rauls, who has just installed a new gas-fired grain dryer. MGE also has district representatives in Mount Horeb and Lodi to assure that customers in outlying areas receive prompt, efficient service.

Gas main replacement reached 98% of completion in 1982. Only three miles of cast-iron main is left to be replaced by plastic or steel main this year, completing this 14-year project. Sixteen miles of main, including 12 miles of cast-iron main, was replaced in 1982. In addition, six miles of new main was installed last year.

Gas metering is being upgraded. A project to improve metering accuracy began early last year. Temperature-compensated meters are now being used for all new and replacement installations. Meters that are removed or routinely tested in the Gas Meter Shop are either upgraded to compensate for temperature or are replaced by such meters. During 1982, 1,008 meters were converted. The conversion project is expected to be completed in 12 years.

Marvin Olson, equipment advisor, and Michael Markgraff, consumer advisor, describe new efficient gas conversion burner to Thomas Towell, a visitor to MGE's Energy Center. In 1982, 893 customers converted from other fuels to natural gas for space heating.

Gas safety is the subject of a newly upgraded comprehensive public information program. The program provides information through newspaper and television advertising and bill inserts, all of which offer a free gas safety kit. The campaign won first and second place awards in a contest sponsored by the Madison Advertising Federation.

Gas Systems Operation employees also continued working with area fire departments in anticipation of emergency situations in which natural gas may be involved. The program especially acquaints fire fighters with the gas system in their area.

Gas Service

	1982	1981	1980	1979	1978	1977	1972
Sales (Thousands of Therms)							
Residential	67,823	62,080	68,499	68,599	68,145	64,562	64,339
Commercial	74,290	70,806	74,842	90,953	88,929	79,433	90,893
Interruptible boiler fuel	4,755	7,152	24,344	17,354	5,134	5,445	15,638
Industrial	9,107	9,959	10,227	15,844	16,302	14,194	16,452
Total	155,975	149,997	177,912	192,750	178,510	163,634	187,322
Revenues (000)							
Residential	$38,507	$30,238	$27,759	$21,677	$19,135	$16,856	$ 7,976
Commercial	38,149	31,624	27,963	24,994	22,134	18,345	8,258
Interruptible boiler fuel	2,014	2,647	7,394	4,200	1,026	920	737
Industrial	4,407	4,047	3,524	4,002	3,802	3,006	1,065
Total	$83,077	$68,556	$66,640	$54,873	$46,097	$39,127	$18,036
Customers at Year End							
Residential	60,738*	58,450	57,231	54,822	52,574	50,655	42,587
Commercial	7,700*	9,201	8,916	8,566	8,338	8,016	6,657
Interruptible boiler fuel	3	3	4	5	4	3	4
Industrial	73	73	73	73	73	78	49
Total	68,514	67,727	66,224	63,466	60,989	58,752	49,297
Residential (Averages)							
Therms per space-heating customer	1,262	1,186	1,370	1,471	1,527	1,524	1,941
Rate per therm—space heating	56.5¢	48.4¢	40.2¢	31.3¢	27.8¢	25.8¢	12.2¢

*During 1982, 1,531 commercial customers were redefined as residential customers.

Electric Operations

MGE added 1,106 new electricity customers in 1982. At year-end, the company served 100,279 customers in its 250-square-mile electricity service area.

Total electricity sales were 1.9 billion kilowatt-hours (kwh), down 1% from the previous year, reflecting a decrease in sales to other utilities. Retail sales, which do not include sales to other utilities, rose 2%.

Revenues from electricity sales of $105.6 million were 14% higher than in 1981.

MGE's generating capacity of 597,000 kilowatts (kw) includes the Kewaunee Nuclear Plant and the Columbia Energy Center, which are owned jointly with two other utilities, and the Blount Plant, which is wholly owned.

This capacity is 15% base-load nuclear fueled, 70% base-load and intermediate-load coal fired, and 15% oil- and gas-fired combustion turbines for peak loads.

The Kewaunee Nuclear Plant accounted for 35% of all electricity generated in 1982, up from 34% in 1981 and 29% in 1980. Coal burned at the Columbia Energy Center and

William Brown, Electric Distribution, checks conductors in underground electrical vault serving the Capitol Centre in downtown Madison. The Capitol Centre/Capitol Concourse project was completed in 1982.

Electric Service

	1982	1981	1980	1979	1978	1977	1972
Sales (Megawatt-hours)							
Residential	530,002	518,994	513,508	485,745	503,767	492,397	461,493
Commercial power & lighting	892,880	859,766	849,982	789,811	766,355	724,977	596,548
Industrial power & lighting	105,390	116,918	111,069	124,854	114,311	104,743	121,827
Street & highway lighting & public authorities	196,738	189,975	189,661	209,115	215,069	214,769	191,651
Other utilities	215,063	275,655	582,561	690,656	537,616	189,494	86,256
Total	1,940,073	1,961,308	2,246,781	2,300,181	2,137,118	1,726,380	1,457,775
Revenues (000)							
Residential	$ 32,072	$27,083	$25,221	$22,429	$22,130	$20,974	$ 9,604
Commercial power & lighting	49,498	41,688	38,716	32,739	30,157	27,802	11,457
Industrial power & lighting	5,221	4,959	4,536	4,547	3,983	3,598	1,728
Street & highway lighting & public authorities	9,075	7,580	7,079	6,704	6,447	6,223	2,293
Other utilities	9,685	11,530	19,380	22,383	15,488	6,426	879
Total	$105,551	$92,840	$94,932	$88,802	$78,205	$65,023	$25,961
Customers at Year End							
Residential	87,499	86,640	85,068	83,264	81,671	79,788	70,440
Commercial power & lighting	12,637	12,389	12,037	11,808	11,609	11,228	9,953
Industrial power & lighting	95	98	102	122	139	127	198
Street & highway lighting & public authorities	45	43	38	40	36	38	35
Other utilities	3	3	3	3	3	3	3
Total	100,279	99,173	97,248	95,237	93,458	91,184	80,629
Resideutial (Averages)							
Kilowatt-hours per customer	6,101	6,073	6,120	5,897	6,241	6,262	6,712
Rate per kilowatt-hour	6.05¢	5.22¢	4.91¢	4.62¢	4.39¢	4.26¢	2.08¢

Leroy Hugill, Electric Meter Shop, installs a residential time-of-use electric meter. At year-end, 352 residential customers were on time-of-use electric rates, and another 50 applications were pending.

the Blount Plant provided 62% of the electricity generated, down from 63% in 1981. Natural gas and oil-fueled generation remained at 3% of the total. The Blount Plant figure includes 11,177 tons of refuse-derived fuel bought from the city, which replaced 5,688 tons of coal.

MGE's generating capacity is adequate to meet the electricity needs of its current and new customers through the '80s.

A new high demand record was set Aug. 3 when the peak reached 387,000 kw. That was 4% higher than the 372,000-kw peak demand achieved in 1980 and matched in 1981.

The reliability of the Kewaunee Nuclear Plant continued in 1982 as demonstrated by two long periods of continuous operation. A record 306 days of continuous operation was completed between June 7, 1981, and April 9, 1982, when normal scheduled refueling and maintenance began. The plant went back into service on May 24, 1982, and operated continuously for 216 days when a non-nuclear piping leak caused a one-day shutdown. MGE owns 17.8% of the plant.

A new Energy Management System (EMS) will be completed in the Power Supply Office by 1986. This system will provide operators with more-complete information about the electricity generation, transmission and distribution systems and gas systems, allowing them to make more efficient use of facilities. Operators will have more flexibility in remotely controlling parts of the system from the Power Supply Office.

Construction of a 13½-mile, 138-kilovolt (kv) transmission line began in 1982 to link MGE's North Madison and Sycamore substations. When completed this year, the line will provide an added power feed to Madison from our Kewaunee Nuclear Plant and Columbia Energy Center.

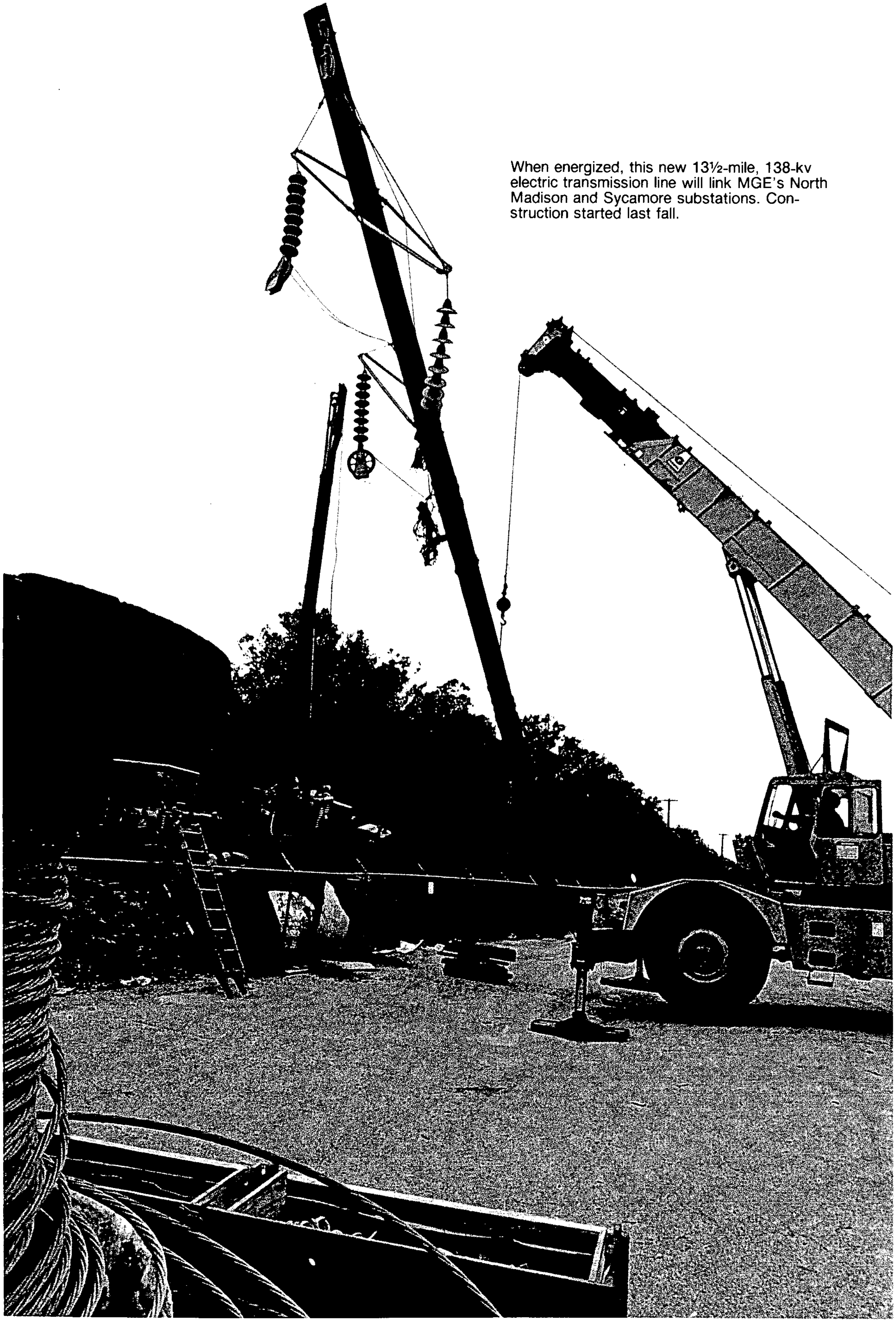
New electricity distribution line constructed in 1982 totaled about 20 miles. Of the total, more than 17 miles were underground.

Upgrading service in the last segment of the Capitol Concourse/Capitol Centre in downtown Madison was the major distribution project completed in 1982.

The company invested $15.3 million in underground electric facilities from 1977 to 1981. Of that amount, $11.3 million was in Madison. Sinee 1965, more than 14,300 underground services were installed, with 40% of them installed from 1977 to 1981.

MGE began installing lines under ground in downtown Madison as early as 1929.

New electricity service extension (installation) rules went into effect Jan. 1, 1983. They apply to requests for changes or increases in electrical service capacity for existing, new or remodeled homes and business facilities. The new charges better reflect the actual cost of installing the service.



