



IN MOTION



Everywhere you look in our corporation, **ALLETE is *in motion***.

Major environmental retrofits *proceed*. New generation projects *harness* renewable energy. Capital investment *accelerates*. Florida shoppers *converge* on new retail developments. Investments at American Transmission Company *ramp up*. Potential mining customers with large power needs *plan* major projects.

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.



*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**.*

ENERGY

Minnesota Power, an operating division of ALLETE serving customers since 1906, generates, transmits and distributes electricity in a 26,000-square-mile region of northern Minnesota rich with mineral deposits and timber.

› › POWER SUPPLY

Our energy supply in Minnesota is primarily generated from three coal-fired generating stations and ten hydroelectric facilities. We also purchase power from Square Butte Electric Cooperative in North Dakota, from two wind facilities totaling 98 megawatts in Oliver County, N.D. operated by FPL Energy LLC, and from other energy suppliers. Minnesota Power purchases low-sulfur, sub-bituminous coal from the Powder River Basin in Montana and Wyoming to fuel its generating stations.

› › LARGE INDUSTRIAL CUSTOMERS

Minnesota Power sells a high percentage of its electric power to large 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 important as a source of raw material for steel.

› › NEW INDUSTRIAL PROJECTS WILL NEED ELECTRICITY

Several natural resource-based companies are developing new projects in northeastern Minnesota. These potential customers of Minnesota Power could require up to 400 megawatts of new electric service if the projects are completed. These include the Polymet Mining, Mesabi Nugget and Minnesota

Steel Industry projects. Also, Minnesota Power customer Keewatin Taconite announced a major expansion of its operations early in 2008.

› › MAJOR EMISSION-REDUCTION EFFORT UNDERWAY

Minnesota Power is engaged in a major air emission control upgrade involving three of its coal-fired generating stations: Laskin, Taconite Harbor and Boswell. When the work is completed, environmental retrofits will have dramatically cut emissions of mercury, particulates, sulfur dioxide and nitrogen oxide. Current cost recovery from retail customers by way of billing adjustments will be used to pay for, and earn a return on, construction costs for these retrofits. The environmental improvements for all three plants will cost approximately \$260 million.

› › MORE RENEWABLE ENERGY

A 50-megawatt wind energy facility, built in 2006 by FPL Energy near Center, N.D., was augmented by an adjacent 48-megawatt 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.

REAL ESTATE

ALLETE Properties, with its headquarters in Fort Myers and a regional office in Palm Coast, owns real estate in several desirable Florida locations. Most of the land now held by ALLETE Properties is located in three mixed-use projects being developed in Flagler and Volusia Counties in northeast Florida. Southwest Florida operations include a third-party brokerage business, limited land development activities and property sales in Lehigh Acres and Cape Coral.

› › PRIMARY PROJECTS

Town Center at Palm Coast is a mixed-use development of about 1,500 acres with a neo-traditional downtown core area located in the city of Palm Coast. Town Center is adjacent to medical facilities, a high school and the Flagler County Airport. Several new retail businesses in the development are open, and construction is continuing on a variety of retail, office, lodging and residential projects.

Palm Coast Park, also located in the city of Palm Coast, is a 4,700-acre mixed-use development bisected by U.S. Highway 1 and bounded on the west by a railroad line. Infrastructure development is complete, and land sales are continuing in Palm Coast Park, whose northern boundary is about one mile south of the interchange of U.S. Highway 1 and Interstate 95.

Ormond Crossings is a 6,000-acre mixed-use development located in the city of Ormond Beach in Volusia County and in unincorporated Flagler County. The site has three miles of frontage on the east and west sides of Interstate 95, is bisected by a railroad line and is adjacent to the Ormond Beach airport.

ALLETE has operated a profitable real estate business in Florida since the early 1990s. We continue to explore the potential acquisition of additional property in the southeast United States.

ALLETE owns and operates a century-old energy business in the upper Midwest and owns substantial real estate holdings in Florida. Our Minnesota Power utility generates and delivers electricity to large industrial customers with a global reach, municipalities across northern Minnesota, and 141,000 residential customers. ALLETE owns Superior Water, Light and Power in Wisconsin, North Dakota lignite producer BNI Coal, and has an approximate eight percent equity interest in the American Transmission Company. ALLETE Properties has approximately 12,000 acres of land in Florida, substantially all of which has key entitlements in place.



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.

