

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

For the quarterly period ended JUNE 30, 2001

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

Commission File No. 1-3548

ALLETE, INC.

A Minnesota Corporation  
IRS Employer Identification No. 41-0418150  
30 West Superior Street  
Duluth, Minnesota 55802-2093  
Telephone - (218) 279-5000

Indicate by check mark whether the registrant (1) has filed all reports required  
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during  
the preceding 12 months and (2) has been subject to such filing requirements for  
the past 90 days.

Yes      X      No  
-----      -----

Common Stock, no par value,  
82,942,566 shares outstanding  
as of July 31, 2001

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## DEFINITIONS

The following abbreviations or acronyms are used in the text. References in this report to "we," "us" and "our" are to ALLETE, Inc. and its subsidiaries, collectively.

ABBREVIATION OR ACRONYM	TERM
2000 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2000
ACE	ACE Limited
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, Inc.
ALLETE Water Services	ALLETE Water Services, Inc.
APC	Auto Placement Center, Inc.
Capital Re Company	Capital Re Corporation
ComSearch	ALLETE, Inc. and its subsidiaries
Dicks Creek	ComSearch, Inc.
EBITDAL	Dicks Creek Wastewater Utility
	Earnings Before Interest, Taxes, Depreciation, Amortization and Lease Expense
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
Heater	Heater Utilities, Inc.
MAPP	Mid-Continent Area Power Pool
MP Telecom	Minnesota Power Telecom, Inc.
MPUC	Minnesota Public Utilities Commission
NCUC	North Carolina Utilities Commission
PSCW	Public Service Commission of Wisconsin
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standard No.
Split Rock	Split Rock Energy LLC
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company

SAFE HARBOR STATEMENT UNDER  
THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this quarterly report on Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will likely result," "will continue" or similar expressions) are not statements of historical facts and may be forward-looking.

Forward-looking statements involve estimates, assumptions and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors, which are difficult to predict, contain uncertainties, are beyond our control and may cause actual results to differ materially from those contained in forward-looking statements:

- prevailing governmental policies and regulatory actions, including those of the United States Congress, state legislatures, the FERC, the MPUC, the FPSC, the NCUC, the PSCW and various county regulators, about allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and capital investments, and present or prospective wholesale and retail competition (including but not limited to transmission costs);
- economic and geographic factors, including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- population growth rates and demographic patterns;
- competition for retail and wholesale customers;
- pricing and transportation of commodities;
- market demand, including structural market changes;
- changes in tax rates or policies or in rates of inflation;
- changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- capital market conditions;
- competition for new energy and other development opportunities; and
- legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Any forward-looking statement speaks only as of the date on which that statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of those factors, nor can it assess the impact of each of those factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

ALLETE  
CONSOLIDATED BALANCE SHEET  
Millions

	JUNE 30, 2001 Unaudited	DECEMBER 31, 2000 Audited
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$ 274.6	\$ 219.3
Trading Securities	159.6	90.8
Accounts Receivable (Less Allowance of \$12.9 and \$11.7)	399.0	265.7
Inventories	29.7	26.4
Prepayments and Other	161.9	128.8
<b>Total Current Assets</b>	<b>1,024.8</b>	<b>731.0</b>
Property, Plant and Equipment	1,528.3	1,479.7
Investments	114.6	116.4
Goodwill	503.6	472.8
Other Assets	122.5	114.1
<b>TOTAL ASSETS</b>	<b>\$3,293.8</b>	<b>\$2,914.0</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 380.0	\$ 269.1
Accrued Taxes, Interest and Dividends	50.7	52.3
Notes Payable	201.1	274.2
Long-Term Debt Due Within One Year	12.3	15.8
Other	95.4	95.6
<b>Total Current Liabilities</b>	<b>739.5</b>	<b>707.0</b>
Long-Term Debt	1,068.8	952.3
Accumulated Deferred Income Taxes	129.1	125.1
Other Liabilities	171.0	153.8
<b>Total Liabilities</b>	<b>2,108.4</b>	<b>1,938.2</b>
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary ALLETE Capital I Which Holds Solely Company Junior Subordinated Debentures		
	75.0	75.0
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock Without Par Value, 130.0 Shares Authorized 82.6 and 74.7 Shares Outstanding	743.6	576.9
Unearned ESOP Shares	(54.0)	(55.7)
Accumulated Other Comprehensive Loss	(0.4)	(4.2)
Retained Earnings	421.2	383.8
<b>Total Stockholders' Equity</b>	<b>1,110.4</b>	<b>900.8</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$3,293.8</b>	<b>\$2,914.0</b>

The accompanying notes are an integral part of these statements.

