We anticipate major growth in our energy business over the next several years. We plan to make $1.5 billion in capital expenditures to meet renewable energy requirements and environmental mandates, to maintain our low-cost profile by investing in our generation fleet and to look for transmission opportunities that strengthen the regional grid. We intend to take advantage of our geographic location between sources of renewable energy and growing markets. Over the next five years, we expect our electric utility asset base to triple in size.

ALLETE Properties’ portfolio of assets is valuable because it has little debt and low carrying costs. Most key entitlements at our development projects are in place. We expect our real estate business will continue to be an important contributor to corporate earnings. We believe the demographics in northeast Florida where ALLETE owns land will continue to support demand for property, and that our mixed-use developments there will remain attractive to buyers.


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Please see the reverse side of this foldout to read short descriptions of the photographs on the front cover. These images represent the many different ways ALLETE’s businesses are IN MOTION.
NEW INDUSTRIAL PROJECTS WILL NEED ELECTRICITY

Several natural resource-based companies are developing new projects in industrial facilities. Eleven of our customers require 10 megawatts or more of generating capacity. Among these are five taconite producers, four paper mills and two petroleum pipeline companies. Taconite is an iron-bearing rock fuel its generating stations. Another wind generation facility of 25 megawatts is under construction

More Renewable Energy

A 50-megawatt wind energy facility, built in 2006 by FPL Energy near Comer, N.D., was augmented by an adjacent 48-megawattt wind farm constructed in 2007 to provide Minnesota Power a long-term source of renewable purchased power. Another wind generation facility of 25 megawatts is under construction by Minnesota Power in Mountain Iron, Minn. on property owned by U.S. Steel, a major customer.

ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950. ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950. ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950. ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950. ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950. ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950. ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950. ALLETE, listed on the New York Stock Exchange with the symbol ALE, has paid consecutive dividends on its common stock since 1950.
Framed by plumes of steam and the frozen surface of Blackwater Lake, Minnesota Power’s Boswell Energy Center is a busy place in 2008 as environmental retrofits are installed. The $200 million project is expected to greatly reduce emissions of mercury, sulfur dioxide, nitrogen oxides and particulate matter at Unit 3, the second-largest of four Boswell generating units. To accommodate construction, about three acres of the lake had to be transformed into “new” building area by trucking in 70,000 cubic yards of fill.

Boswell 3 retrofits = environmental benefits

A major emission reduction effort at ALLETE’s Minnesota Power division is now focused squarely on Unit 3 of the Boswell Energy Center in Cohasset, Minn. A team of about 100 contract employees on site as 2008 began will swell to more than 400 workers by the end of the year. About $89 million of the expected $200 million cost of the Boswell 3 retrofits was spent in readying the site in 2007.

Sulfur dioxide will be removed through the use of a wet flue gas desulphurization system. A wet particulate matter scrubber will be replaced with a fabric filter. Continuous mercury monitors began collecting baseline data in the summer of 2007 in order to determine whether mercury reduction goals will be achieved through the Boswell 3 retrofits. To reduce mercury at Boswell 3, Minnesota Power plans to inject powdered activated carbon into cooled flue gases, so that the carbon absorbs mercury. Additional carbon is captured along with coal fly ash in the fabric filter. The dry ash from the fabric filter will be collected and transported to an ash pond at the Boswell site that is being converted from a wet to a dry repository.

Boswell 3 will be offline for about eight weeks in the fall of 2009 in order to install new burners, upgrade the turbine, and finalize the complex transition to a more efficient and cleaner-burning generator. While the Boswell 3 project is the largest-scale emission control project underway at Minnesota Power, two other primary baseload power sources – Laskin Energy Center and Taconite Harbor – have also undergone major environmental upgrades.