When energized, this new 13½-mile, 138-kv electric transmission line will link MGE's North Madison and Sycamore substations. Construction started last fall.

Corporate Operations

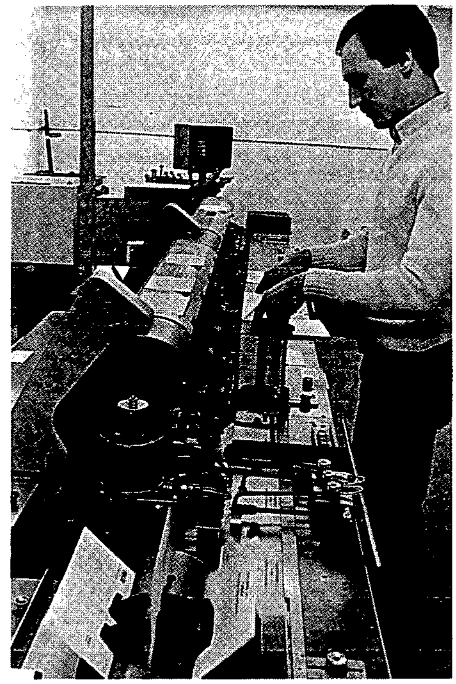
Billing efficiency was improved in 1982. MGE introduced a new customer bill format in June that provides more detailed cost and energy use information than before to help customers better understand their charges. They now can easily compare energy use in one billing period with another to check on their energy conservation efforts. New mailing and payment-processing equipment associated with the new format has improved billing efficiency.

Planning for the new bill format began about five years ago. Comparable information is now furnished by all major electric and gas utilities in Wisconsin.

A new weatherization assistance program began last October. This pilot program provides financing aid through grants and low-interest loans to help eligible low-income natural-gas space-heating customers weatherize their homes and apartments. MGE and other Wisconsin gas utilities are required by the PSCW to set aside two-tenths of 1% of their monthly gas revenues to finance such weatherization programs.

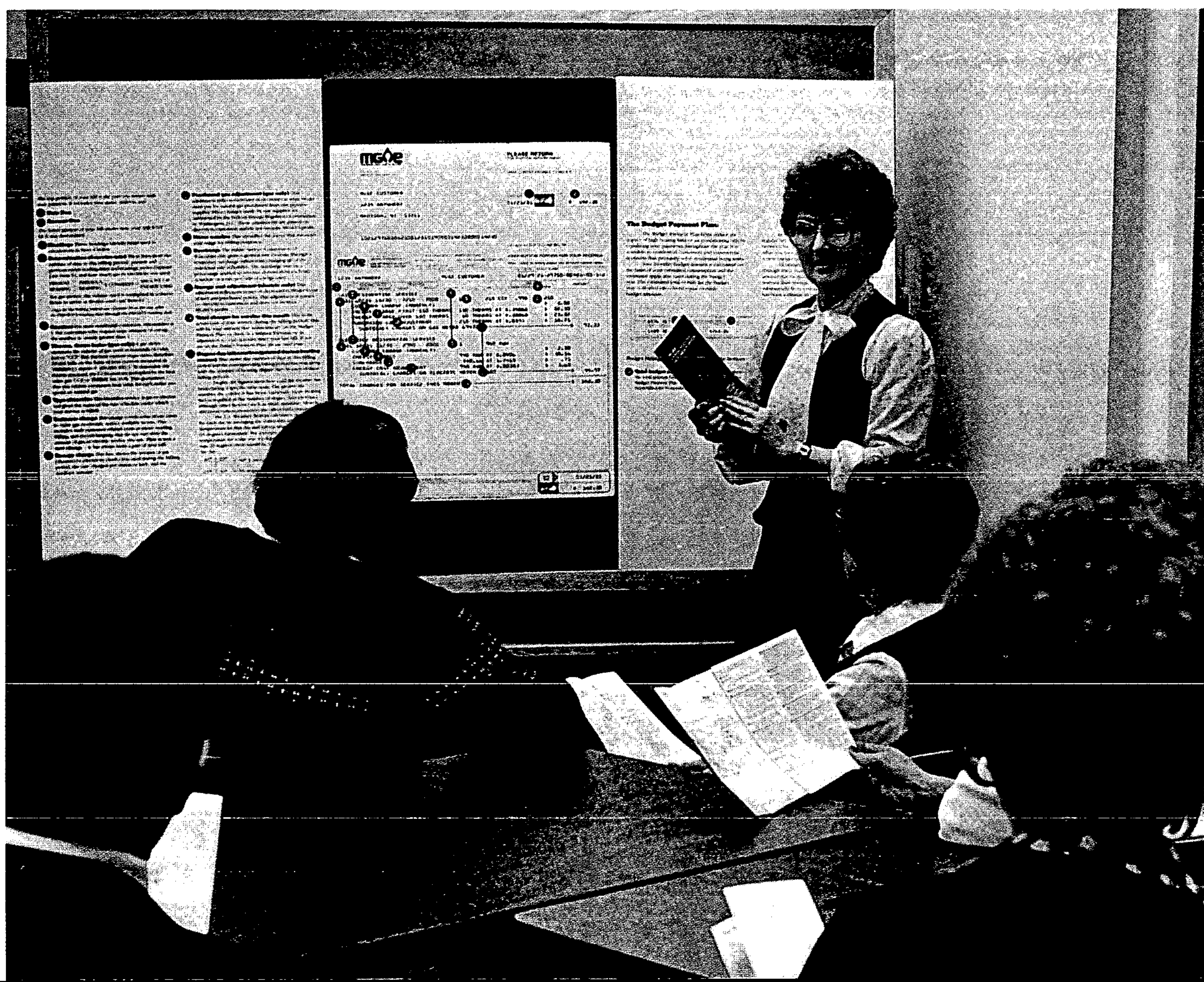
Because customers who weatherize their homes use less energy than before weatherization, they may be better able to pay their energy bills. That way, all customers benefit.

Energy audits by MGE show customers how they can save optimum amounts of energy for the least amount of money invested. These audits include those required to show



Keith Stormer, Office Services, operates new mail-inserting machine.

Clara Young, supervisor in the Customer Information Center, explains the new customer bill format to other employees. The new format and new mailing and payment-processing equipment have improved billing efficiency.



that a building meets state conservation standards before the owner can convert from another fuel to natural gas for space heating.

In 1982, MGE did 5,678 energy audits, 2,526 more than in 1981, an 80% increase. Audits in 1982 included:

Homes	3,579
Rental property	973
Lifestyle (for renters)	274
Gas conversions	766
Other	86

Since MGE's audit program began in 1976, 24,229 energy audits have been done.

An expanded audit program for commercial property was being developed late in the year and will begin in 1983.

MGE Customer Information Center employees answered 117,151 telephone calls in 1982, an increase of 7.5% over 1981.

MGE's Speakers Bureau made 76 presentations to a total adult audience of 2,816 in 1982. Energy conservation was the most requested topic.

The company exhibited at several energy fairs in the area and participated with the city of Madison in outfitting an energy conservation trailer.

Beside the programs for adults, 3,013 elementary and high school students took part in 119 programs presented by Energy Information employees. They also presented 14 programs attended by 172 college and university students.

An electricity safety pilot program for elementary school students was developed and presented by Energy Information and Electric Distribution employees in October. The program includes films, demonstrations and tests for students on their knowledge of electricity safety before and after the program. The program will be presented in more schools this spring.

The company also provides information about energy conservation, gas and electricity safety and billing matters through advertising, bill inserts and brochures.

(continued)

Pamela Jennings, MGE consumer advisor, shows Herman Merker where weatherization improvements will result in energy savings. MGE performed 5,678 energy audits in 1982, an increase of 80% over 1981.

Recruiting new talent at all levels is a primary management concern. In recruiting professional staff last year, the Personnel Department emphasized engineering, data processing, business and finance fields in which demand for such talent for business is high.

Recruiting was intensified with visits to seven universities in four states. Contacts also were made at technical schools.

The company participated in four career day programs and a job fair for minority engineering students at the University of Wisconsin-Madison.

Training received by employees in 1982 totaled 11,200 person-hours. Of the total, more than half of these hours were in courses developed and/or presented by the Training and Development Department.

Subjects ranged from basic management techniques through specific vocational skills, such as pipe fitting and basic electricity.

MGE encourages its employees to continue their education. When independent study will help them better perform their jobs, they may apply for reimbursement of tuition paid.

Sixty service vehicles are equipped to operate on either propane or gasoline, and additional vehicles will be converted for dual-fuel use. MGE began using propane as an alternate fuel in the early 1970s.

Prevention of damage to underground gas and electric lines continues to receive major attention. Through participation in both the Dane County One-Call and Diggers Hotline Systems, the company encourages contractors and others to call before they dig. MGE and other participants in the systems mark where their lines arc located on the property. Letters and bill inserts are used to inform contractors, architects, engineers, municipal agencies, other utilities and the public about the program.

Richard Kaltenberg, Fleet Operations, fuels a service vehicle with propane. Sixty MGE vehicles are equipped to operate on either propane or gasoline.

Diversity of MGE service area strengthens load base

Diversity of the load base in Madison Gas and Electric Company's service area contributes significantly to the stability and growth of the company.

Madison, the capital of Wisconsin and Dane County seat, is the second largest city in the state. The University of Wisconsin-Madison, with 40,000 students, is internationally recognized for its excellence.

Because education and government are major employers, the economy and employment remain relatively stable even during recessions. While the service area does not totally escape recessions, they are not felt as acutely as in other parts of the state and nation:

	Average 1982 Unemployment
City of Madison	6.1%
Dane County	6.7
State of Wisconsin	10.7
United States	9.7

Scientific Protein Laboratories

Promote Research Park

The University of Wisconsin extends its influence beyond education through innovative partnerships with business in the area. Two recent programs are typical of its positive impact on economic growth.

Wisconsin for Research, formed in 1979, is a private organization that is a joint effort between the University and the business community. Its missions include: "To keep Wisconsin companies competitive through cooperation between the University and private industry."

Wisconsin for Researeh established a full-time office in Madison late in 1982. The organization currently promotes high-technology research. Planning is under way for a research park close to the Madison campus, with financing expected to come from the private sector. Similar promotions in other states have resulted in significant new business development.

Inventory of Resources

Another University initiative was launched in 1982 addressed to businesses and industries interested in locating or expanding in Dane County. A new Community Industrial Development Inventory System was created to provide computer listings of available industrial land, buildings and human resources.

The program, the first of its kind in Wisconsin, was developed by the University of Wisconsin-Madison Department of Agricultural Economics and is operated through the Dane County Extension office. Grants from Dane County and the Greater Madison Chamber of Commerce finance the project.

Construction Continuing

Several major projects under construction in 1981 were completed in 1982, including the Capitol Centre complex in central Madison.

Despite a slow economy, a number of new public and private developments have been announced or are under way in MGE's service area. Among them is the $90-million Olin Place concept, announced last March. It is a proposal for redeveloping a five-block section of Madison's central area to include offices, stores, apartments, parking garages and a hotel.

In addition to Madison, other communities in MGE's service area have established organizations that make concerted efforts to attract new industry and business. These include DeForest, Middleton, Mount Horeb and Verona.

