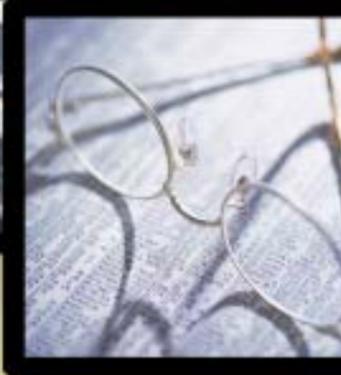


minnesota power, inc.



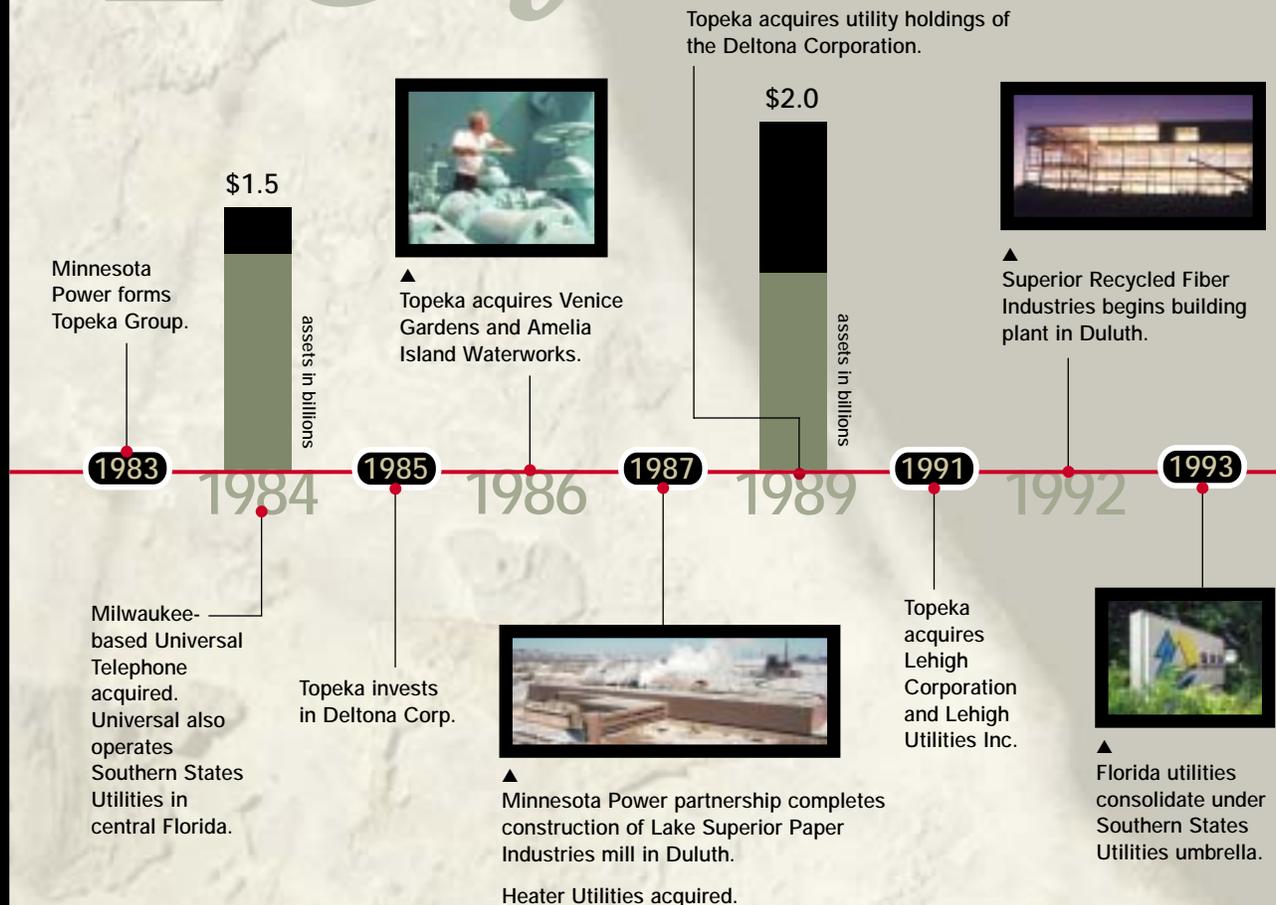
more than minnesota... more than power...

more than ever.

1999 annual report and form 10-K

At *Minnesota Power* we believe there is strength in diversity. We've been acting on that belief for well over a decade. The timeline below highlights Minnesota Power's evolution from a regional electric utility to *a multi-services company*. More than ever, an investment in Minnesota Power balances growth opportunities in automotive services, water resources, real estate and energy.

15 years of



financial highlights 1999

	1999 Adjusted*	1999 Millions except per share amounts	1998	1997
Operating Revenue	\$1,131.8	\$1,131.8	\$1,039.3	\$953.6
Net Income	\$104.2	\$68.0	\$88.5	\$77.6
Diluted Earnings Per Share of Common Stock	\$1.49	\$0.97	\$1.35	\$1.24
Average Shares Outstanding	68.4	68.4	64.0	61.2
Dividends Per Share of Common Stock	\$1.07	\$1.07	\$1.02	\$1.02
Total Assets	\$2,312.6	\$2,312.6	\$2,208.9	\$2,086.3
Capital Expenditures	\$99.7	\$99.7	\$80.8	\$72.2
Return on Common Equity	12.9%	8.3%	12.4%	12.1%

* On December 30, 1999 Minnesota Power exchanged 7.3 million shares of Capital Re Corporation common stock for 4.7 million shares of ACE Limited common stock plus \$25.1 million in cash. This transaction resulted in a non-cash charge of \$36.2 million to Minnesota Power's net income for 1999. The '1999 Adjusted' figures exclude the Capital Re transaction.

diversity

 Non-Electric Assets
 Electric Assets



◀ Real estate subsidiaries acquire land and other assets at Palm Coast, FL.

