TAB 1

Our Business

Our Businesses

ALLETE (NYSE: ALE) is well-positioned as a reliable provider of competitively-priced energy in the upper Midwest, and has a strategic investment in the American Transmission Company. ALLETE's Minnesota Power electric utility serves 144,000 residents, 16 municipalities and some of the nation's largest industrial customers. Other businesses include BNI Coal in North Dakota and ALLETE Properties, which owns 10,000 acres of real estate in northeast Florida.

REGULATED UTILITY

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 a mix of company generation and purchased power. Our generation sources are primarily coal-fired, but also include 112 megawatts of hydroelectric power generated from nine hydro stations in Minnesota and 25 MWs of wind generation. We 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.

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 four 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 Mesabi Nugget plant now under construction and the Polymet Mining and Minnesota Steel Industry projects.

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 is being 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-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 was built in 2008 by Minnesota Power in Mountain Iron, Minn. on property owned by U.S. Steel, a major customer.

New Strategic Wind Initiative

An agreement was signed in September, 2008 to purchase a 250-kilovolt direct current (D.C.) transmission line between Center, N.D. and Hermantown, Minn. and phase out a long-term contract to buy coal-generated electricity now transmitted over the line. As part of a deal expected to be closed in 2009, Minnesota Power will gradually replace the coal -based electricity now transported by the 465-mile line with renewable energy to be generated by wind turbines that will be constructed by Minnesota Power near Center.

American Transmission Company

ALLETE has an ownership interest of about eight percent in ATC, a public utility based in Wisconsin that owns and maintains electric transmission assets in four states. ALLETE's investment in ATC was about $76 million at the beginning of 2009.

OTHER ALLETE INVESTMENTS

ALLETE Properties 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: Town Center, Palm Coast Park and Ormond Crossings.

BNI Coal operates a lignite mine in Center, N.D., producing about four million tons annually. Two electric generating cooperatives, Minnkota Power and Square Butte, consume virtually all of BNI Coal's lignite production under agreements extending through 2026. The mining process disturbs and reclaims approximately 200 acres per year.

Cancel

TAB 2

Company Report

ALLETE, Inc.

30 West Superior Street
Duluth, MN 55802
United States

Phone: 1-218-2795000
Fax: 1-218-7233944
Web: http://www.allete.com/

Ownership Type: Listed
Primary Exchange: New York Stock Exchange
DUNS Number: 006961296

Most Recent Stock Split:
0.33333 (21-Sep-2004)

Historical Stock Split(s):
2.0 (03-Mar-1999)
2.0 (16-Jul-1986)

Auditor/Accountant: PWC LLP
Fiscal Year-End Date: 31-Dec-2008

ALLETE, Inc. (ALLETE) provides energy services in the upper Midwest and has real estate holdings in Florida. It operates in two segments: Regulated Operations, and Investments and Other. Regulated Operations includes its regulated utilities, Minnesota Power and Superior Water, Light and Power Company (SWL&P), as well as its investment in American Transmission Company LLC (ATC), a Wisconsin-based regulated utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Investments and Other is comprised primarily of BNI Coal, Ltd. (BNI Coal), its coal mining operations in North Dakota, and ALLETE Properties, its Florida real estate business. During the year ended December 31, 2008, the Company's municipal customers represented 8 % of total regulated utility kilowatt-hour sales. Its municipal customers consist of 16 municipalities in Minnesota and one private utility in Wisconsin.

Primary Industry Classification		
Dow Jones Industry		Electricity/Gas Utilities
SIC	4931	Electric and Other Services Combined
NAICS	221119	Other Electric Power Generation
Secondary Industry Classification		
SIC	1241	Coal Mining Services
SIC	4924	Natural Gas Distribution
SIC	6531	Real Estate Agents and Managers
NAICS	221210	Natural Gas Distribution
NAICS	531390	Other Activities Related to Real Estate
NAICS	213113	Support Activities for Coal Mining

Source: Reuters, Generate, Inc.