(continued)

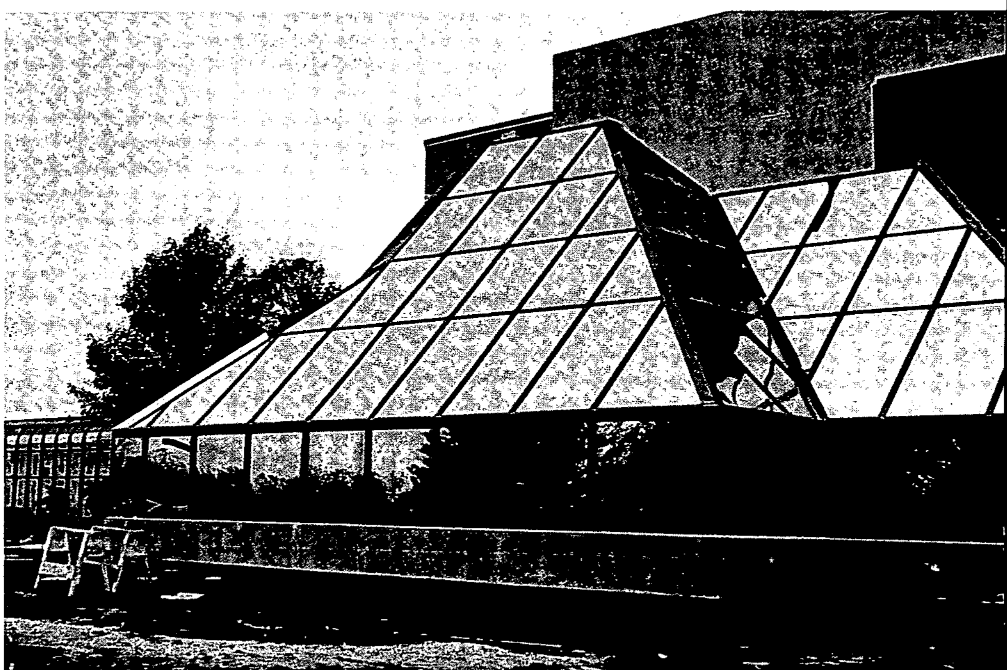
In Dane County, 43% of the households had effective buying income of more than $25,000 in 1981, compared with 37% for the United States. That has been a factor in continuing retail development throughout the area in recent years. Some examples are neighborhood shopping centers such as Heritage Square in Madison, Walnut Grove in the village of Shorewood Hills, Fitchburg Ridge in the town of Fitchburg, and South Towne, with more than 30 stores scheduled to open in March, 1983, in suburban Monona.

Many businesses and professional organizations have their headquarters in Madison to be close to government and University operations. For example, nearly 200 state associations are based in Madison. New office facilities, such as those on Madison's west side, meet these space needs. Other businesses, including American Family Insurance and Webcrafters (printing), are expanding their facilities.

Growth is occurring in the outlying area around Madison, too, with new services and housing being created. For example, the Quisling Clinic of Madison has established a satellite medical facility in Middleton. The University of Wisconsin also is constructing some facilities away from its main campus.

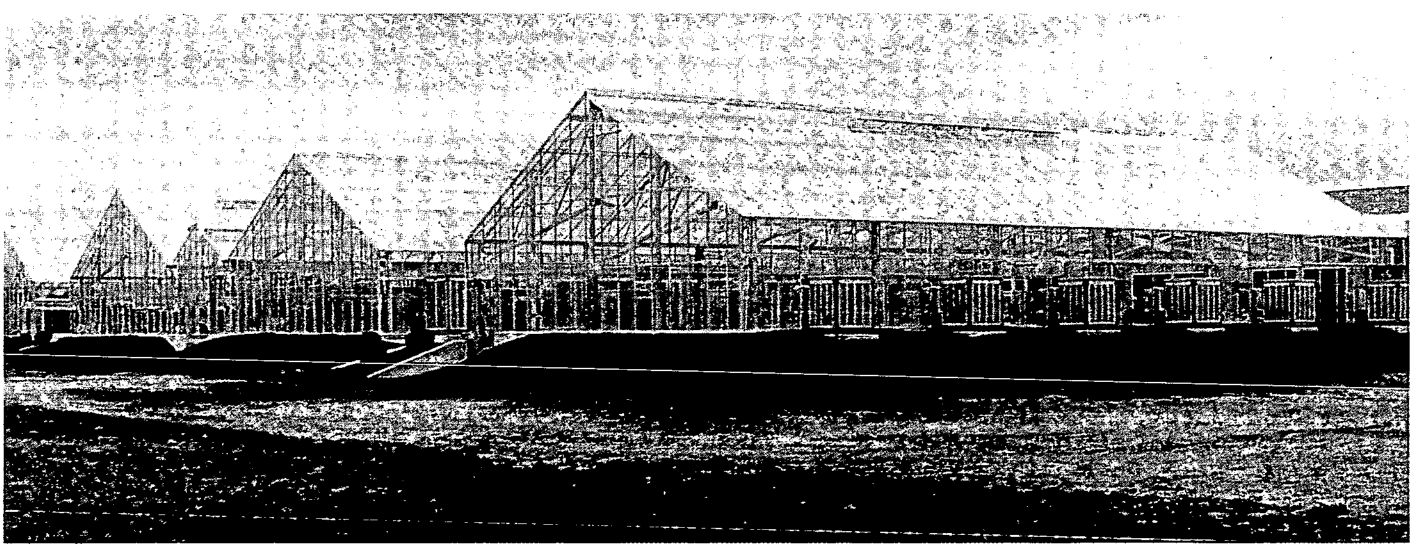
The area is well equipped to respond to general economic recovery when it occurs. In the meantime, these same resources help maintain the economic viability of MGE's service area above state and national norms.