ADESA opens two auctions, acquires four more.

Minnesota Power launches new power marketing division, MPEX.

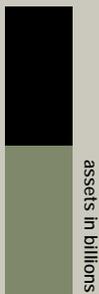
Minnesota Power acquires Instrumentation Services, Inc.

Remaining 20 percent of ADESA acquired.

Minnesota Power's Automotive Finance Corp. adds 30 loan production offices.

MPEX expands to Minneapolis, MN.

\$1.8



assets in billions

1994

1995

1996

1997

1998

\$2.3



assets in billions

1999



▲ Minnesota Power acquires 80 percent of ADESA.

Minnesota Power sells its paper and pulp businesses.

Orange Osceola Utilities acquired.

Southern States Utilities renamed Florida Water Services.

Electric Outlet launches retail mail order operation.

MP Telecom established. ▶

Auto transport company expanded, renamed Great Rigs, Inc.



Palm Coast Utility Corporation acquired.

Heater Utilities acquires Mid South Water Systems, Inc.

Real estate subsidiary acquires property in Cape Coral, FL.

Automotive Services acquires AutoVIN.

ADESA acquires auction in Vancouver, B.C.

Construction begins on ADESA Los Angeles.

a letter to our shareholders



Ed Russell with shareholders, 1999 Minnesota Power annual meeting.

Now that Minnesota Power has completed its "Drive Toward 2000" strategy, launched at the beginning of 1996, there is a temptation to dwell on its accomplishments and the financial goals achieved. We choose instead to look and plan ahead, building upon its foundation to become a stronger and larger company.

We've developed a successor strategy. We call it "Horizon 2005" and began to implement it January 1. Our goals: market leadership in each of our four businesses, accelerated financial performance, enhanced shareholder return, and completion of our transition to a multi-services company.

We have established a solid platform from which we see new and exciting opportunities. Now, more than ever, Minnesota Power is more than Minnesota... and more than power. We will build upon our strengths:

Automotive: our position as a market leader will help shape the dynamics of the used vehicle industry with more acquisitions and new services for our customers.

Water: market-leading positions in Florida and North Carolina will leverage further expansion.

Investments: we will be focused, yet entrepreneurial in order to add value.

Electric: low-cost power and expanded capacity will lead to growth in both our regulated and non-regulated market segments.

Our new Horizon 2005 strategy is based upon significantly growing the size and profitability of Minnesota Power. Five years from now, we'll be viewed not as a utility but as a multi-services company. To accomplish this, we will work first with the businesses we know best. The critical challenge facing us is to choose which cards to play, which opportunities to pursue most aggressively. Minnesota Power has strong businesses, and we will capitalize on them.

It took hard work and skill from our employees to bring us to where we are today. Automotive Services was barely counted as a contributor to Minnesota Power earnings five years ago. Now that business yields about \$40 million in net income — rivaling the profitability of Minnesota Power Electric. Our ADESA subsidiary operates 29 thriving used car auctions across North America. Three more are under construction, including one in Los Angeles, the hottest car market in America. Automotive Finance Corporation, regarded almost as a throw-in when ADESA was acquired in mid-1995, has risen to the top of the independent dealer floorplan financing business in North America with earnings growth of over 1000 percent (the 1000 percent is not a typo).

Perhaps more than any other business, Water Services has profited from its adherence to its "Drive Toward 2000" strategy. Our growth in size and profitability is all the more gratifying considering the highly regulated environment in which Water Services operates. Our people at Florida Water skillfully navigated that environment to negotiate higher, fairer rates for our far-flung water and wastewater systems. We stuck to our strategy and redeployed our utility assets in both Florida and North Carolina. As a result, we operate the largest investor owned water businesses in each of those states.

If there was one overriding principle for the Investments leg of our company dictated by our "Drive" strategy, it was flexibility. We have broadened our base and replenished Minnesota Power's Real Estate portfolio by acquiring desirable new Florida properties at Sugarmill Woods, Palm Coast and Cape Coral. We retooled our intermediate-term

investments to emphasize venture capital funds focused toward identifying innovations related to our electric utility business. We view these investments as our technological “eyes and ears” — our research and development laboratory. Financial returns have come from these investments as well as insights into the changes accelerating across the electric industry. We also fundamentally changed the strategy behind our short-term investment portfolio so that it is a staging area to fund future investments and acquisitions. Finally, at the close of 1999, Minnesota Power’s investment in Capital Re Corporation was converted into a smaller stake in a larger, stronger firm, ACE Limited.

At the outset of the “Drive Toward 2000,” Minnesota Power Electric set out to improve efficiency, increase its utilization of assets and explore new revenue opportunities. All three goals were achieved. Minnesota Power Electric has made the key moves necessary to compete vigorously in a restructured marketplace, when it comes. Our largest customers signed long-term electric service contracts, and we refined and greatly expanded our Key Accounts Marketing system, and founded a dynamic power marketing division — MPEX — now being used by ourselves and by joint venture partners as well. Generation and transmission expansion is underway in Minnesota, Wisconsin and Illinois. In addition, our Electric Outlet experiment has added retail sales from computer web sites and catalogues. And finally, the establishment of MP Telecom gives us an exciting opportunity in the booming telecommunications universe.