Installed in 1973, Boswell 3 is the second-largest of four generating units at the Boswell Energy Center, Minnesota Power’s highest-output power station. Each unit burns pulverized sub-bituminous coal from the Powder River Basin to produce steam and generate electricity. The largest and costliest part of the Boswell 3 emission control project involves controlling nitrogen oxides and sulfur dioxide. NOx will be reduced by replacing the burners in the Unit 3 boiler with low-NOx burners and installing a computer system that governs combustion. A selective catalytic reduction (SCR) unit will be installed. The SCR utilizes a mesh made of catalytic metals that converts NOx compounds to harmless nitrogen gas and water vapor.
Capital investments of $1.5 billion over five years expected to be financed primarily with cash or bonds

ALLETE expects its capital investments from 2008 through 2012 to be about $1.5 billion, which will approximately triple the asset base of its regulated utility, Minnesota Power. Approximately 80 percent of these investments are anticipated to be financed with cash from operations, or debt, and the remainder through the issuance of ALLETE stock.

ALLETE’s energy strategy is predicated on leadership in the movement toward renewable energy and cleaner power plants. We believe we can meet the energy demands of our customers for the next decade while achieving real reductions in total carbon emissions. We fully expect to comply with a 25 percent renewable energy mandate prior to a 2025 deadline set by the state of Minnesota.

Minnesota Power is gearing up for significant rate base growth in the next several years as it makes capital expenditures to comply with the renewable energy mandate and to fund environmental improvements to its coal-fired generating stations. At the same time, we’re looking to strengthen and enhance the regional transmission grid while taking advantage of our geographic location between sources of renewable energy and growing energy markets.

Minnesota Power anticipates annual electric demand from existing customers to grow by about one percent per year, and to expand by as much as 400 additional megawatts depending upon the completion of projects by several potential industrial customers in our service territory.

Pictured at left is the huge crane, capacity of 1,000 tons, which was moved from Houston to the Boswell 3 construction site on 77 trucks. It took two weeks to assemble the crane after it reached the Boswell Generating Station in Cohasset, Minn., where it needed special “arctic fuel” to meet the -27 temperatures encountered during construction in February of 2008.

Through the program known as the Arrowhead Regional Emission Abatement (AREA) plan, Minnesota Power installed new equipment on one unit at the Laskin Energy Center in Hoyt Lakes, Minn. in late 2006 and finished a similar pollution control retrofit at Laskin’s second unit in April of 2007. The first of three Taconite Harbor environmental retrofits was completed in June of 2007. The two other generating units at Taconite Harbor, located in Schroeder, Minn., are scheduled to be retrofitted during 2008 and 2009.

Movement to renewable energy accelerating

Renewable power has taken center stage at ALLETE’s Minnesota Power division, as a new wind energy facility nears completion in the heart of the company’s service area on property owned by its largest customer.

Ten wind turbines are scheduled to be set in motion in the spring of 2008 at Taconite Ridge in Mountain Iron, Minn., generating up to 25 megawatts (MW) of clean renewable energy. The wind farm is located on land leased from United States Steel Corporation, which operates the Minntac Mine and a facility that processes taconite, a raw material used in steelmaking.

Renewable energy has been at the heart of Minnesota Power since the Thomson Hydroelectric station was built west of Duluth more than a century ago. While the Thomson station and nine other Minnesota Power hydroelectric facilities continue to provide clean power to the electric grid, wind power is adding an increasing amount of renewable energy.
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In 2001, the公司 began offering its customers the opportunity to buy a small exchange of their electric usage generated in another utility’s wind farm in southwestern Minnesota. Five years later, Minnesota Power reached an agreement with FPL Energy, LLC, to purchase all the output of a new wind farm project in Oliver County, N.D. Late in 2006, Minnesota Power began purchasing all the energy generated from the new 5-MW wind facility, located near ALLETE's BNI Coal mine in North Dakota.

In 2007, Minnesota Power entered into a second 25-year wind power purchase agreement with FPL. A 48-MW facility was built adjacent to the initial Oliver County facility it built in Oliver County, N.D. Late in 2008, Minnesota Power began purchasing all the energy generated from the new 16-MW wind facility, located near ALLETE's BNI Coal mine in North Dakota.

More hydropower in the mix

Minnesota Power is working to develop two additional power purchase agreements renewable energy from Manitoba Hydro: one to buy surplus energy beginning in 2008, and a 15-year-term purchase of 250 megawatts to begin in about 2020.