High Tech

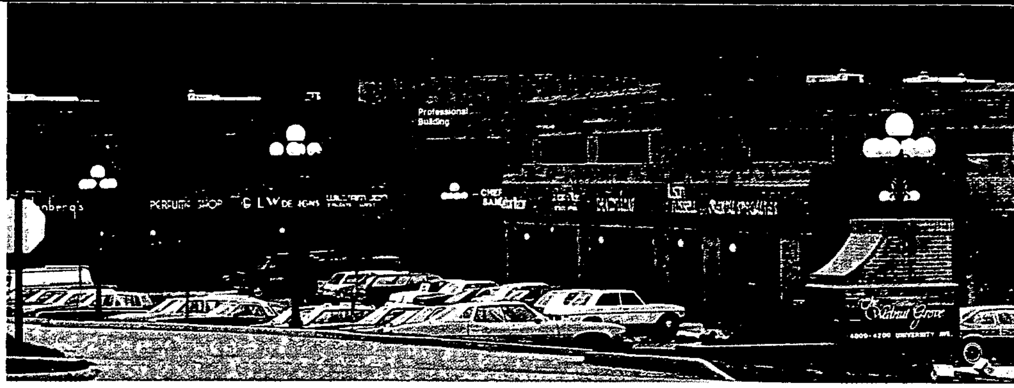


Agrigenetics—Research Facility

Cetus—Research Laboratory

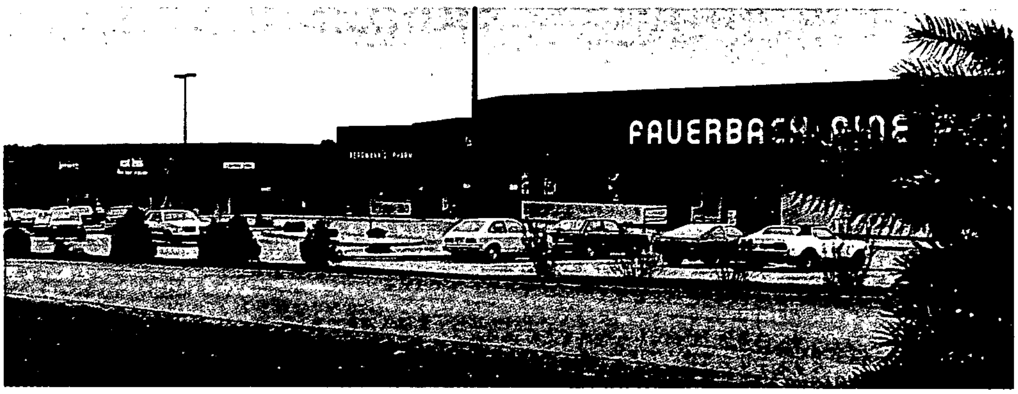


Retail



Walnut Grove Shopping Center

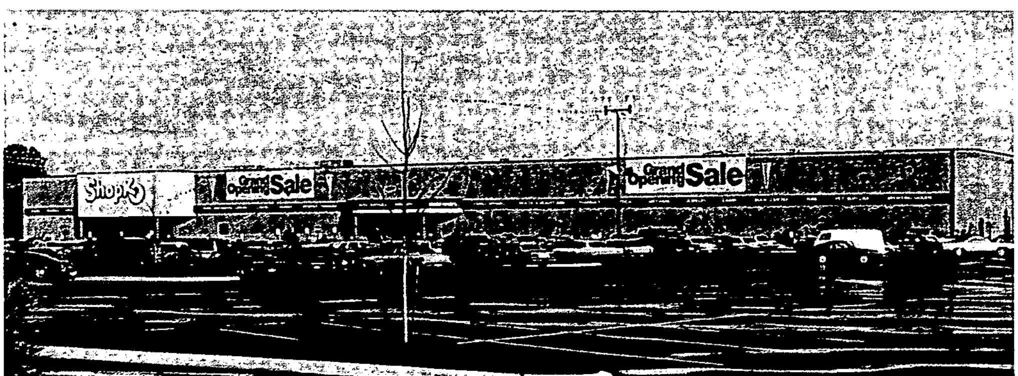
Heritage Square Shopping Center



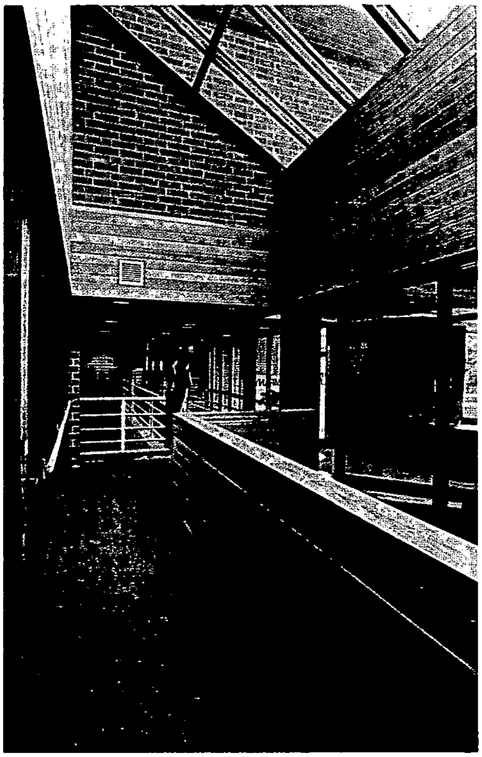
Fitchburg Ridge Shopping Center

Middleton Springs Shopping Center ▲

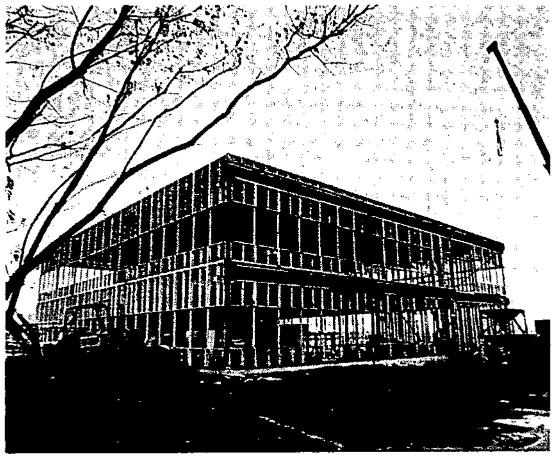
▼ North Towne



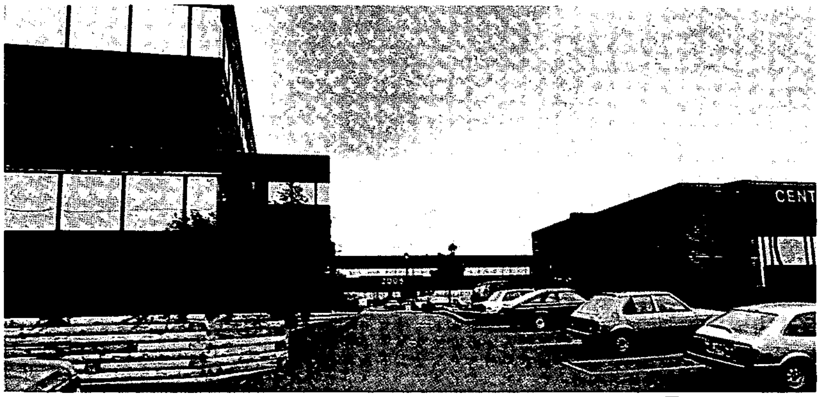
Office



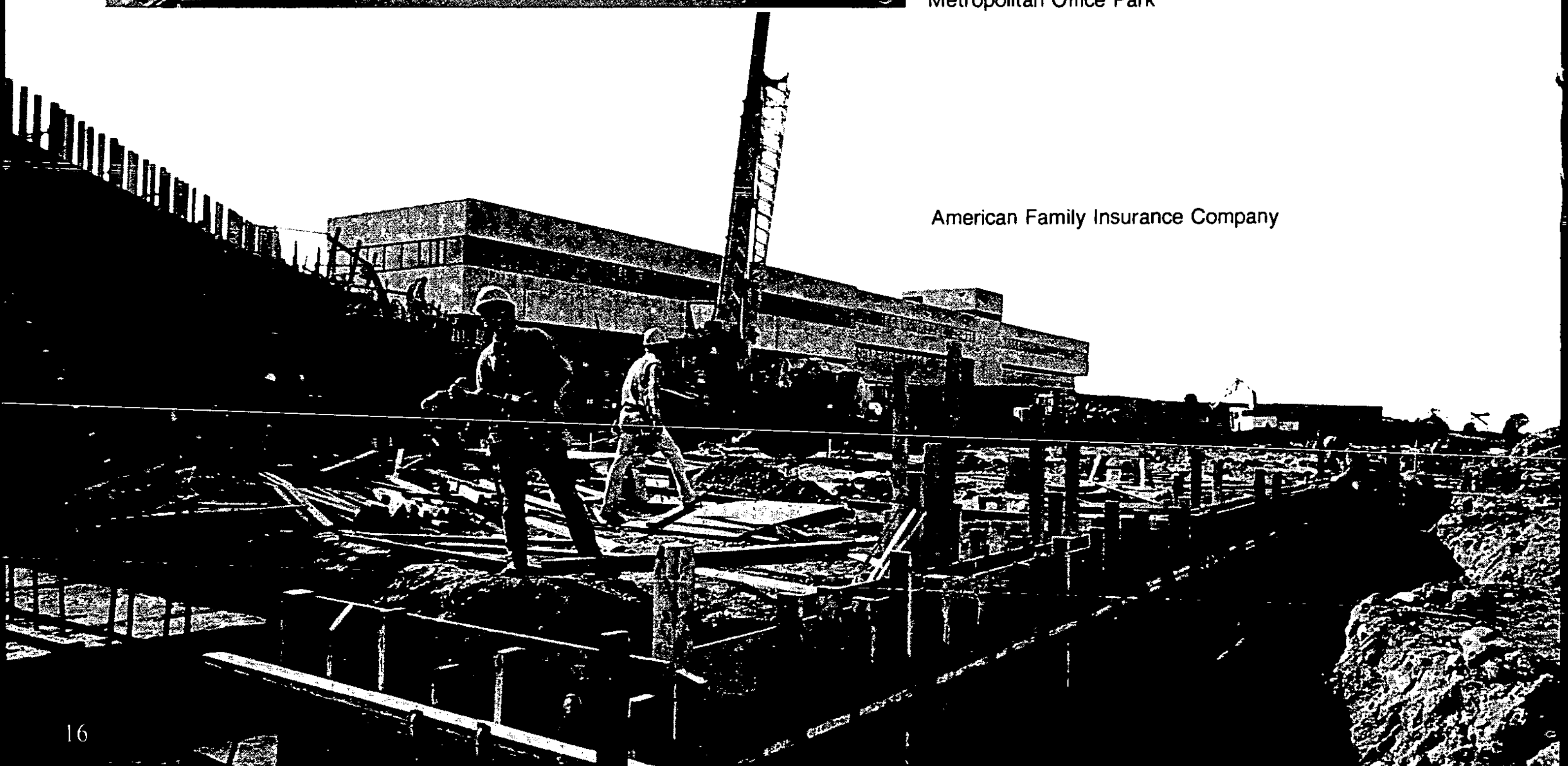
Grand Canyon Drive
Office Complex



Madsen Construction

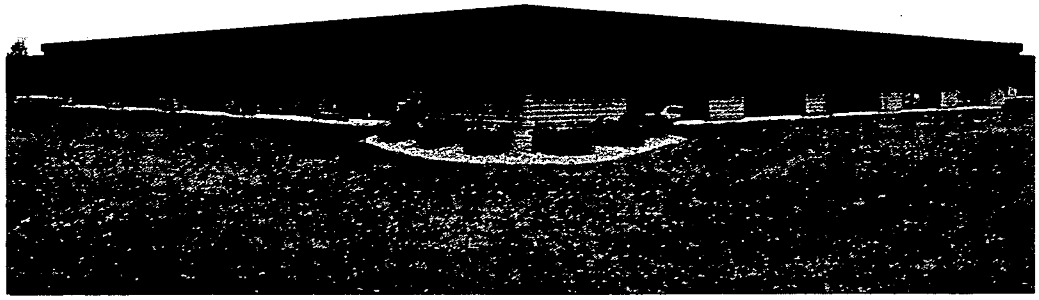


Carman Building —
Metropolitan Office Park



American Family Insurance Company

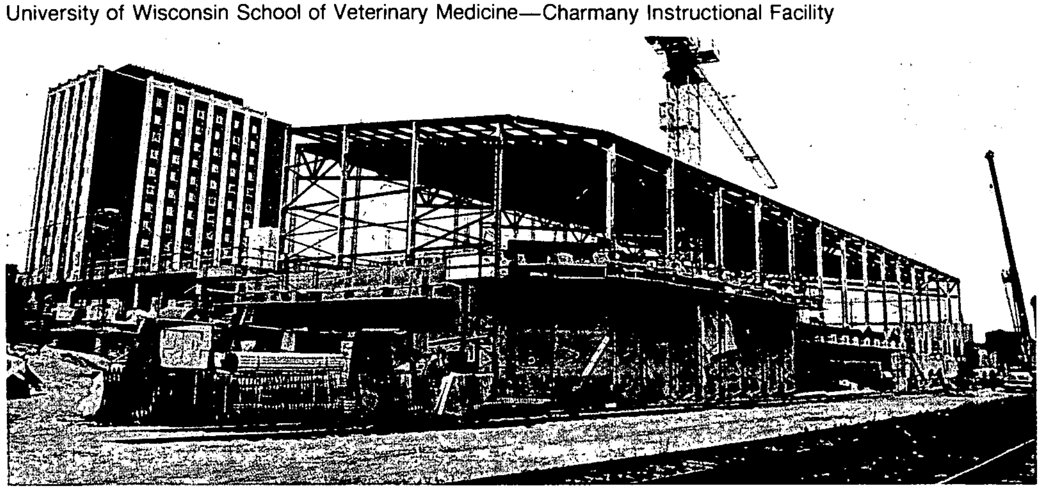
Medical & University



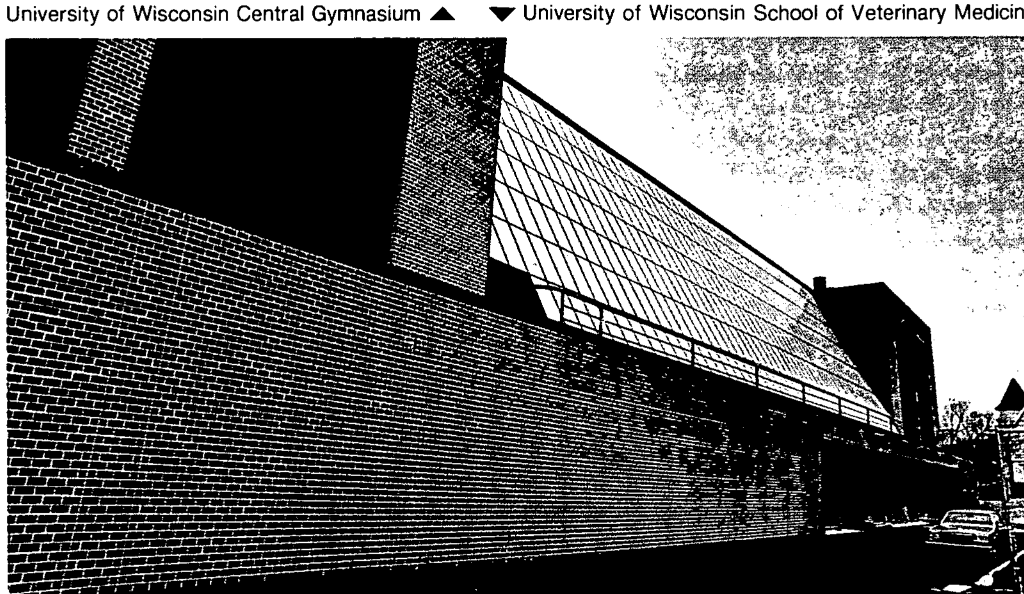
Dean Clinic

Quisling Clinic

University of Wisconsin School of Veterinary Medicine—Charmany Instructional Facility



University of Wisconsin Central Gymnasium ▲ ▼ University of Wisconsin School of Veterinary Medicine