TAB 3

Part I

Item 1. Business

In the fourth quarter of 2008, we made changes to our reportable business segments which are now comprised of Regulated Operations and Investments and Other. For additional information about our business segments, see Note 2.

Regulated Operations includes our regulated utilities, Minnesota Power and SWL&P, as well as our investment in ATC, a Wisconsin-based utility that owns and maintains electric transmission assets in parts of Wisconsin, Michigan, Minnesota and Illinois. Minnesota Power provides regulated utility electric service in northeastern Minnesota to 142,000 retail customers and wholesale electric service to 16 municipalities. SWL&P provides regulated electric service, natural gas and water service in northwestern Wisconsin to 15,000 electric customers, 12,000 natural gas customers and 10,000 water customers. Our regulated utility operations include retail and wholesale activities under the jurisdiction of state and federal regulatory authorities. (See Item 1. Business – Regulated Operations – Regulatory Matters.)

Investments and Other is comprised primarily of BNI Coal, our coal mining operations in North Dakota, and ALLETE Properties, our Florida real estate business. This segment also includes emerging technology investments ($7.4 million at December 31, 2008), a small amount of non-rate base generation, approximately 7,000 acres of land for sale in Minnesota, and earnings on cash and short-term investments.

ALLETE is incorporated under the laws of Minnesota. Our corporate headquarters are in Duluth, Minnesota. Statistical information is presented as of December 31, 2008, unless otherwise indicated. All subsidiaries are wholly owned unless otherwise specifically indicated. References in this report to "we," "us" and "our" are to ALLETE and its subsidiaries, collectively.

Year Ended December 31	2008	2007	2006
Consolidated Operating Revenue – Millions	$801.0	$841.7	$767.1
Percentage of Consolidated Operating Revenue			
Regulated Operations	89	86	83
Investments and Other	11	14	17
	100%	100%	100%

For a detailed discussion of results of operations and trends, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. For business segment information, see Note 1. Operations and Significant Accounting Policies and Note 2. Business Segments.

REGULATED OPERATIONS

Electric Sales / Customers

Regulated Utility Electric Sales Year Ended December 31 Millions of Kilowatt-hours	2008	%	2007	%	2006	%
Retail and Municipals						
Residential	1,172	9	1,141	9	1,100	9
Commercial	1,454	12	1,456	11	1,420	11
Industrial	7,192	57	7,054	55	7,206	56
Municipals (FERC rate regulated)	1,002	8	1,009	8	905	7
	10,820	**86**	**10,660**	**83**	**10,631**	**83**
Other Power Suppliers	1,800	14	2,157	17	2,153	17
	12,620	**100**	**12,817**	**100**	**12,784**	**100**

Industrial Customers. In 2008, our industrial customers represented 57 percent of total regulated utility kilowatt-hour sales. Our industrial customers are primarily in the taconite, paper, pulp, wood products and pipeline industries.

Industrial Customer Electric Sales Year Ended December 31 Millions of Kilowatt-hours	2008	%	2007	%	2006	%
Taconite Producers	4,579	64	4,408	62	4,517	63
Paper, Pulp and Wood Products	1,567	22	1,613	23	1,689	23
Pipelines	582	8	562	8	550	8
Other Industrial	464	6	471	7	450	6
	7,192	100	7,054	100	7,206	100

Approximately 60 percent of the ore consumed by integrated steel facilities in the United States originates from six taconite customers of Minnesota Power, which represent 4,579 kilowatt-hours, or 64 percent, of our total industrial sales in 2008. Taconite, an iron-bearing rock of relatively low iron content, is abundantly available in Minnesota and an important domestic source of raw material for the steel industry. Taconite processing plants use large quantities of electric power to grind the iron-bearing rock, and agglomerate and pelletize the iron particles into taconite pellets. Strong worldwide steel demand, driven largely by extensive infrastructure development in China, resulted in very robust world iron ore demand and steel pricing for nearly a six-year period which lasted through the summer of 2008. Beginning in the fall of 2008, worldwide steel producers began to dramatically cut steel production in response to reduced demand driven largely by the world credit situation. (See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook.)