We’ve also suffered some setbacks along the way. Our exit from Capital Re cast a confusing shadow over Minnesota Power in 1999. This reinsurance company, in

which we were a founding investor, was hit with some unanticipated, extraordinary, negative events related to fraud in two of the companies it insured. These events weakened Capital Re and its Board determined it was best to merge the company with ACE Limited. The merger was completed on December 30 and Minnesota Power accumulated a \$36.2 million non-cash charge against net income to reflect the valuation of the transaction as of that date. Capital Re’s merger did not have an effect on the operating earnings of our corporation, which climbed 18 percent in 1999. However, our reported earnings per share have been significantly reduced to reflect this one-time charge, which is a function of ACE’s share value at a point in time. We may see upside in 2000 when and if we decide to sell our ACE shares. The bottom line is that we now own a smaller percentage of a larger and stronger company. We did this strategically to have liquidity and, therefore, the ability to redeploy in excess of \$100 million in cash, which can be used in our other businesses.

We have established a solid platform from which we see new and exciting opportunities. Now, more than ever, Minnesota Power is more than Minnesota... and more than power.

Minnesota Power’s lagging stock price was a serious disappointment to all of us through 1999. It’s true that electric utilities under-performed the market for many reasons. But it’s also true that Minnesota Power’s overriding financial strength and operating performance outshines the perceptions of us on Wall Street. Once the market takes a hard look at us, we believe the underlying value of this company will be revealed. And I can assure you that we remain dedicated to focusing on what we can control or influence in order to enhance your Total Shareholder Return.

There is no doubt that this organization is being transformed into a multi-services company. Just ask some of our 8,000 employees working across North America. They might be washing cars in Vancouver, British Columbia, cleaning up wastewater problems in North Carolina, stringing fiber optic cable in Minnesota, extending financial credit to automotive dealers in Massachusetts, running water lines to new customers in Florida or selling electricity across the Midwest. Yes, we are diverse; but we remain focused and disciplined.

We appreciate your investment in Minnesota Power and thank you for your support.



Edwin L. Russell
Chief Executive Officer

at a glance

minnesota power

Automotive

This growing business unit includes ADESA and its 29 vehicle auctions strategically located across North America; Automotive Finance Corporation, the leading provider of independent auto dealer inventory financing, with 84 offices; Great Rigs, Inc., an automotive carrier company with more than 150 transport trucks; PAR North America, which assists leasing agents and finance people in transporting, remarketing or liquidating off-lease vehicles; and AutoVIN, a provider of field information services to the automotive industry. We offer a full range of services to auto dealers, manufacturers, fleet/lease firms and finance companies.

- ADESA Auctions
- Automotive Finance Corporation
- Great Rigs
- PAR North America
- AutoVIN

Water

We operate the largest investor owned water and wastewater utilities in Florida and North Carolina, as well as non-regulated businesses that provide preventive and predictive maintenance, instrumentation service and privatized services to water utility companies and other industries. Florida Water Services serves 142,000 water customers and 68,000 wastewater customers. At Heater Utilities, located across North Carolina, we serve 42,000 water and 4,000 wastewater customers.

- Florida Water Services
- Heater Utilities
- Instrumentation Services
- Americas' Water Services

Investments

Minnesota Power's investments provide liquidity, funds for strategic growth initiatives and returns for shareholders. Components include a securities portfolio; investments in a group of venture capital funds invested in advanced technologies used in the utility industry; and Florida real estate businesses with property at Palm Coast in northeast Florida, at Lehigh and Cape Coral, adjacent to Fort Myers, and at Sugarmill Woods, located approximately 70 miles north of Tampa.

- Securities Portfolio
- Venture Capital
- Real Estate
 - Lehigh
 - Sugarmill Woods
 - Palm Coast
 - Cape Coral

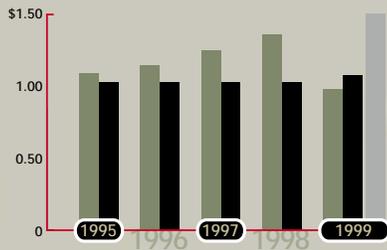
Electric

We serve 140,000 customers in northeastern Minnesota and northwestern Wisconsin with low cost electricity. We supply wholesale electric power to 16 municipal systems and, through MPEX, we market power across the Midwest. About half the electricity sold by Minnesota Power Electric goes to large industrial customers, including taconite producers, paper and pulp mills, and pipeline companies. MP Telecom provides high capacity fiber optic communications to a growing number of Minnesota customers. We also own BNI Coal, which operates a lignite mine near Center, North Dakota.