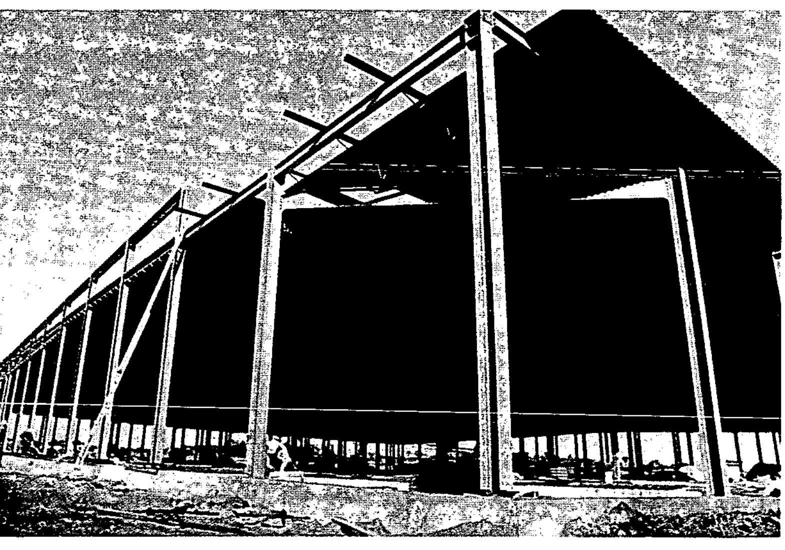


Housing

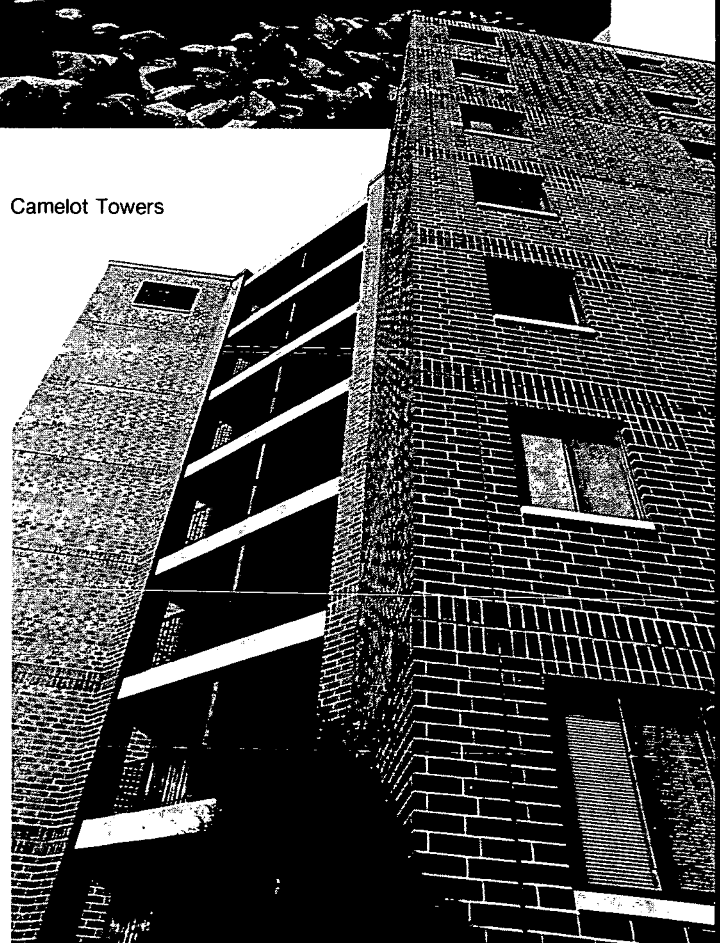
Wyndemere Condominiums ▲

▼ Wexford Crossing Condominiums

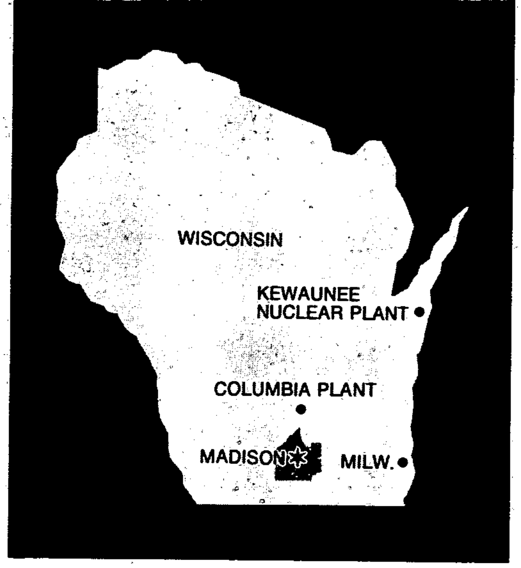
Commercial



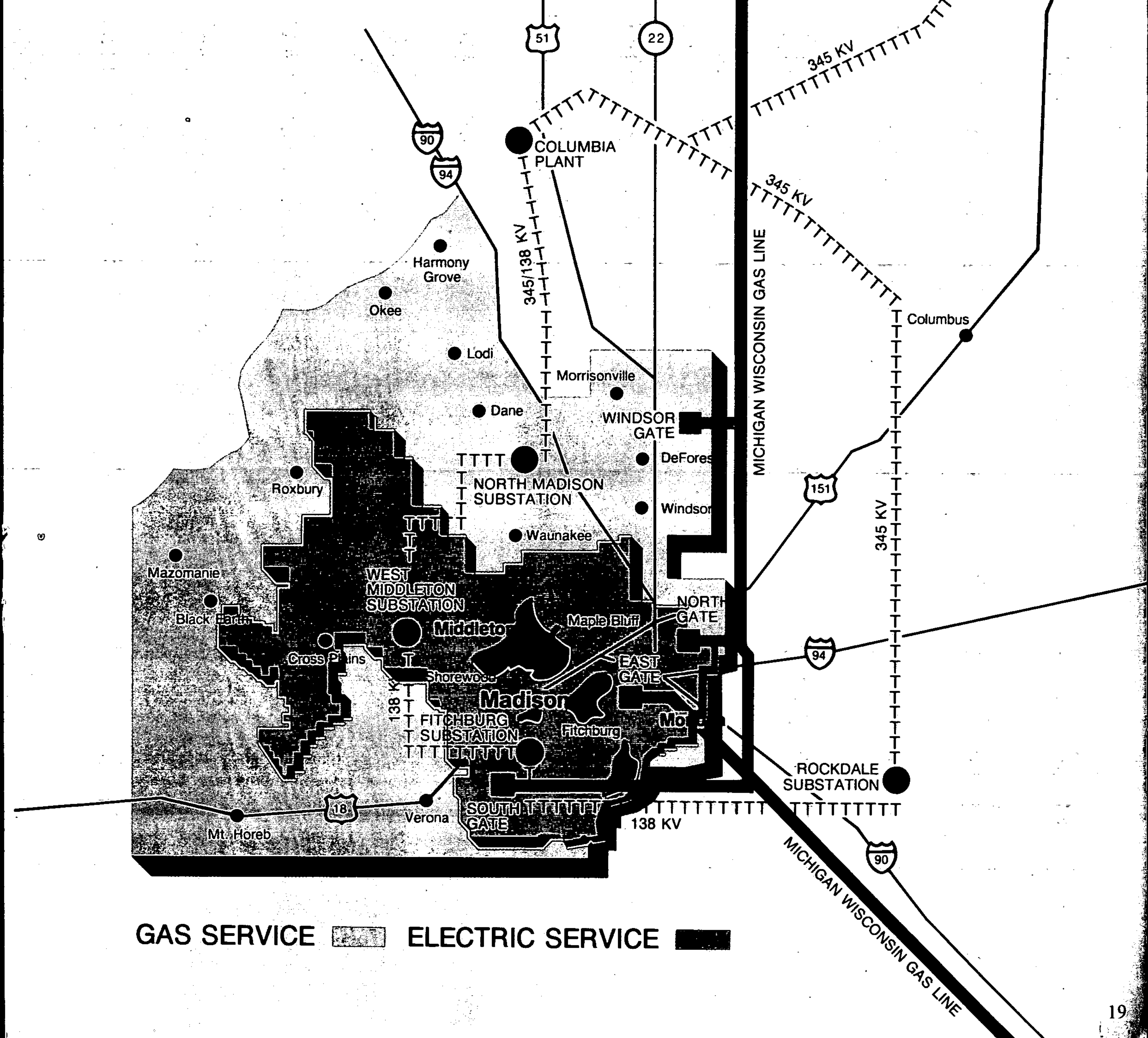
Webcrafters (printing)



Camelot Towers



The Area We Serve



Summary of Selected Financial Data

(Thousands of Dollars Except Per-Share Amounts)

	1982	1981	1980	1979	1978
Operating Revenues					
Electric	**$105,827**	$ 93,232	$ 95,317	$ 89,211	$ 78,588
Gas	**83,377**	68,850	66,439	55,169	46,390
Total	**$189,204**	$162,082	$161,756	$144,380	$124,978
Income, Earnings, and Dividends					
Net income	**$ 14,956**	$ 12,583	$ 15,548	$ 12,822	$ 13,359
Earnings on common stock	**$ 12,114**	$ 9,542	$ 12,399	$ 9,628	$ 10,558
Earnings per average common share	**$ 2.05**	$ 1.66	$ 2.21	$ 1.76	$ 1.96
Cash dividends paid per common share	**$ 1.86**	$ 1.76	$ 1.66	$ 1.48	$ 1.44
Assets (year end)					
Electric	**$210,317**	$210,313	$209,393	$207,321	$204,558
Gas	**73,759**	69,341	65,308	60,732	57,071
Assets not allocated	**28,676**	23,720	17,975	17,545	16,223
Total	**$312,752**	$303,374	$292,676	$285,598	$277,852
Long-term Debt and Redeemable Preferred Stock (net)(year end)	**$124,132**	$125,679	$129,084	$131,570	$133,252
Internal Generation of Funds					
Net funds generated internally	**$ 20,366**	$ 17,392	$ 20,896	$ 17,262	$ 22,288
Total funds used for construction expenditures and nuclear fuel	**$ 26,863**	$ 23,956	$ 21,520	$ 21,015	$ 26,261
Percent generated internally	**75.8%**	72.6%	97.1%	82.1%	84.9%
Capitalization Ratios (year end)*					
Common shareholders' equity	**43.3%**	43.0%	43.1%	42.1%	41.0%
Redeemable preferred stock*	**11.6**	12.7	13.7	14.2	14.5
Long-term debt*	**38.3**	39.2	40.6	42.1	43.6
Short-term debt	**6.8**	5.1	2.6	1.6	0.9

*Includes current sinking fund requirements and current redemptions.

Management's Discussion and Analysis of Operations and Financial Condition

Liquidity and Capital Resources

During the five-year period shown in the above Selected Financial Data, the Company's construction expenditures have been funded mainly from funds internally generated. The construction expenditures during 1983 are estimated at $25.6 million annually. The Company expects to generate internally in 1983 about 75% of the funds used for construction expenditures and nuclear fuel. Such expectation is based in part upon receiving timely and adequate future rate increases.

At December 31, 1982, the Company had unused lines of credit of $18.6 million including a revolving credit agreement with five banks. These lines are generally used in support of commercial paper, which represents a primary source of short-term financing. The Company's dealer-issued commercial paper carries the highest ratings of Moody's Investors Services, Inc., and Standard & Poor's Corporation.

The Company believes that trust indenture restrictions will not prevent the issuance of additional long-term debt in the foreseeable future.

The Company's capitalization ratios for the last five years are shown in the Selected Financial Data above. The ratios reflect the Company's efforts to maintain and strengthen its credit rating. The Company's bonds are rated D&P-3 by Duff and Phelps, Inc., Aa2 by Moody's, and AA by Standard and Poor's.

Results of Operations

The 1982 increase in earnings is directly attributable to the increases in electric and gas rates effective July 24, 1982. To provide and maintain adequate earnings levels, the Company expects to pursue timely rate increases in the future. An application was filed on June 18, 1982, to offset the effects of anticipated increases in costs of providing electric and gas service in 1983. Rate matters are discussed in Note 5 of Notes to Consolidated Financial Statements.

The total change in revenues from year to year can be segregated by the following factors:

Increase (Decrease) from prior year (Millions of Dollars)	Electric Revenues			Gas Revenues		
	1982	1981	1980	**1982**	1981	1980
Sales to other utilities	**$(1.9)**	$(7.9)	$(3.0)	Not applicable		
Sales to consumers—						
Due to formal rate increases, fuel and purchased gas adjustments, respectively, and other factors	**12.6**	4.8	6.8	**$12.0**	$ 12.9	$15.2
Due to sales increases (decreases)	**1.9**	1.0	2.3	**2.5**	(10.5)	(3.9)
Total Increases (Decreases)	**$12.6**	$(2.1)	$ 6.1	**$14.5**	$ 2.4	$11.3

In 1982, electric kilowatt-hour sales to consumers increased 2.3% and gas therm sales to consumers increased 4.0%.

For the period 1980 to 1982, fuel for electric generation and purchased power costs per kilowatt-hour increased 28% and natural gas purchase costs per therm increased 46%. The high costs experienced have been reflected in the related revenues since the Company's retail rates provide recovery of these costs.

The rise in non-fuel operating expenses reflects in part, increasing material and labor costs due to inflation, and customer growth. For an analysis of the estimated impact of inflation, see the "Supplementary Information to Disclose the Effects of Changing Prices" following the Notes to Consolidated Financial Statements.

Fluctuations in income taxes resulted from changes in income before income taxes. An increase in the associated rates caused the increase in property, payroll, and other taxes.

Common Stock Price Range and Dividends

The common stock of the Company is traded in the over-the-counter market. The range of bid and asked prices, as quoted by the National Association of Securities Dealers, and the dividends paid for the years 1982 and 1981 are as follows:

1982	Bid High	Bid Low	Asked High	Asked Low	Dividends Paid
First Quarter	15¾	14½	16	14⅝	45¢
Second Quarter	15¾	14⅜	16	14⅝	45¢
Third Quarter	17¼	13¾	17½	14⅛	48¢
Fourth Quarter	19	17⅛	19¼	17⅜	48¢

1981	Bid High	Bid Low	Asked High	Asked Low	Dividends Paid
First Quarter	14	12⅝	14½	12⅞	43¢
Second Quarter	14¼	12	14⅝	12¼	43¢
Third Quarter	14⅞	13¾	15⅛	13⅞	45¢
Fourth Quarter	15¾	14⅛	16	14⅜	45¢

There were 17,020 shareholders of record as of February 14, 1983. There currently 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 has no reason to expect that it will not continue to do so in the future.