In addition to serving the taconite industry, Minnesota Power also serves a number of customers in the paper, pulp and wood products industry, which represent 1,567 kilowatt-hours, or 22 percent, of our total industrial sales in 2008. In total, we serve four major paper and pulp mills directly and one paper mill indirectly by providing wholesale service to the retail provider of the mill. Minnesota Power also serves three wood product manufacturers.

Minnesota Power's paper and pulp customers ran at, or very near, full capacity for the majority of 2008 despite the fact that the industry continued to face high fiber, chemical, and energy costs as well as competition from exports in certain grades of paper products. Minnesota Power's customers benefited from the temporary or permanent idling of plants both in North America at mills other than those served by Minnesota Power and the idling of plants in Europe, as well as continued (but declining) strength of the Canadian dollar and the Euro which has reduced imports both from Canada and Europe.

The pipeline industry is the third key industrial segment served by Minnesota Power with services provided to two crude oil pipelines and one refinery, which represent 582 kilowatt-hours, or 8 percent, of our total industrial sales in 2008. These customers have a common reliance on the importation of Canadian crude oil. After near capacity operations in 2006, 2007, and 2008, both pipeline operators are executing expansion plans to transport Western Canadian crude oil reserves (Alberta Oil Sands) to United States markets. Access to traditional Midwest markets is being expanded to Southern markets as the Canadian supply is displacing domestic production and deliveries imported from the Gulf Coast.

Large Power Customer Contracts. Minnesota Power has contracts with 12 Large Power Customers, 11 of which require 10 MWs or more of generating capacity and one that requires at least 8 MWs of generating capacity. These customers consist of six taconite producing facilities (two of which are owned by one company and are served under a single contract), four paper and pulp mills, two pipeline companies and one manufacturer.

Large Power Customer contracts require Minnesota Power to have a certain amount of generating capacity available. In turn, each Large Power Customer is required to pay a minimum monthly demand charge that covers the fixed costs associated with having this capacity available to serve the customer, including a return on common equity. Most contracts allow customers to establish the level of megawatts subject to a demand charge on a four-month basis and require that a portion of their megawatt needs be committed on a take-or-pay basis for at least a portion of the agreement. In addition to the demand charge, each Large Power Customer is billed an energy charge for each kilowatt-hour used that recovers the variable costs incurred in generating electricity. Four of the Large Power Customers have interruptible service which provides a discounted demand rate for the ability to interrupt the customers during system emergencies. Minnesota Power also provides incremental production service for customer demand levels above the contractual take-or-pay levels. There is no demand charge for this service and energy is priced at an increment above Minnesota Power's cost. Incremental production service is interruptible.

All contracts with Large Power Customers continue past the contract termination date unless the required advance notice of cancellation has been given. The advance notice of cancellation varies from one to four years. Such contracts minimize the impact on earnings that otherwise would result from significant reductions in kilowatt-hour sales to such customers. Large Power Customers are required to take all of their purchased electric service requirements from Minnesota Power for the duration of their contracts. The rates and corresponding revenue associated with capacity and energy provided under these contracts are subject to change through the same regulatory process governing all retail electric rates. (See Regulatory Matters – Electric Rates)

Outlook

ALLETE is committed to earning a financial return that rewards our shareholders, allows for reinvestment in our businesses and sustains growth. Minnesota Power's industrial customers are facing weak conditions in the markets for their products, and have and may continue to reduce the amount of energy they use. We will work to sell this released energy in the wholesale markets, and believe that our ability to produce energy at low cost will be a competitive advantage. Our focus will be to maintain the competitively-priced production of energy, while meeting environmental requirements. Minnesota Power will also focus on maintaining competitive retail rates, as we believe this is important to the success of our customers. Information published by the Edison Electric Institute in mid-2008 ranked Minnesota Power as having the ninth lowest retail rates out of 175 investor-owned utilities in the United States.