- MP Electric
- Superior Water, Light and Power
- MPEX
- MP Enterprises
 - BNI Coal
 - Electric Outlet
 - MP Telecom

Diluted Earnings and Dividends Per Share

■ Earnings
■ Dividends
■ Earnings Excluding Capital Re Transaction*



Operating Revenue

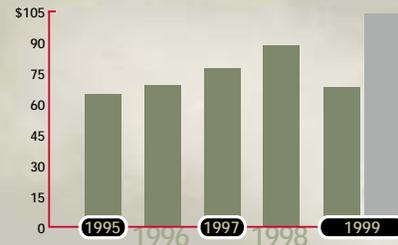
Millions



Net Income

Millions

■ Net Income
■ Excluding Capital Re Transaction*

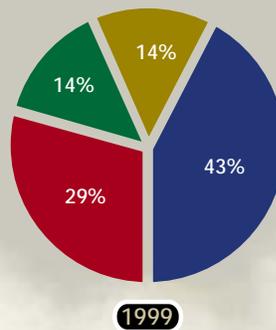


Automotive			Water			Investments			Electric		
Operating Revenue			Operating Revenue			Operating Revenue			Operating Revenue		
1999	1998	1997	1999	1998	1997	1999	1998	1997	1999	1998	1997
\$406.6	\$328.4	\$255.5	\$112.9	\$95.6	\$95.5	\$58.2	\$55.8	\$60.9	\$554.5	\$559.8	\$541.9
Net Income			Net Income			Net Income			Net Income		
\$39.9	\$25.5	\$14.0	\$12.2	\$7.5	\$8.2	\$(9.4)*	\$29.6	\$32.1	\$45.0	\$47.4	\$43.1

Millions Presentation does not include corporate charges.

1999 Assets by Business Segment

■ Automotive
■ Water
■ Investments
■ Electric



*On December 30, 1999 Minnesota Power exchanged 7.3 million shares of Capital Re Corporation common stock for 4.7 million shares of ACE Limited common stock plus \$25.1 million in cash. This transaction resulted in a non-cash charge of \$36.2 million to Minnesota Power's net income for 1999. Graphics depicted on this page reflect financial results with and without the Capital Re transaction.

automotive

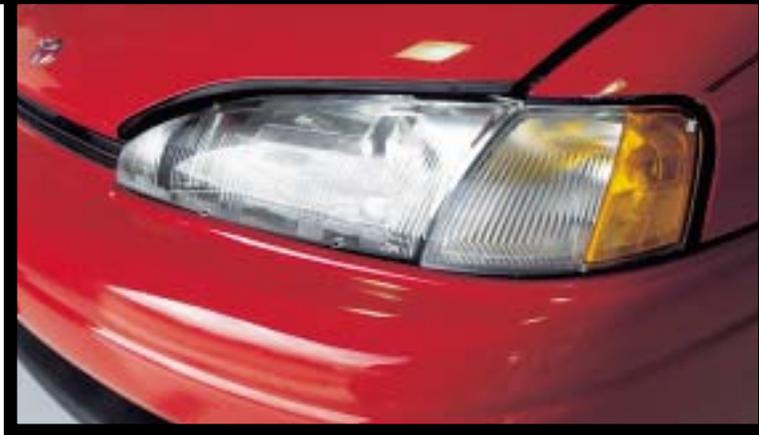
ADESA offered on consignment
1.7 million vehicles in 1999 —
13 percent more than it did in 1998.
The growth of Automotive Finance
Corporation's dealer/customer base
enabled AFC to finance about
695,000 vehicles.

It began five years ago with the surprising acquisition of an auto auction chain called ADESA and some small affiliated businesses. Today, Minnesota Power's Automotive Services has been transformed. It's still ADESA, the world's second largest full service auto auction network. But it's also AFC, the used vehicle industry's premier financing company. It's Great Rigs, a major independent vehicle transporter, and a host of other services. Targeted, strategic growth has pushed Automotive Services into the upper echelon of a dynamic industry in a very short time.

The surprising thing is that this relatively new business unit expanded into new frontiers of the used vehicle industry while building a record of spectacular earnings growth. From net income of \$3.7 million in 1996, Automotive Services has accelerated to the point where in 1999, it contributed \$39.9 million to Minnesota Power Inc.'s net income.

Driven by an intense desire to serve its growing base of automobile dealers, ADESA moved on several fronts in '99 to expand its already sizable footprint in North America. Much of the action was focused on Canada - a prime market for automotive growth in the first decade of the new millennium.

ADESA Canada realigned its management structure and moved its Canadian corporate offices from Ottawa to suburban Toronto, the economic heart of the nation. ADESA Canada secured a contract to remarket government vehicles;



recognition as a vendor to the national government should help leverage provincial and local remarketing contracts in the coming years.

ADESA extended its reach into western Canada in 1999 when it purchased the Vancouver Auto Auction of New Westminister, British Columbia, a six-lane auction situated on a 70-acre site. Other auctions to be added in 2000 and currently under construction include ADESA Calgary, ADESA Los Angeles and ADESA Concord (MA).

The brisk growth of automobile leasing in Canada drives growing demand for ADESA and AFC services as off-lease cars are remarketed.

The popularity of the 24-month new car lease shortens the cycle for vehicles to be put into the auction pipeline. This potent combination of market forces influenced growth at ADESA Montreal, where heavy business prompted expansion of that facility from eight to 12 lanes.

PAR North America, a remarketing company affiliated with Automotive Services, began offering full service importation from Canada in mid-1999. This should fuel additional growth at Automotive Services' trucking subsidiary Great Rigs, Inc., which solidified its position as one of the largest independent transporters of used vehicles in North America.

Expansion reached into the fertile southern California market late in 1999 when ADESA bought property in Mira Loma, CA, leased adjacent land, and began construction on a new 29.5-acre auction to be named ADESA Los Angeles. Operations are expected to begin in mid-2000. ADESA also acquired the Des Moines Auto Auction in Iowa, a Midwest remarketing fixture for 35 years.