Consolidated Statement of Income

For the years ended December 31, 1982, 1981, and 1980

	1982	1981	1980
Operating Revenues (Notes 1d & 5)			
Electric	**$105,827,073**	$ 93,231,809	$ 95,316,716
Gas	**83,376,878**	68,850,602	66,439,171
Total Operating Revenues	**189,203,951**	162,082,411	161,755,887
Operating Expenses			
Fuel used for electric generation	**34,762,162**	29,482,704	32,097,978
Purchased power	**2,766,785**	1,995,901	1,967,328
Natural gas purchased for resale	**62,960,473**	52,650,228	49,295,995
Other operations	**25,166,015**	21,713,570	17,958,314
Maintenance	**7,359,062**	6,489,572	6,224,455
Depreciation and amortization (Note 1c)—			
Straight-line depreciation and amortization	**12,331,308**	12,083,120	11,031,685
Additional depreciation (equivalent to estimated reduction in income taxes)	**1,147,511**	2,706,503	3,879,579
Taxes (Note 1g)—			
Current federal income	**9,995,641**	5,453,285	7,768,081
Investment tax credit deferred	**1,577,032**	2,509,322	2,075,824
Investment tax credit restored (credit)	**(980,528)**	(850,889)	(744,692)
Current state income	**2,175,754**	1,449,842	1,682,543
Property, payroll, and other	**6,089,406**	5,516,842	5,029,349
Total Operating Expenses	**165,350,621**	141,200,000	138,266,439
Net Operating Income	**23,853,330**	20,882,411	23,489,448
Other Income, Net*	**277,016**	694,424	444,456
Income Before Interest Expense	**24,130,346**	21,576,835	23,933,904
Interest Expense*			
Interest on long-term debt	**7,769,612**	7,781,538	7,904,336
Other interest	**1,405,202**	1,212,592	481,095
Total Interest Expense	**9,174,814**	8,994,130	8,385,431
Net Income	**14,955,532**	12,582,705	15,548,473
Preferred Stock Cash Dividend Requirements	**2,841,606**	3,041,144	3,149,682
Earnings on Common Stock	**$ 12,113,926**	$ 9,541,561	$ 12,398,791
Earnings Per Share of Common Stock (5,911,401, 5,756,254, and 5,607,319 average shares outstanding, respectively)	**$2.05**	$1.66	$2.21

*No allowance for funds used during construction has been recorded during the three years.

Consolidated Statement of Retained Income

For the years ended December 31, 1982, 1981, and 1980

	1982	1981	1980
Balance Beginning of Year	**$ 27,346,951**	$ 28,021,178	$ 24,995,557
Add—Net income	**14,955,532**	12,582,705	15,548,473
Total Before Deductions	**42,302,483**	40,603,883	40,544,030
Deduct			
Cash dividends on common stock	**10,983,339**	10,128,804	9,302,814
Preferred stock cash dividend requirements	**2,841,606**	3,041,144	3,149,682
Expense of issuing common stock	**129,107**	86,984	70,356
Total Deductions	**13,954,052**	13,256,932	12,522,852
Balance End of Year	**$ 28,348,431**	$ 27,346,951	$ 28,021,178

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

Consolidated Balance Sheet

December 31, 1982 and 1981

Assets

	1982	1981
Utility Plant, at original cost (Note 1a)		
In service—Electric (Note 1b)	$288,281,608	$278,716,197
Gas	95,308,487	91,166,762
Gross Plant in Service	383,590,095	369,882,959
Less—Accumulated provision for depreciation (Note 1c)	(155,393,046)	(140,623,563)
Net Plant in Service	228,197,049	229,259,396
Construction work in progress	17,379,379	10,419,894
Nuclear fuel, net (Note 1e)	7,848,893	7,553,914
Total Utility Plant	253,425,321	247,233,204
Investment in Future Nuclear Fuel (Note 1h)	3,149,050	4,105,674
Cnrrent Assets		
Cash	1,990,288	1,490,503
Deposits for jointly owned electric power production facilities	1,892,130	1,609,589
Temporary cash investments, at cost, which approximates market	5,790,368	4,043,242
Accounts receivable, less reserves of $357,767 and $303,128, respectively	20,307,779	17,685,673
Unbilled revenue (Note 1d)	8,852,643	8,687,374
Materials and supplies, at average cost	4,870,040	4,994,401
Fossil fuel, at cost (Note 1f)	7,918,960	8,198,044
Prepayments	587,499	500,735
Total Current Assets	52,209,707	47,209,561
Deferred Charges (Note 5)	3,968,091	4,825,611
Total Assets	$312,752,169	$303,374,050

Capitalization and Liabilities

	1982	1981
Capitalization (see statement) (Note 2)		
Common shareholders' equity—		
Common stock	$ 48,050,480	$ 46,755,816
Amount received in excess of par value	32,252,265	30,894,694
Retained income	28,348,431	27,346,951
Total Common Shareholders' Equity	108,651,176	104,997,461
Redeemable preferred stock	28,000,000	29,825,000
Long-term debt	96,132,426	95,853,683
Total Capitalization	232,783,602	230,676,144
Current Liahilities		
Preferred stock sinking fund requirements (Note 2b)	1,175,000	1,175,000
Interim loans (Note 4)—Notes payable to banks	2,000,000	—
Commercial paper	15,000,000	12,500,000
Sinking Fund Requirements and Interim Loans	18,175,000	13,675,000
Accounts payable	15,257,288	14,841,396
Gas refunds payable to customers	979,060	3,694,463
Accrued interest	2,079,326	1,859,990
Accrued taxes	10,248,009	5,760,785
Other	4,165,350	3,774,477
Total Current Liabilities	50,904,033	43,606,111
Other Credits		
Contributions in aid of eonstruction	8,579,447	8,299,134
Investment tax credit deferred (Note 1g)	17,050,761	16,678,796
Other	3,434,326	4,113,865
Total Other Credits	29,064,534	29,091,795
Construction Commitments (Note 3)		
Total Capitalization and Liabilities	$312,752,169	$303,374,050

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

Consolidated Statement of Capitalization

December 31, 1982 and 1981

	1982	1981
Common Shareholders' Equity (Note 2a)		
Common stock—Par value $8 per share—		
Authorized 7,000,000 shares		
Outstanding 6,006,310 and 5,844,477 shares, respectively	**$ 48,050,480**	$ 46,755,816
Amount received in excess of par value	**32,252,265**	30,894,694
Retained income	**28,348,431**	27,346,951
Total Common Shareholders' Equity	**108,651,176**	104,997,461
Redeemahle Preferred Stock, cumulative, $25 par value, authorized 1,467,000 and 1,540,000 shares, respectively (Note 2b)		
Series A, 9⅜%, 152,000 and 158,000 shares outstanding, respectively	**3,800,000**	3,950,000
Series B, 7.80%, 164,000 and 170,000 shares outstanding, respectively	**4,100,000**	4,250,000
Series C, 7.90%, 255,000 and 264,000 shares outstanding, respectively	**6,375,000**	6,600,000
Series D, 12%, 296,000 and 348,000 shares outstanding, respectively	**7,400,000**	8,700,000
Series E, 8.70%, 300,000 shares outstanding	**7,500,000**	7,500,000
Preferred Stock Outstanding	**29,175,000**	31,000,000
Current sinking fund requirements	**(1,175,000)**	(1,175,000)
Total Preferred Stock	**28,000,000**	29,825,000
First Mortgage Bonds (Note 2c)		
4⅝%, 1988 series	**7,080,000**	7,080,000
4¾%, 1991 series	**4,336,000**	4,336,000
5.45%, 1996 series	**8,000,000**	8,000,000
8%, 1999 series	**11,531,000**	11,547,000
7¾%, 2001 series	**13,293,000**	13,663,000
9¾%, 2004 series	**18,984,000**	19,036,000
9¾%, 2005 series	**23,503,000**	23,575,000
6½%, 2006 series, Pollution Control Revenue Bonds, principal amount $8,780,000, less construction fund of $712,108 and $617,522, respectively	**8,067,892**	8,162,478
10.60%, 2012 series, Industrial Development Revenue Bonds, principal amount $25,000,000, less construction fund of $24,026,922	**973,078**	—
First Mortgage Bonds Outstanding	**95,767,970**	95,399,478
Unamortized discount and premium on bonds, net	**(166,335)**	(174,862)
Total First Mortgage Bonds	**95,601,635**	95,224,616
Other Loug-term Deht (Note 2d)	**530,791**	629,067
Total Long-term Debt	**96,132,426**	95,853,683
Total Capitalization	**$232,783,602**	$230,676,144

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

Consolidated Statement of Sources of Funds Used for Construction

For the years ended December 31, 1982, 1981, and 1980

	1982	1981	1980
Funds Generated Internally			
Net income	**$14,955,532**	$12,582,705	$15,548,473
Items not affecting current sources of funds—			
Depreciation and amortization	**13,478,819**	14,789,623	14,911,264
Amortization of nuclear fuel	**7,729,610**	4,603,109	3,497,885
Investment tax eredit deferred—net	**596,504**	1,658,433	1,331,132
Other	**(135,996)**	280,690	(168,328)
Funds Provided from Operations	**36,624,469**	33,914,560	35,120,426
Less—			
Cash dividends on common and preferred stock	**13,824,945**	13,169,948	12,452,496
Bond sinking fund retirements and other long-term debt repayments	**608,276**	1,528,075	1,247,264
Preferred stock sinking fund retirements	**1,825,000**	1,825,000	525,000
Net Funds Generated Internally	**20,366,248**	17,391,537	20,895,666
Funds Obtained from Outside Financing			
Sale of first mortgage bonds	**25,000,000**	—	—
Deposits in construction funds	**(24,121,508)**	(60,761)	(72,430)
Sale of common stock, less expense of issuance	**2,523,128**	2,110,504	1,630,978
Net Funds Obtained from Outside Financing	**3,401,620**	2,049,743	1,558,548
Increase in Interim Loans	**4,500,000**	6,200,000	2,400,000
Decreases (Increases) in Other Net Current Assets (Exclusive of sinking fund requirements and interim loans)			
Temporary cash investments	**(1,747,126)**	(4,043,242)	1,310,000
Accounts receivable—net	**(2,622,106)**	(1,434,079)	(2,268,598)
Unbilled revenue	**(165,269)**	(782,273)	(2,166,716)
Gas refunds payable to customers	**(2,715,403)**	3,644,709	49,754
Accrued taxes	**4,487,224**	311,251	321,424
Other, net	**560,456**	1,206,142	(593,139)
Net (Increase)	**(2,202,224)**	(1,097,492)	(3,347,275)
Otber—Net	**796,871**	(588,052)	13,074
Total Funds Used for Construction Expenditures aud Nuclear Fuel	**$26,862,515**	$23,955,736	$21,520,013

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

Auditors' Report

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

We have examined the consolidated balance sheet and statement of capitalization of MADISON GAS AND ELECTRIC COMPANY (a Wisconsin corporation) and subsidiaries as of December 31, 1982, and December 31, 1981, and the related consolidated statements of income, retained income and sourees of funds used for construction for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally aecepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Madison Gas and Electric Company and subsidiaries as of December 31, 1982, and December 31, 1981, and the results of their operations and their sources of funds used for construction for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Chicago, Illinois,
February 15, 1983.

ARTHUR ANDERSEN & CO.

Notos to Consolidated Financial Statements

December 31, 1982, 1981, and 1980

1. Summary of Significant Accounting Policies

The consolidated financial statemcnts reflect the application of certain accounting policies described in this note.

a. Utility plant

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

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

b. Joint plant ownership

The Company, Wisconsin Power and Light Company, and Wisconsin Public Service Corporation, 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 Columbia Energy Center (Columbia) and 17.8 percent (93 mw) of the Kewaunee Nuclear Plant (Kewaunee). Each company provides its own financing and reflects the 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, were as follows:

	December 31,	
	1982	1981
Columbia	**$ 77,513,000**	$ 77,098,000
Kewaunee	**42,990,000**	41,321,000
Total	**$120,503,000**	$118,419,000

c. Depreciation

Depreciation expense includes, in addition to provisions at composite straight-line rates, amounts equivalent to the estimated reduction in income taxes (federal—$1,049,000, $2,518,000, and $3,604,000 and state—$98,000, $189,000, and $276,000 for the years 1982, 1981, and 1980, respectively) due to the use of liberalized depreciation allowances permitted for income tax purposes. Such accumulated additional depreciation totaled $38,003,000 and $36,852,000 as of December 31, 1982 and 1981, respectively. Provisions at composite straight-line depreciation rates, excluding the additional depreciation, approximate the following percentages of the cost of depreciable property for each of the years 1982, 1981, and 1980; electric, 3.5 percent, 3.5 percent, and 3.4 percent; gas, 3.2 percent for each year. These rates are approved by the Public Service Commission of Wisconsin (PSCW) and are generally based on the estimated economic lives of property.