When work on the 350-megawatt generating unit is completed in 2009, a 90 percent reduction in mercury and sulfur dioxide (SO₂) emissions and a reduction of about 80 percent of nitrogen oxides (NO_x) is anticipated. Emissions of particulate matter will also be reduced by an expected 90 percent.

Installed in 1973, Boswell 3 is the second-largest of four generating units at the Boswell Energy Center, Minnesota Power's highest-output generating 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. NO_x will be reduced by replacing the burners in the Unit 3 boiler with low-NO_x 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 NO_x compounds to harmless nitrogen gas and water vapor.

To hoist this SCR unit and the truss that supports it into place, one

of the world's largest cranes was shipped in pieces from a Texas port to Cohasset on a fleet of approximately 80 trucks. The crane was reassembled in tight quarters next to the construction site near the Mississippi River.

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 off line 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.

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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.

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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. ■■

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.



Movement to renewable energy accelerating

Minnesota Power ratcheted up its involvement in wind energy with the Taconite Ridge facility in the heart of Minnesota's Mesabi Iron Range.

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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Minnesota Power's 25-megawatt Taconite Ridge Energy Center, under construction early in 2008, will consist of ten Clipper wind turbines of 2.5 megawatts erected on U.S. Steel property overlooking the city of Virginia, Minn. Towers that hold the wind turbines and blades are delivered to the site in four pieces and assembled with large cranes.

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In 2001, the company began offering its customers the opportunity to buy for a small surcharge blocks of electricity generated at another utility's wind farm in southwestern Minnesota. Five years later, Minnesota Power reached agreement with FPL Energy, LLC to purchase all the output of a new wind generation facility it built in Oliver County, N.D. Late in 2006, Minnesota Power began purchasing all the energy generated from the new 50-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 wind farm. The new wind generators began commercial operation in November of 2007.

Minnesota Power signed an agreement to purchase the energy from a Community-Based Energy Development project in 2007. "C-BED" is a state of Minnesota initiative intended to encourage investment in community wind energy projects. A single 2.5 MW turbine near Hewitt, Minn. known as the Wing River Wind Project was constructed by Bear Creek Wind Partners LLC, became operational in July, and is still considered in a test phase.

Minnesota Power ratcheted up its involvement in wind energy with the Taconite Ridge facility on Minnesota's Mesabi Iron Range. The utility leveraged its earlier experience in the burgeoning wind energy business, developing and constructing



More hydropower in the mix

Minnesota Power is working to develop two agreements to purchase 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 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 accessing clean, renewable hydro generation to meet growing energy needs. It also supports the company's strategy of avoiding additional carbon emissions while providing competitive, low-cost power. ■■



Flood gates discharge water from Minnesota Power's Thomson Hydroelectric Station in photo above. ALLETE's renewable energy strategy depends upon the environmental cleanliness and sustainability of water, wind and wood.



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

ALLETE's equity investment in the American Transmission Company reached a balance of \$65.7 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 \$2.8 billion in transmission system improvements are needed through 2016. 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 651 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 this expansion through its pro-rata portion of equity capital calls.

ATC's assets include approximately 9,000 circuit miles of transmission line and 480 substations, either wholly or jointly owned. Headquartered in Pewaukee, Wis., ATC has approximately 500 employees working in Wisconsin, Michigan and Washington, D.C. ■■

A new tower bearing a 345-kilovolt transmission line in northern Wisconsin (pictured at left) symbolizes the dynamic growth of the American Transmission Company, of which ALLETE is an eight percent equity owner. The images on this page illustrate work on ATC's 220-mile Arrowhead-Weston transmission line linking Duluth, Minn. and Wausau, Wis. The line was energized early in 2008.



ALLETE Properties' real estate assets are **valuable** because of their mixed-use nature, key entitlements and low book basis.

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



Retail and residential projects spring to life at ALLETE Properties

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

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.

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 northeast 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 6,000 acres. Town Center, a mixed-use development, is the furthest along in development of the three projects.

Flanked 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 3.8 million square feet of non-residential space.

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. ■■

→ A solitary pedestrian heads west (photo on page 8) across a new bridge in the heart of Town Center at Palm Coast. She was on her way to the development's first public event — a Christmas celebration Dec. 9, 2007. Pictured on page 9 are, (left to right): a Super Target store under construction at Town Center; workers preparing a path in Palm Coast Park; contractors building the Brookhaven residences in Town Center; and, paving a parking lot at Palm Coast Landing within Town Center.



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