In addition to expanding geographically, ADESA aims to provide auto dealers with a host of related services. On Jan. 1, 2000, ADESA Canada increased to 73 percent its ownership of Impact Auto Auctions, a salvage auction business. With this move, ADESA will provide its expert remarketing services to insurance companies that need to redistribute damaged or "totaled" vehicles.

The three-year process of installing ADESA's proprietary Auction Management System (AMS) in United States auction locations was completed in 1999, with plans to begin implementation in Canada in 2000. AMS places a technologically advanced computing network into the hands of auction employees and customers. It increases the efficiency of the entire auction process and positions ADESA for efficient expansion in the future.

AMS encompasses every aspect of the auction — from stocking cars and checking titles to buying and selling vehicles. It's an inventory management system, a sales system, an accounting system — and all of this integrated information is available on a real-time basis.

Each dealer attending an ADESA auction receives an identification card with the dealer's photograph and a bar code. By swiping the ID card at one of the many available kiosks, dealers receive bid badges for each dealership they are representing on that day. As the dealer purchases cars, the bid badge number is entered into the system, enabling real-time inventory and accounting information on the sale.

Dealers can access an astounding amount of information at the kiosks throughout the day, including the types

of cars available, financial summaries, purchases and sales, and several reports. Dealers can also obtain gate passes at the kiosks for any vehicles they brought but didn't sell. This facilitates the checkout process while enhancing the accuracy of the auction inventory.

This revolutionary system benefits both ADESA and its customers. The scope and seamless integration of ADESA's AMS facilitates a concise "snapshot" view of a very complex and fluid business organization. Customers enjoy instant access to real-time information, enabling them to conduct their business faster and more efficiently. It's the latest manifestation of ADESA's "Spirit of Service."

Automotive Finance Corporation

Within a year of major expansion of its industry-leading floorplan finance service, Automotive Finance Corporation (AFC) improved its impressive growth record by forging ahead with new services for used vehicle dealers across North America.

AFC is the largest exclusive provider of dealer floorplan financing to independent auto dealers. Floorplanning provides short-term inventory loans that enable wholesale and retail dealers to purchase vehicles at auction. In 1998, AFC set the stage for sustained growth when it expanded its network of finance offices from 54 to 84 across North America. Impressive same-store growth in 1999 resulted in AFC financing approximately 695,000 vehicles.

AFC-managed receivables increased one-third to \$339 million at year-end. AFC had 14,700 registered dealers in its floorplan program — up from 11,500 dealer-customers 12 months before. These dealers can purchase vehicles with AFC financing at more



MANVILLE, NEW JERSEY: Greg Fladger, branch manager at AFC New Jersey.

than 400 auto auctions in North America.

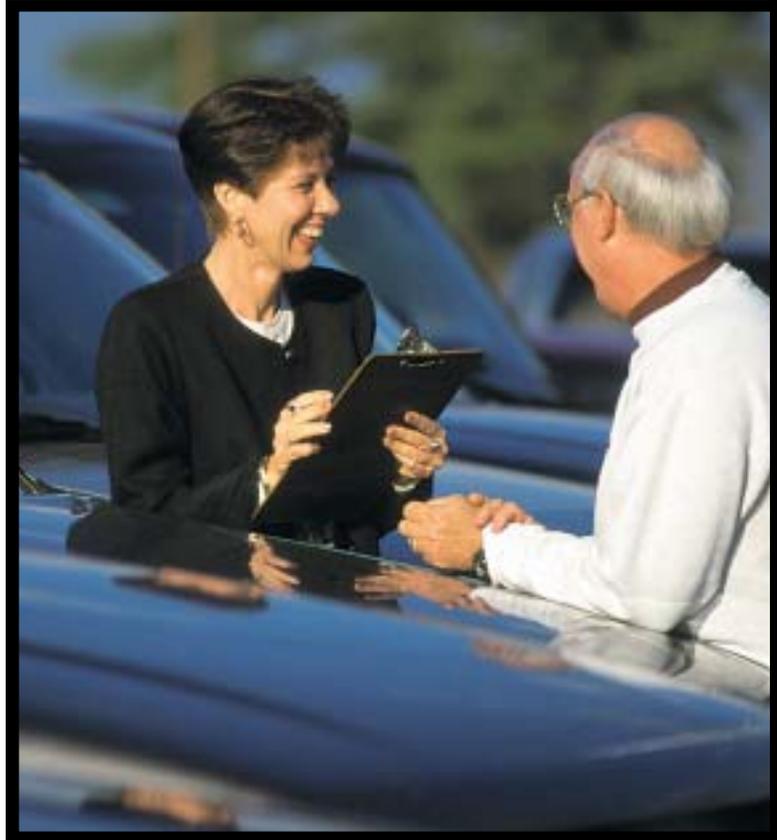
Record sales and leases of new vehicles in the United States in recent years translate to strong growth at used vehicle auctions. When vehicle leases expire, often after just two years, wholesale auto auctions are the predominant method of redistributing vehicles. This is especially advantageous for AFC because of its strong auction presence and its convenient off-site locations. AFC is able to provide prompt service to its dealer network, and the dealers can finance new inventory efficiently from a name they've come to trust.

AFC is diligent in its efforts to enhance customer service. Its electronic document management system, launched in 1998, converted a paper operation to a computerized management tool, accelerating the dealer loan application and review process.