The Company's portion of currently estimated costs of decommissioning Kewaunee is $46,925,000, which reflects estimated future inflation. This amount is being recovered through depreciation rates.

d. Revenue recognition

In accordance with a PSCW directive, the Company records unbilled revenue on the basis of service rendered.

e. Nuclear fuel

The cost of nuclear fuel (Note 1h) is being amortized to fuel expense based on the quantity of heat produced for the generation of electric energy by Kewaunee. Such costs include a provision for estimated future storage and disposal costs of spent nuclear fuel. To date, estimated storage and disposal costs provided for exceed estimated fees payable under the provisions of the Nuclear Waste Disposal Act of 1982. The accumulated amortization and tax effect of differences between the fuel cost amortized and that deducted for income tax purposes is included in "Nuclear fuel, net."

f. Fossil fuel

The inventory of fossil fuel is recorded at average cost, except for the Company's Blount Plant coal which is recorded on essentially a last-in, first-out basis. Inventory amounts recorded at average cost were 97 percent of total fossil fuel inventories at December 31, 1982 and 1981.

g. Income taxes

(1) Depreciation for federal and state income taxes reflects the use of liberalized depreciation allowances permitted for income tax purposes. The estimated reductions in income taxes due to the application of these statutes are provided as additional depreciation as discussed under "Depreciation" and "Nuclear fuel" above.

(2) The ten percent basic investment tax credit is deferred and is amortized over the service lives of the related property.

(3) Certain capitalized indirect costs have been deducted as incurred for federal and state income tax purposes, and the income tax provision is reduced as the costs are incurred.

(4) The Company's effective income tax rate, computed by dividing the total of current federal and state income tax expense, net investment tax credit, additional depreciation, and taxes included in other income by the sum of such expenses and net income, reconciles to the statutory federal income tax rate as follows:

	1982	1981	1980
Effective income tax rate as computed	**48.5%**	47.7%	48.5%
Restoration of investment tax credit	**3.4**	3.5	2.4
State income taxes and state additional depreciation, net	**(4.4)**	(4.1)	(3.9)
Other differences, net	**(1.5)**	(1.1)	(1.0)
Statutory federal income tax rate	**46.0%**	46.0%	46.0%

h. Subsidiaries

The consolidated financial statements include the accounts of the Company and two wholly owned subsidiary companies. The subsidiaries were established for the purposes of holding title to properties to be acquired for future utility plant expansion and holding title to the Company's portion of the nuclear fuel for Kewaunee. All significant inter-company accounts and transactions have been eliminated in consolidation. The Company also has a wholly owned subsidiary established to acquire uranium reserves for Kewaunee and to support the related mining and production operations. The investment in this subsidiary is carried on the equity basis of accounting. The uranium thus obtained is recorded at cost, including the operations of the subsidiary.

i. Pension plans

The Company has contributory retirement annuity plans for substantially all of its employees. It is the policy of the Company to fund accrued pension costs. Pension costs relating to the Company's pension plans for the years 1982 through 1980 were $404,000, $349,000, and $153,000, respectively, of which $334,000, $286,000, and $126,000, respectively, were charged to operating expenses.

The actuarial present values of accumulated plan benefits, all of which were essentially vested, were $7,478,583 and $6,192,288 as of January 1, 1982 and 1981, respectively. Net assets available for benefits as of the corresponding dates were $10,880,328 and $9,300,490. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7 percent compounded annually.

2. Capitalization Matters

a. Common stock

The following common stock transactions occurred, and allocations of proceeds were made, as the result of issues pursuant to the Company's Automatic Dividend Reinvestment and Stock Purchase Plan (Dividend Reinvestment), its purchase of the net assets of the Cross Plains Electric Company, and its Tax Reduction Act Employee Stock Ownership Plan (TRASOP):

		Common Stock		
	Shares	Par Value	Excess of Par	Retained Income
1982				
Dividend Reinvestment	**161,833**	**$1,294,664**	**$1,357,571**	**$(129,107)***
1981				
Dividend Reinvestment	105,714	$ 845,712	$ 651,779	
Cross Plains Purchase	50,224	401,792	298,205	
	155,938	$1,247,504	$ 949,984	$ (86,984)*
1980				
Dividend Reinvestment	106,688	$ 853,504	$ 558,345	
TRASOP	20,675	165,400	124,085	
	127,363	$1,018,904	$ 682,430	$ (70,356)*

*Represents expenses of issuing stock.

b. Redeemable preferred stock

The Company's obligations to retire preferred stock are: 6,000 Series A shares and 9,000 Series C shares during each 12-month period ending Nov. 1; 6,000 Series B shares during each 12-month period ending May 1; and, 26,000 Series D shares and 4,000 Series E shares during each 12-month period ending Aug. 1. An additional 26,000 Series D shares may be retired at any one time. The initial 12-month period for the Series E retirements begins Aug. 2, 1983. Additional Series E shares, equal to the annual retirement obligations, may be retired during any 12-month period ending after Aug. 1, 1984. Retirements of all series may be made by redemption at $25 per share plus accrued dividends. Total retirement obligations are $1,175,000 for 1983 and $1,275,000 annually for 1984-1987.

Prior to August 1, 1983, the Series E preferred stock may not be redeemed from borrowed funds or proceeds of other preferred stock (i) having interest costs or dividend costs to the Company of less than its dividend rate (8.70 percent), and (ii) having a weighted average life less than its remaining weighted average life. Series D may not be redeemed from proceeds of borrowed funds maturing earlier than May 1, 1995, or junior stock.

c. First mortgage bonds

In December, 1982, the Company issued $25,000,000 of first mortgage bonds to secure an issue of industrial development revenue bonds. Previously, the Company issued $8,780,000 of its bonds in November 1976, to secure an issue of pollution control revenue bonds. The proceeds of the issues were deposited in construction funds to be disbursed to the Company from time to time to reimburse it for the costs of construction of qualifying facilities. In the event the proceeds are not used for qualifying facilities, they must be used to repay the principal of the bonds.

The sinking fund requirements of the outstanding first mortgage bonds are $980,000 for each of the years 1983 through 1987. As of December 31, 1982, the Company had satisfied all of its 1983 and $5,000 of its 1984 bond sinking fund requirements.

d. Other long-term debt

In February, 1977, the Small Business Administration made a $1,000,000 loan to the Company in connection with the losses incurred in a 1976 ice storm. The ten-year loan is repayable in equal semi-annual installments (including interest at 6⅝ percent).

3. Construction Program

Utility plant construction expenditures for 1983, including the Company's proportional share of jointly owned electric power production facilities, are estimated to be $25,604,000 and substantial commitments have been incurred in connection with such expenditures.

4. Notes Payable to Banks, Commercial Paper, and Lines of Credit

The Company's 1983 maximum short-term borrowing limit, pursuant to a PSCW order, is $25,000,000. Unused lines of credit for short-term borrowings amounted to $18,600,000 at December 31, 1982 and $20,600,000 at December 31, 1981. The lines generally support commercial paper which is issued at commercial paper discount rates prevailing at the time of issuance.

Included in the lines of credit is a Revolving Credit Agreement with five banks. Under the Agreement, the Company is entitled to borrow and reborrow until August 31, 1983, up to $16,000,000 from the banks in the form of 90-day notes which bear interest at the prime rate in effect at the time of issuance. The Agreement sets a maximum outstanding limit of $15,000,000 of commercial paper and $5,000,000 of short-term borrowings with other banks.

5. Rate Matters

a. Rate order received

Effective July 24, 1982, the PSCW authorized a permanent increase in rates designed to produce additional annual revenues of $13,896,000 for electric service and $8,200,000 for gas service. The increases were based on an increase in the rate of return on common stock equity to 14.5 percent. The order also contained certain minor rate design changes.

In prior years, the Company recorded deferred charges of $3,135,826 relating to its share of the abandoned Koshkonong nuclear facility which was to have been owned jointly with other Wisconsin investor-owned utilities. The rate order authorized the amortization of the expenditures as an operating expense over a thirty-six month period beginning in August, 1982. Pursuant to a Wisconsin Supreme Court decision and PSCW directive, the Company in 1982 reversed an entry for Koshkonong-related expenditures of $284,326, net of income tax effects, originally recorded as operating expenses in 1979. The PSCW has indicated that these expenditures will be included in future rates and, accordingly, amortized over a twelve-month period.

b. Rate application filed

On June 18, 1982, the Company filed an application with the PSCW for increases in electric and gas rates for a 1983 test-year. The filing has been updated to reflect current information through year-end 1982. The increases requested are $10,004,000 in electric service revenues and $4,234,000 in gas service revenues, over levels authorized in the rate order referred to above. The adjustments in rates would increase retail electric revenues by 9.4 percent and natural gas revenues by 4.2 percent and are based on a 16 percent return on common stock equity. These rate increases require PSCW approval before they can take effect. Hearings have been scheduled for March, 1983. The Company expects the PSCW to issue an order on the application in the second quarter of 1983.

c. Other

On November 2, 1982, the Wisconsin Supreme Court affirmed earlier court decisions that collected surcharge amounts which had previously been authorized by the PSCW are no longer subject to refund.

6. Segments of Business

The following table presents information pertaining to the Company's segments of business for 1982, 1981, and 1980. The data does not necessarily reflect rate-making treatment. The preceding Notes are an integral part of this footnote.

	1982	1981	1980
OPERATING INFORMATION (Year Ended December 31)		(Thousands of Dollars)	
Electric Operations			
Operating revenues	**$105,827**	$ 93,232	$ 95,317
Revenues from sales to gas utility	—	—	—
Total revenues	**105,827**	93,232	95,317
Operating expenses:			
Operation and maintenance	**62,106**	52,631	52,496
Depreciation and amortization, excluding additional depreciation (a)	**9,411**	9,325	8,454
Property, payroll, and other taxes	**4,385**	4,051	3,756
Operating expenses before income taxes	**75,902**	66,007	64,706
Pre-tax operating income	**29,925**	27,225	30,611
Current federal and state income taxes, net investment tax credit deferred, and additional depreciation (a)	**11,024**	9,846	11,654
Net operating income	**$ 18,901**	$ 17,379	$ 18,957
Construction and Nuclear Fuel Expenditures (Electric)	**$ 18,590**	$ 16,778	$ 15,724
Gas Operations			
Operating revenues	**$ 83,377**	$ 68,850	$ 66,439
Revenues from sales to electric utility	**4,363**	3,694	6,498
Total revenues	**87,740**	72,544	72,937
Operating expenses:			
Operation and maintenance	**75,272**	63,395	61,546
Depreciation and amortization, excluding additional depreciation (a)	**2,920**	2,758	2,578
Property, payroll, and other taxes	**1,704**	1,466	1,273
Operating expenses before income taxes	**79,896**	67,619	65,397
Pre-tax operating income	**7,844**	4,925	7,540
Current federal and state income taxes, net investment tax credit deferred, and additional depreciation (a)	**2,892**	1,422	3,008
Net operating income	**$ 4,952**	$ 3,503	$ 4,532
Construction Expenditures (Gas)	**$ 8,273**	$ 7,178	$ 5,796
INVESTMENT INFORMATION (at December 31)			
Identifiable Assets (b)			
Electric	**$210,317**	$210,313	$209,393
Gas	**73,759**	69,341	65,308
Assets Not Allocated (c)	**28,676**	23,720	17,975
Total assets	**$312,752**	$303,374	$292,676

(a) Information regarding amounts recorded as additional depreciation in 1982, 1981, and 1980 is set forth in Note 1c.
(b) Includes allocated common plant and is net of the respective accumulated provisions for depreciation.
(c) Primarily includes cash, temporary cash investments, accounts receivable, and prepayments.

Quarterly Summary of Operations

The following is a summary of consolidated operations (in thousands of dollars except earnings per common share) for 1982 and 1981:

Quarter Ended	Operating Revenues	Net Operating Income	Net Income	Earnings on Common Stock	Earnings Per Common Share
1982					
March 31	$61,881	$6,952	$4,636	$3,906	67¢
June 30	34,574	3,027	787	59	1
September 30	39,366	7,301	5,126	4,425	75
December 31	53,383	6,573	4,407	3,724	62
1981					
March 31	$49,489	$6,778	$4,545	$3,765	66¢
June 30	31,213	3,612	1,556	778	14
September 30	35,260	6,228	4,306	3,555	61
December 31	46,120	4,264	2,176	1,444	25

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

Supplementary Information to Disclose the Effects of Changing Prices

The Company's estimates of the effects of changing prices (inflation) on its operations for the years 1982, 1981, and 1980, shown below, are presented in response to the Financial Accounting Standards Board's Statement No. 33, "Financial Reporting and Changing Prices". This information should be viewed as an estimate of the approximate effect of changing prices rather than as a precise measure. The Constant Dollar and Current Cost information for 1979, 1980, and 1981 in the Comparison of Selected Supplementary Financial Data were recalculated before the restatement to average 1982 dollars.