ALLETE  
CONSOLIDATED STATEMENT OF INCOME  
Millions Except Per Share Amounts - Unaudited

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
<b>OPERATING REVENUE</b>				
Energy Services	\$147.9	\$138.9	\$307.3	\$280.5
Automotive Services	220.8	129.7	431.9	249.2
Water Services	31.4	31.7	60.9	59.7
Investments	42.9	26.7	55.9	60.2
<b>Total Operating Revenue</b>	<b>443.0</b>	<b>327.0</b>	<b>856.0</b>	<b>649.6</b>
<b>OPERATING EXPENSES</b>				
Fuel and Purchased Power	56.8	53.5	119.2	106.6
Operations	292.6	201.2	565.2	402.4
Interest Expense	21.4	15.2	43.4	31.5
<b>Total Operating Expenses</b>	<b>370.8</b>	<b>269.9</b>	<b>727.8</b>	<b>540.5</b>
<b>OPERATING INCOME BEFORE ACE</b>	<b>72.2</b>	<b>57.1</b>	<b>128.2</b>	<b>109.1</b>
<b>INCOME FROM DISPOSITION OF INVESTMENT IN ACE</b>	<b>-</b>	<b>48.0</b>	<b>-</b>	<b>48.0</b>
<b>OPERATING INCOME</b>	<b>72.2</b>	<b>105.1</b>	<b>128.2</b>	<b>157.1</b>
<b>DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF ALLETE CAPITAL I</b>	<b>1.5</b>	<b>1.5</b>	<b>3.0</b>	<b>3.0</b>
<b>INCOME TAX EXPENSE</b>	<b>28.2</b>	<b>39.4</b>	<b>49.8</b>	<b>59.5</b>
<b>NET INCOME</b>	<b>\$ 42.5</b>	<b>\$ 64.2</b>	<b>\$ 75.4</b>	<b>\$ 94.6</b>
<b>AVERAGE SHARES OF COMMON STOCK</b>				
Basic	73.4	69.6	72.4	69.4
Diluted	74.0	69.9	73.0	69.5
<b>EARNINGS PER SHARE OF COMMON STOCK</b>				
Basic	\$0.58	\$0.92	\$1.04	\$1.35
Diluted	\$0.57	\$0.92	\$1.03	\$1.35
<b>DIVIDENDS PER SHARE OF COMMON STOCK</b>	<b>\$0.2675</b>	<b>\$0.2675</b>	<b>\$0.535</b>	<b>\$0.535</b>

The accompanying notes are an integral part of this statement.

ALLETE  
CONSOLIDATED STATEMENT OF CASH FLOWS  
Millions - Unaudited

	SIX MONTHS ENDED JUNE 30,	
	2001	2000
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 75.4	\$ 94.6
Gain from Disposition of Investment in ACE	-	(48.0)
Depreciation and Amortization	50.9	41.4
Deferred Income Taxes	5.8	(12.8)
Changes In Operating Assets and Liabilities		
Trading Securities	(68.8)	81.5
Accounts Receivable	(133.3)	(89.5)
Inventories	(3.3)	(2.3)
Accounts Payable	110.9	153.6
Other Current Assets and Liabilities	(37.9)	(28.3)
Other - Net	16.4	14.0
Cash From Operating Activities	16.1	204.2
<b>INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	2.6	144.6
Additions to Investments	(9.6)	(27.6)
Additions to Property, Plant and Equipment	(78.3)	(56.5)
Acquisitions - Net of Cash Acquired	(56.4)	(181.0)
Other - Net	16.3	9.0
Cash For Investing Activities	(125.4)	(111.5)
<b>FINANCING ACTIVITIES</b>		
Issuance of Common Stock	164.3	13.1
Issuance of Long-Term Debt	126.1	48.8
Changes in Notes Payable - Net	(73.1)	30.2
Reductions of Long-Term Debt	(13.1)	(41.4)
Redemption of Preferred Stock	-	(10.0)
Dividends on Preferred and Common Stock	(38.0)	(37.7)
Cash From Financing Activities	166.2	3.0
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1.6)	(3.5)
CHANGE IN CASH AND CASH EQUIVALENTS	55.3	92.2
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	219.3	101.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$274.6	\$193.7
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash Paid During the Period For		
Interest - Net of Capitalized	\$41.7	\$30.8
Income Taxes	\$33.1	\$54.6

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2000 Form 10-K. In our opinion all adjustments necessary for a fair statement of the results for the interim periods have been included. The results of operations for an interim period may not give a true indication of results for the year.