With the tremendous growth of registered dealers, AFC needed a better way to monitor its collateral and keep pace with its loan portfolio. In September of 1999, Automotive Services acquired AutoVIN, the Automated Vehicle Information Network. It is an advanced inspection service that provides professional field information such as inventory verification, vehicle condition reporting and facility inspection. AutoVIN conducts about 5,000 "lot checks" per month and also provides inspection services at the customer's home at lease end. AutoVIN will continue to offer its service to other lenders, manufacturers, banks, leasing companies and other auto auctions.

The key to AFC's tremendous success is

in identifying and bringing to market a full complement of services for used vehicle dealers. Already, AFC customers can purchase physical damage insurance to protect the vehicles they finance with a floorplan loan. AFC is also testing a new warranty program with an outside partner. The goal is to sell 1,000 used vehicle warranties with terms of 12 months to 36 months during the first quarter of 2000.



LEXINGTON, SOUTH CAROLINA: AFC Branch Manager Gloria Buzhardt and truck dealer Frank Broome at his Trucks N Such lot.

Refinements to the Retail Alliance Program (RAP) begun by AFC late in 1998 will advance this year in partnership with other lenders, primarily retail automotive lenders. RAP's purpose is to provide a financing mechanism for retail customers to purchase vehicles from AFC's dealers. RAP appeals to dealers because it packages AFC floorplanning with the ability to offer loans to retail car buyers. AFC does not provide financing to the retail buyers themselves. RAP's partner lenders provide financing to the retail buyers.

Focused growth inspired by innovation has turned Minnesota Power's Automotive Services into a market leader. And innovation will keep our automotive business thriving into the future.

water

Water Services generated higher net income in 1999 because strategic acquisitions and internal growth increased the customer base by 24 percent, a long standing Florida Water rate case was settled, and average water consumption increased.

Water Services has enjoyed an upward climb in profitability and customer growth. Strategy has played an important role, but the people behind it deserve most of the credit.

Minnesota Power Water Services is the largest investor owned water and wastewater company in the fast-growing southeastern United States. After a successful redeployment of assets begun five years ago, Water Services now has the platform to pursue larger opportunities. It has grown steadily, adding some 57,000 customers. The financial results are plain to see. From a million-dollar loss in 1995, Water Services' net income surged to more than \$12 million in 1999.

North Carolina was targeted for growth in 1999, when Water Services acquired the water and wastewater operations of Mid South Water Systems, Inc., based in Sherills Ford, NC. The purchase increased the size of Minnesota Power affiliate Heater Utilities by about 35 percent, transforming Heater into the largest investor owned water utility in North Carolina.

Mid South provides water and wastewater services to customers in the Piedmont and western regions of North Carolina. Added to the high-growth areas already served in Raleigh-Research Triangle Park, Heater Utilities now offers water and wastewater service to more than 46,000 customers in 32 counties.

Early in 1999, Minnesota Power's Florida Water Services completed the



purchase of the water-wastewater assets of Palm Coast Utility Corporation in northeast Florida. Florida Water Services is the largest investor owned water utility in the state, with 210,000 customers.

Water Services' personnel have been an integral part of the successful expansion. An employee team from Florida Water captured a national title in water treatment operations and regulations last summer in the "Top Ops Challenge," sponsored by the American Waterworks Association. Employees from Florida Water outpaced challengers from some of the largest utilities in the nation, as Florida Water became the first investor owned water utility to win the title. Florida Water was also selected from among 700 businesses as one of 1999's Top 25 Companies for Working Families in Central Florida in a ranking sponsored by an Orlando newspaper organization.

We continue to strive for expansion in markets served by the non-regulated components of our water business: Americas' Water Services (AWS), Vibration Correction Services (VCS) and Instrumentation Services, Inc. (ISI).

Chicago-based AWS will expand its contract operations in the Midwest and Florida, while VCS has broadened its client base in Minnesota. ISI continues to offer a range of predictive maintenance services to a variety of industrial companies, including Minnesota Power Electric customers in mining and wood products.

Performance-tested utilities, market-driven businesses and good people will continue to distinguish Minnesota Power Water Services as "more than Florida, more than water."

investments

In addition to the Cape Coral properties, Florida Real Estate includes 1,500 acres and about 400 home sites in Lehigh; 650 home sites in Sugarmill Woods; and 2,100 home sites and 10,000 acres at Palm Coast.

Over the next several years, Minnesota Power intends to use its Investments segment to shape a new growth profile for the corporation.

Because the new Horizon 2005 plan focuses on growth, Minnesota Power is retooling its investment strategy to be more responsive to rapidly changing economic trends and better able to deploy capital in the corporation.

This retooling, along with the recent acquisition of more Florida real estate in 1999, will position Minnesota Power Investments to actively assist in the corporation's focused growth. Components will continue to be a securities portfolio, diversified venture capital investments and real estate operations.

Supplemented by internal cash generation, the securities portfolio provides short-term liquidity to fund strategic corporate initiatives. The portfolio has traditionally been called upon to enhance earnings. Going forward, the portfolio will be focused more on providing financial flexibility to support strategic growth opportunities.