Statement of Income from Operations Adjusted for Changing Prices
for the Year Ended December 31, 1982

(Thousands of Dollars)

	Constant Dollars— Average 1982 Dollars	Current Cost— Average 1982 Dollars
Income from operations applicable to common shareholders, as reported	$12,114	$12,114
Additional depreciation on plant costs restated for the effects of changing prices	14,499	15,398
Adjusted income (loss) from operations applicable to common shareholders (excluding adjustment to net recoverable amount)	(2,385)(1)	(3,284)
Other impacts of changing prices		
Adjustment to net recoverable amount	3,464	7,483
Excess of the increase in the general level of prices ($18,406) in the current year over specific price changes ($15,285)(2)		(3,120)
Gain from decline in purchasing power of net amounts owed	6,106	6,106
Net	9,570	10,469
Adjusted income after all impacts of changing prices	$ 7,185	$ 7,185

(1) Including the adjustment to net recoverable amount, the income from continuing operations on a constant dollar basis would have been $1,079.

(2) At December 31, 1982, current cost of utility plant, net of accumulated depreciation, was $479.7 million, while historical cost, net of accumulated depreciation, was $294.6 million.

Comparison of Selected Supplementary Financial Data For the Five Years Ended December 31, 1982

(Constant Dollars and Current Cost in Average 1982 Dollars)

	Years Ended December 31				
	1982	1981	1980	1979	1978
Operating revenues (thousands of dollars)					
As reported	$189,204	$162,082	$161,756	$144,380	$124,979
Constant dollars	$189,204	$172,019	$189,480	$191,997	$184,910
Constant Dollar Information					
Income (loss) from operations applicable to common shareholders (excluding adjustment to net recoverable amount)	$ (2,385)	$ (3,698)	$ 2,461	$ 2,880	
Income (loss) per common share (excluding adjustment to net recoverable amount)	$ (.40)	$ (.64)	$ .44	$ .53	
Net assets at year end at net recoverable amount	$107,425	$107,832	$115,768	$124,175	
Current Cost Information					
Income (loss) from operations applicable to common shareholders (excluding adjustment to net recoverable amount)	$ (3,284)	$ (4,848)	$ 456	$ (170)	
Income (loss) per common share (excluding adjustment to net recoverable amount)	$ (.56)	$ (.84)	$ .08	$ (.03)	
Excess of increase in general price level over increase in specific prices after adjustment to net recoverable amount	$ (4,363)	$ 11,112	$ 24,716	$ 32,706	
Net assets at year end at net recoverable amount	$107,425	$107,832	$115,768	$124,175	
General Information					
Gain from decline in purchasing power of net amounts owed	$ 6,106	$ 14,329	$ 21,303	$ 25,441	
Cash dividends declared per common share					
As reported	$ 1.86	$ 1.76	$ 1.66	$ 1.48	$ 1.44
Constant dollars	$ 1.86	$ 1.87	$ 1.94	$ 1.97	$ 2.13
Market price per common share at year end					
As reported	$ 19.00	$ 14.62	$ 13.88	$ 13.88	$ 15.88
Constant dollars	$ 19.00	$ 15.19	$ 15.71	$ 17.65	$ 22.88
Average Consumer Price Index (Base year 1967 = 100)	289.1	272.4	246.8	217.4	195.4
End of year Consumer Price Index (Base year 1967 = 100)	292.4	281.5	258.4	229.9	202.9

The supplemental information is presented on two bases: constant dollars and current cost. Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers. Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than prices in general. The current cost amounts represent the estimated cost of replacing existing plant assets and were determined principally by indexing the surviving plant and equipment by use of the Handy-Whitman Index of Public Utility Construction Costs.

The current year's provision for depreciation on the constant dollar and current cost amounts of utility plant was determined by applying the Company's depreciation rates to the indexed plant amounts. The current cost accumulated depreciation at December 31, 1982, was determined by applying the rates of accumulated depreciation to historical cost, by existing classes of property, to the current cost by classes of property.

Fuel inventories, the cost of fuel used for electric generation, and the cost of natural gas purchased for resale have not been restated from their historical cost. Regulation limits the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to historical costs. For this reason, fuel inventories are effectively monetary assets.

Since only historical costs are deductible for income tax purposes, the income tax expense in the historical cost financial statements is not adjusted.

Under the rate-making principles followed by the

PSCW, only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars over the historical cost of the plant is not presently recoverable in rates as depreciation, and is reflected herein as an "adjustment to net recoverable amount." Based on past practices, however, the Company believes it will be allowed to earn on the increased historical cost of its facilities when replacement actually occurs.

During a period of inflation, holders of monetary assets, such as cash and receivables, suffer a loss of general purchasing power, while holders of monetary liabilities are able to satisfy the liability with dollars of lower purchasing power. This unrealized gain, or reduction of purchasing power loss, which is primarily attributable to the substantial amount of debt which has been used to finance utility plant, partially offsets the purchasing power loss because depreciation on this plant is limited to the recovery of historical costs. To reflect properly the economics of rate regulations, the adjusted loss from operations applicable to common shareholders is offset by the gain from decline in purchasing power of net amounts owed.

The difference ($4.9 million) between income from operations applicable to common shareholders, as reported, and the income after all impacts of changing prices represents the loss of purchasing power incurred by the common shareholders in 1982 because present rate-making practices do not permit the excess of constant dollar or current cost depreciation over historical cost depreciation to be recovered in rates in future years.

Construction Program

(Thousands of Dollars)

	1983 Estimated Construction Expenditures		Plant Additions (Including Allowance for Funds Used During Construction) 1982		Annual Average 1977-1981	
Electric Department						
Production plant	$ 4,384	17%	**$ 2,797**	**10%**	$ 5,325	21%
Transmission plant	2,818	11	**1,485**	**6**	5,291	20
Distribution plant	5,771	23	**5,049**	**19**	4,124	16
General plant	112	—	**28**	—	56	—
Nuclear fuel	3,099	12	**4,671**	**17**	3,877	15
Total	16,184	63	**14,030**	**52**	18,673	72
Gas Department						
Distribution plant	5,185	20	**5,121**	**19**	5,756	23
General and other plant	31	—	**59**	—	42	—
Total	5,216	20	**5,180**	**19**	5,798	23
Utility Plant Common to Both Departments	4,204	17	**7,599**	**29**	1,373	5
Total	$25,604	100%	**$26,809**	**100%**	$25,844	100%

General Information

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Telephone (608) 252-7000

Transfer Agent
Harris Trust and Savings Bank
111 West Monroe Street
Chicago, Illinois 60603

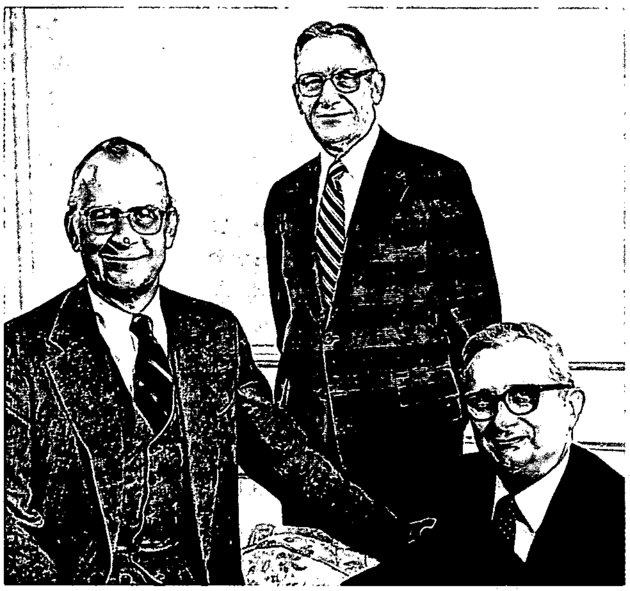
Registrar
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60607

Annual Meeting

The 1983 annual meeting will be held Tuesday, April 19, 1983, 7:30 p.m. at the Madison Holiday Inn Southeast, located near the Interstate 90 and U.S. Highway 12-18 interchange.

Reports Available

Upon written request, the Company will furnish to any shareholder a copy of its 1982 Annual Report on Form 10K as filed with the Securities and Exchange Commission.
A Statistical Supplement to this Annual Report to Shareholders, containing additional financial and operating data, is available to shareholders. Please address requests for these reports to G. Howard Phipps, Post Office Box 1231, Madison, Wisconsin 53701.



Directors (left to right) Robert Bolz, Frederick Mackie, and Frank Vondrasek

Directors (bottom to top) Louise Young, Richard Blaney, and Donald Haselhorst

Board of Directors

Richard E. Blaney
Madison, Wisconsin
President and Manager,
Blaney Agri-Research Foundation
Age 46, Director Since 1974

Robert M. Bolz
Madison, Wisconsin
Retired Vice Chairman,
Oscar Mayer & Co.
Age 60, Director Since 1972

Donald D. Haselhorst
Madison, Wisconsin
Chairman of the Board
and Chief Executive Officer,
Nicolet Instrument Corporation
Age 52, Director Since 1981

Donald J. Helfrecht
Madison, Wisconsin
President and
Chief Executive Officer
Age 61, Director Since 1972

Frederick D. Mackie
Madison, Wisconsin
Retired Chairman of the Board
Age 72, Director Since 1964

Jean N. Manchester
Madison, Wisconsin
Chairman of the Board
and Chief Executive Officer,
Neesvig's, Inc.
Age 56, Director Since 1982

William A. McNamara
Madison, Wisconsin
Chairman of the Board
Age 74, Director Since 1958

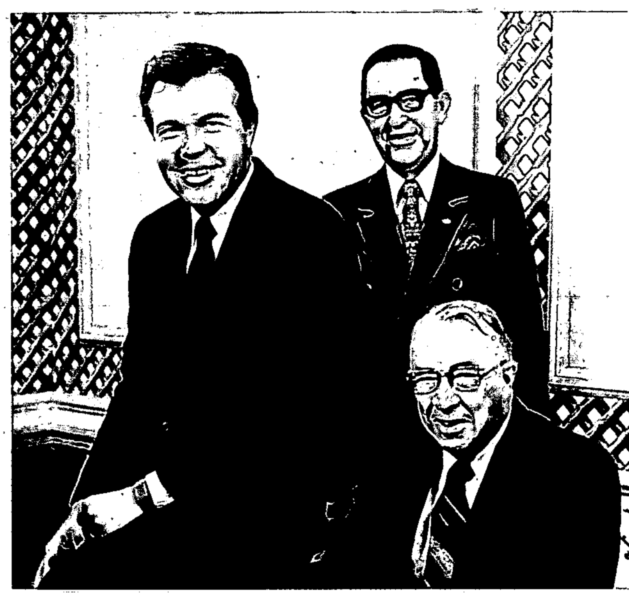
Frederic E. Mohs
Madison, Wisconsin
Partner, Mohs, MacDonald & Widder
Attorneys at Law
Age 45, Director Since 1975

John L. Sonderegger
Madison, Wisconsin
Chairman of the Board,
Central Life Assurance Company
Des Moines, Iowa
Age 68, Director Since 1971

Frank C. Vondrasek
Madison, Wisconsin
Executive Vice President
Age 54, Director Since 1982

Louise A. Young
Madison, Wisconsin
Professor Emeritus,
Family and Consumer Economics
University of Wisconsin—Madison
and Financial Consultant
Age 72, Director Since 1973

Audit Committee
Directors Blaney, Bolz, Haselhorst, Manchester, Mohs, Sonderegger, and Young



Directors (left to right) Frederic Mohs, John Sonderegger, and William McNamara

IN MEMORIAM

We deeply mourn the death during this past year of Jon A. Gruber, a director of the Company since 1978. His valued advice and counsel, as well as his friendship, is missed by all with whom he was associated.

MADISON GAS AND ELECTRIC

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Madison, Wisconsin 53701
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