Our strategy going forward is to focus on growth opportunities within our core business as we expect to continue making significant investments to comply with renewable and environmental requirements, maintain our existing low-cost generation fleet, and strengthen and enhance the regional transmission grid. We will also look for additional transmission and renewable energy opportunities which take advantage of our geographical location between sources of renewable energy and growing energy markets. Earnings from our ATC investment are expected to grow as we anticipate making additional investments to fund our pro-rata share of ATC's capital expansion program. We expect to invest an additional $5 to $7 million in ATC during 2009.

Regulated Operations. Minnesota Power expects significant rate base growth over the next several years as it continues its program to comply with renewable energy requirements and environmental mandates. In addition, significant investment will be made in our existing low-cost generation fleet to provide for continued future operations. We anticipate our capital investments will be recovered through a combination of current cost recovery riders and anticipated increased base electric rates. We also expect an average annual kilowatt-hour growth of approximately 1 percent from our existing customers, as well as potential long term growth from several new industrial customers planning projects in our service territory.

Rate Cases. Entities within our Regulated Operations segment file for periodic rate revisions with the MPUC, the FERC or the PSCW.

On February 8, 2008, the FERC approved Minnesota Power's wholesale tariff rate increase effective March 1, 2008. Minnesota Power's wholesale customers consist of 16 municipalities in Minnesota and 1 private utility in Wisconsin. The FERC authorized an average 10.0 percent increase for wholesale municipal customers, and an overall return on equity of 11.25 percent. Incremental revenue in 2008 from the FERC authorized wholesale rate increase was approximately $6 million.

In 2008, Minnesota Power entered into new contracts with all of our wholesale customers with the exception of one small customer whose contract is now in the cancellation period. The new contracts transition each customer to formula based rates, which means rates can be adjusted annually based on changes in costs. The new agreement with the private utility in Wisconsin is subject to PSCW approval. In November 2008, we filed a request with the FERC to implement the formula based rate provision in the new contracts. We anticipate final resolution and implementation of new rates in the first quarter of 2009.

On May 2, 2008, Minnesota Power filed a rate increase request with the MPUC seeking an average rate increase of 8.5 percent for retail customers. The rate filing seeks a return on equity of 11.15 percent, and a capital structure consisting of 54.8 percent equity and 45.2 percent debt. On an annualized basis, the requested rate increase would generate approximately $40 million in additional revenue. Interim rates were effective on August 1, 2008, and resulted in an increase for retail customers of approximately $36 million, or 7.5 percent, on an annualized basis, subject to refund pending the final rate order. Incremental revenue in 2008 from the interim retail rate increase was approximately $13 million. The transition to a new base cost of fuel coincident with interim rates resulted in the non-recovery through the fuel adjustment clause of approximately $19 million of fuel and purchased power costs incurred in 2008. We have entered into a stipulation and settlement agreement that would allow recovery of the $19 million in 2009 and which addresses specific concerns identified by interveners in the rate case; the stipulation and settlement agreement is subject to MPUC approval. The final rate order is expected in the second quarter of 2009. We cannot predict the final level of rates that may be approved by the MPUC. Prior to the May 2008 retail rate request Minnesota Power's rates were based on a 1994 MPUC retail rate order that allowed for an 11.6 percent return on equity.

SWL&P's current retail rates are based on a December 2008 PSCW retail rate order that became effective January 1, 2009, and allows for an 11.1 percent return on common equity. The new rates reflected a 3.5 percent average increase in retail utility rates for SWL&P customers (a 13.4 percent increase in water rates, a 4.7 percent increase in electric rates, and a 0.6 percent decrease in natural gas rates). On an annualized basis, the rate increase will generate approximately $3 million in additional revenue.