Our investment in Capital Re Corporation, a reinsurance company, ended Dec. 30, 1999 when shareholders of Capital Re voted to merge the company with ACE Limited (NYSE: ACL), a larger firm. Minnesota Power had been an investor in Capital Re since its formation in 1988. The Company exchanged 7.3 million shares of Capital Re common stock for 4.7 million shares of ACE



Limited common stock plus \$25.1 million in cash upon the completion of the merger. Based on the Dec. 29, 1999 \$16.75 closing price of ACE, the total value of proceeds received was \$104.4 million. The transaction resulted in a non-cash charge of \$36.2 million to net income for the year ended Dec. 31, 1999.

Also included in Investments are venture capital funds that invest in companies developing advanced technologies to be used by the utility industry. As successful companies "go public" or are sold, investors, like Minnesota Power, may realize income.

Minnesota Power's Florida subsidiaries replenished their Florida real estate inventory in 1999 with a major acquisition of residential, commercial and recreational properties in Cape Coral. The \$36 million purchase included approximately 2,500 acres of commercially and residentially zoned land, home sites, a golf resort, marina and commercial buildings.

Acquiring the Cape Coral properties further diversifies a real estate portfolio that already includes Florida assets in Lehigh, Palm Coast and Sugarmill Woods. The sell-off of these properties will contribute earnings and cash flow to Minnesota Power well into the next decade. The diversity of Minnesota Power Real Estate mirrors the Company's investment strategy.

With holdings that range from the highly liquid portfolio to longer term real estate assets, the Investments segment provides the ability to take advantage of business opportunities while maintaining steady and consistent earnings.

electric

Customers of MP Telecom include wireless providers, competitive local exchange carriers and larger bandwidth users such as universities, medical facilities and technology-based businesses.

Don't let Minnesota Power Electric's traditional service territory fool you. This core business unit is prepared to compete on an expanded scale, in a larger arena. Regulated utilities, like ours, are in a period of transition that will result in major structural changes.

Generation, delivery and traditional electric utility services will eventually be separated. There will be fewer all-purpose power companies and more sector specialists.

Minnesota Power Electric has taken deliberate steps to remain a low cost, reliable energy supplier in its core business, while entering into non-regulated businesses to strengthen its competitive position.

We wholeheartedly support customer choice. It will not happen in Minnesota for a few years, but customer choice is coming, and we are looking forward to it.

We think our customers will continue to choose Minnesota Power. And we think new customers will find very appealing the reliable and competitively priced energy we've been selling for decades.

We believe utilities will be outsourcing many of the services they have traditionally provided as the electric industry becomes more competitive. This will open up opportunities in the utilities services sector. Minnesota Power Electric intends to capitalize on its wholesale and retail marketing expertise and its low cost.



Our plan is to build an unregulated business that is a leader in delivering value-added products and services to other utilities and businesses.

Minnesota Power Electric moves toward industry restructuring from a position of strength. We are experienced in serving large industrial customers; our location has compelling advantages. For a mid-sized electric utility, what better geographic positioning than to be between the extensive hydropower generation resources in Canada and thriving Midwestern markets such as Milwaukee, the Twin Cities and Chicago?

The partnerships we've cemented with our biggest customers could well lead to expanded power supply relationships. Our Key Account Managers are discussing with our largest customers the various ways Minnesota Power could provide products and services to them in other locations around the country. We believe no other utility in America can match our experience in serving the specialized needs of large industrial customers. The prospect of extending this large power marketing savvy to a wider client base is another reason we endorse customer choice.

Minnesota Power's new Horizon 2005 strategy requires both vision and action as it relates to our electric operations. It's why we signed a 15-year agreement to purchase 275 megawatts of electric power from a new generating plant to be built southwest of Chicago. Our subsidiary, Rainy River Energy, executed this deal with LS Power, a privately owned independent power producer. We're working with

existing and potential new customers who have locations in the Chicago area, to give them new options for supplementing their power supply.

We've partnered with Wisconsin Public Service Corporation, based in Green Bay, Wisconsin, to jointly construct, with an option to own, a 345-kilovolt transmission line. It will run about 250 miles, from our Arrowhead substation in Duluth to Wausau, Wisconsin. This proposal, called "Power Up Wisconsin," will mean more reliable service for our customers and others in Wisconsin and Minnesota. This new line will provide an additional path for high voltage power in order to ease overloading in the most restricted part of the electric grid in the Upper Midwest.



VIRGINIA, MINNESOTA: Bill Bond of Ispat Inland Mining Co. and Aaron Anderson, Minnesota Power Account Engineer, on the Line 3 Rod Mill at Ispat's taconite plant.

Minnesota Power and its subsidiary, Superior Water, Light and Power, announced plans to construct a new 90 megawatt generation plant in Superior, WI. The natural gas-fired power plant will help meet growing peak demand for electric power during summer and winter months, thereby improving the dependability of the electric system for our customers in the region. This facility may also help avoid the purchase of higher cost power when generating facilities are down for maintenance. Designed to allow for significant future expansion, the plant will also be capable of meeting the varied energy needs of regional industrial customers served by Minnesota Power and Superior Water, Light and Power.

of electricity and serves 29 distribution cooperatives in Minnesota and Wisconsin.

We've increased our investment in MP Telecom, our telecommunications subsidiary. Already, the MP Telecom fiber optic network is one of the state's most robust. Early in 2000, we will have 1,000 route miles of fiber connecting cities that hold 75 percent of Minnesota's population. Our network extends across northern Minnesota and through central Minnesota to St. Cloud.