Headquartered in Winnipeg, Canada, Manitoba Hydro is the province’s major energy utility, exporting electricity to more than 30 electric utilities. The long-term-sale agreements would require construction of hydroelectric facilities in northern Manitoba and major new transmission facilities between Canada and the United States. Minnesota Power and Manitoba Hydro expect to complete negotiations in one year and sign definitive agreements, which would be subject to the approval of the Minnesota Public Utilities Commission and Manitoba Provincial authorities.

The agreement matches Minnesota Power’s goal of acquiring clean, renewable hydropower generation to meet growing energy needs. It also supports the company’s strategy of avoiding additional carbon emissions while providing competitive, low-cost power.

ALLETE’s investment in American Transmission Co. continues to grow

ALLETE’s equity investment in the American Transmission Company reached a balance of $655.7 million and earned $7.5 million in 2007. Our earnings from ATC will grow in the future as the investment balance grows.

ATC is a Wisconsin-based public utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. When it began business in 2001, ATC was one of the nation’s first for-profit electric transmission companies. ATC provides transmission service under rates regulated by the Federal Energy Regulatory Commission.

ALLETE began investing in ATC in May of 2006. ATC estimates that $4.5 billion in transmission system improvements are needed through 2025. Approximately half of this cost is for specific transmission projects, while the remainder will include costs for interconnecting other proposed generators, infrastructure replacements and relocations and network reliability improvements。

ATC estimates that it will build 260 miles of new transmission lines on new rights of way and will make improvements to 815 miles of lines on existing rights of way over the next ten years. As an approximate eight percent owner of ATC, ALLETE can participate financially in the expansion through its pro-rata portion of equity capital calls.

ATC’s assets include approximately 3,900 circuit miles of transmission line and 480 substations, either wholly or jointly owned. Headquartered in Pewaukee, Wis., ATC has approximately 360 employees working in Wisconsin, Michigan and Washington, D.C.

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ALLETE 2008 profile

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In the 17 years ALLETE has been involved in the Florida real estate business, 2007 was our third-highest earnings year.

In April of 2007, Target Corporation began construction of a 424,000 square foot retail “power center” that includes a Super Target store and several other large national retailers.

Construction work is continuing on several other projects in Town Center, including an 82,000 square-foot medical office complex. Late in 2007, construction began on the first 34 units of Brookhaven at Town Center, a community of 130 ranch-style condominium units.

Town Center hosted its first-ever Christmas event Dec. 9, 2007 with a 60-unit parade, a crowd estimated at 3,000 people and enthusiastic reviews from city officials.

ALLETE Properties also sold property in Palm Coast Park to a subsidiary of a leading national real estate development firm, Lowe Enterprises. The sale represented the first phase of an upscale golf course community called Sawmill Creek.

Headquartered in Ft. Myers, Fla., ALLETE Properties southwest Florida operations include land sales and limited development activities with land in Lehigh Acres and Cape Coral. The bulk of our real estate business is focused on the Palm Coast-Ormond Beach area in northeastern Florida.

Our three development projects there are Town Center at Palm Coast, 1,500 acres; Palm Coast Park, 4,700 acres; and Ormond Crossings, approximately 5,000 acres. Town Center, a mixed-use development, is the furthest along in development of the three projects.

Planned by major arterial roads, including Interstate 95, Town Center is creating a “new downtown” for Flagler County’s largest city. Sites in Town Center have been set aside for a new city hall, community center and an arts and entertainment facility. Once it’s complete, Town Center is expected to include some 2,900 residential units and 1.8 million square feet of non-residential space.

Demand for property in the Palm Coast area has been above average for many years.

ALLETE Properties recorded earnings of $17.7 million in 2007. Against the backdrop of a quiet market for real estate nationwide, the buzz of construction activity continued into 2008 at our Town Center at Palm Coast development in Florida.

ALLETE Properties owns a valuable portfolio of land in Florida with minimal debt, a low book basis and a relatively small carrying cost. Most of the mixed-use inventory of property we own holds key entitlements and is located in an area of historically high population growth.

While land sales at ALLETE Properties declined from 2006 to 2007, our real estate segment remains profitable and we expect it to contribute from 10 percent to 20 percent of corporate earnings over the next several years. Current price conditions should create better opportunities for ALLETE Properties to acquire additional land inventory.

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Retail and residential projects spring to life at ALLETE Properties

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