Our Electric Outlet retail operation reaches an ever-widening marketplace every day. Catalog sales and e-commerce revenue continue to build momentum, bolstered by a growing customer base and an expanding web of partners who share proprietorship at our innovative Electric Outlet online store (www.electric-outlet.com).

At the heart of Minnesota Power, Inc., our Electric businesses are geared up for powerful change. We'll continue to strengthen ties to our unique customer base while leveraging the advantages we have in an evolving industry. We're working to make customer choice, when it comes, an easy decision. Choose Minnesota Power Electric.

Minnesota Power Corporate Officers

John Cirello
Executive Vice President
President and Chief Executive Officer — MP Water Resources

Donnie R. Crandell
Executive Vice President
President — MP Real Estate Holdings

Robert D. Edwards
Executive Vice President
President — MP Electric

John E. Fuller
Executive Vice President
President and Chief Executive Officer — AFC

Brenda J. Flayton
Vice President — Human Resources

Laurence H. Fuller
Vice President — Corporate Development

David G. Gartzke
Senior Vice President — Finance and Chief Financial Officer

James P. Hallet
Executive Vice President
President and Chief Executive Officer — ADESA

Philip R. Halverson
Vice President, General Counsel and Secretary

David P. Jeronimus
Vice President — Environmental Services

James A. Roberts
Vice President — Corporate Relations

Edwin L. Russell
Chairman, President and Chief Executive Officer

Mark A. Schober
Controller

James K. Vizanko
Treasurer

Claudia Scott Welty
Vice President — Information Technology

Investor Information

Shareholder Information and Assistance

For shareholder information and assistance, write or call Shareholder Services at our corporate headquarters.

Minnesota Power
30 West Superior Street
Duluth, MN 55802-2093

Toll-free phone: 1-800-535-3056
Duluth area number: 723-3974
FAX: 218-720-2502
E-mail: vwatkins@mnpower.com

Invest Direct

Minnesota Power offers Invest Direct — a multi-featured direct stock purchase and dividend reinvestment plan. For information, contact Shareholder Services.

Analyst Inquiries

Security analysts seeking information about the Company may contact Director of Investor Relations Timothy J. Thorp.

Phone: 218-723-3953
FAX: 218-720-2507
E-mail: tthorp@mnpower.com

Annual Meeting

Our Annual Meeting of Shareholders is held the second Tuesday in May. Shareholders are invited to attend the 2000 Annual Meeting, beginning at 10:00 a.m., May 9, at the Duluth Entertainment and Convention Center, 350 Harbor Drive, Duluth, MN.

Stock Exchange Listings

Minnesota Power Common Stock is listed on the New York Stock Exchange under the symbol MPL. The American Stock Exchange lists our 5% Preferred Stock (MPLpf5). Daily price quotes on our Common Stock may be found in many newspapers under the New York Stock Exchange composite transaction listing.

Transfer Agents for Common and Preferred Stock

Minnesota Power, Duluth, MN
Wells Fargo Bank, N.A.

Registrars for Common and Preferred Stock

Minnesota Power, Duluth, MN
Wells Fargo Bank, N.A.

Common Stock Dividend Payment Dates

March 1, June 1, September 1 and December 1

Preferred Stock Dividend Payment Dates

January 1, April 1, July 1 and October 1

Annual Report

This Annual Report and Form 10-K, and the financial statements contained herein, are submitted for the general information of the shareholders of the Company and not in connection with the sale or offer for sale of, or solicitation of an offer to buy, any securities.

Corporate Website

www.mnpower.com



board of directors

(back row, left to right)

Arend J. Sandbulte, 66, is the retired Chairman, President and CEO of Minnesota Power, Duluth, MN.

Merrill K. Cragun, 67, is President of Cragun Corp., which owns and operates a resort, golf course and conference center in Brainerd, MN.

George L. Mayer, 55, is President of Manhattan Realty Group, Larchmont, NY.

Nick Smith, 63, is Chairman and CEO of Northeast Ventures, a venture capital firm, and of counsel to Fryberger, Buchanan, Smith and Frederick, PA, a Duluth, MN, law firm.

Peter J. Johnson, 63, is Chairman and CEO of Hoover Construction Co., Virginia, MN, and Chairman of Michigan Limestone Operations, Rogers City, MI.

Jack I. Rajala, 60, is Chairman and CEO of Rajala Companies, lumber manufacturing and trading firms, Grand Rapids, MN.

Donald C. Wegmiller, 61, is President and CEO of HealthCare Compensation Strategies, a healthcare consulting firm, Minneapolis.

(seated, left to right)

Dennis E. Evans, 61, is President and CEO of Hanrow Financial Group, Ltd., a merchant banking firm, Minneapolis.

Kathleen A. Brekken, 50, is President and CEO of Midwest of Cannon Falls, Inc., a Minnesota-based designer, wholesaler and distributor of giftware.

Bruce W. Stender, 57, is President and CEO of Labovitz Enterprises, which owns and manages hotels and commercial real estate, Duluth, MN.

Edwin L. Russell, 54, is Chairman, President and CEO of Minnesota Power, Duluth, MN.

Minnesota Power is proud to use the products and services of its customers in this Annual Report to Shareholders. The front section of the report is printed on Vintage Gloss, a fine paper manufactured by the Minnesota Pulp and Paper Division of Potlatch Corporation. Banta Direct Marketing printed this report on its state-of-the-art presses. Minnesota Power provides electricity to Potlatch's papermaking facilities in Brainerd and Cloquet, MN and to the Banta facility at Long Prairie, MN.