NOTE 1. BUSINESS SEGMENTS

Millions

	Consolidated	Energy Services	Automotive Services	Water Services	Investments	Corporate Charges
-----						
For the Quarter Ended						
-----						
June 30, 2001						
-----						
Operating Revenue	\$443.0	\$147.9	\$220.8	\$31.4	\$42.9	-
Operation and Other Expense	315.5	114.2	160.4	18.4	14.2	\$ 8.3
Depreciation and Amortization Expense	25.5	11.4	10.1	3.8	0.1	0.1
Lease Expense	8.4	0.8	7.1	0.5	-	-
Interest Expense	21.4	5.3	10.0	2.6	-	3.5
-----						
Operating Income (Loss)	72.2	16.2	33.2	6.1	28.6	(11.9)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.6	-	-	-	0.9
Income Tax Expense (Benefit)	28.2	6.1	13.1	2.4	11.3	(4.7)
-----						
Net Income (Loss)	\$ 42.5	\$ 9.5	\$ 20.1	\$ 3.7	\$17.3	\$(8.1)
-----						
EBITDAL	\$127.5	\$33.7	\$60.4	\$13.0	\$28.7	\$(8.3)
-----						

For the Quarter Ended

June 30, 2000

-----						
June 30, 2000						
-----						
Operating Revenue	\$327.0	\$138.9	\$129.7	\$31.7	\$26.7	-
Operation and Other Expense	227.2	105.4	90.1	18.3	10.1	\$ 3.3
Depreciation and Amortization Expense	21.1	11.6	5.7	3.7	-	0.1
Lease Expense	6.4	0.8	5.1	0.5	-	-
Interest Expense	15.2	5.3	3.8	2.5	-	3.6
-----						
Operating Income (Loss) Before ACE	57.1	15.8	25.0	6.7	16.6	(7.0)
Income from Disposition of ACE	48.0	-	-	-	48.0	-
-----						
Operating Income (Loss)	105.1	15.8	25.0	6.7	64.6	(7.0)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.5	-	-	-	1.0
Income Tax Expense (Benefit)	39.4	6.0	10.3	2.6	24.0	(3.5)
-----						
Net Income (Loss)	\$ 64.2	\$ 9.3	\$ 14.7	\$ 4.1	\$40.6	\$(4.5)
-----						
EBITDAL	\$99.8	\$33.5	\$39.6	\$13.4	\$16.6	\$(3.3)
-----						

Included \$38.2 million of Canadian operating revenue in 2001 (\$26.2 million in 2000).

NOTE 1. BUSINESS SEGMENTS CONTINUED  
Millions

	Consolidated	Energy Services	Automotive Services	Water Services	Investments	Corporate Charges
-----						
For the Six Months Ended						
-----						
June 30, 2001						
-----						
Operating Revenue	\$856.0	\$307.3	\$431.9	\$60.9	\$55.9	-
Operation and Other Expense	617.1	236.2	313.7	35.9	18.5	\$ 12.8
Depreciation and Amortization Expense	50.9	23.0	20.1	7.5	0.1	0.2
Lease Expense	16.4	1.4	13.9	1.1	-	-
Interest Expense	43.4	10.2	20.6	5.3	-	7.3
-----						
Operating Income (Loss)	128.2	36.5	63.6	11.1	37.3	(20.3)
Distributions on Redeemable Preferred Securities of Subsidiary	3.0	1.2	-	-	-	1.8
Income Tax Expense (Benefit)	49.8	13.9	25.8	4.3	14.5	(8.7)
-----						
Net Income (Loss)	\$ 75.4	\$ 21.4	\$ 37.8	\$ 6.8	\$22.8	\$(13.4)
-----						
EBITDAL	\$238.9	\$71.1	\$118.2	\$25.0	\$37.4	\$(12.8)
Total Assets	\$3,293.8	\$1,027.7	\$1,623.2	\$345.4	\$297.3	\$0.2
Property, Plant and Equipment	\$1,528.3	\$796.6	\$453.0	\$278.7	-	-
Accumulated Depreciation and Amortization	\$1,019.0	\$682.9	\$111.3	\$222.5	\$2.3	-
Capital Expenditures	\$78.3	\$29.3	\$33.9	\$15.1	-	-
-----						
For the Six Months Ended						
-----						
June 30, 2000						
-----						
Operating Revenue	\$649.6	\$280.5	\$249.2	\$59.7	\$60.2	-
Operation and Other Expense	455.2	211.7	175.2	35.6	25.0	\$ 7.7
Depreciation and Amortization Expense	41.4	23.1	10.5	7.5	0.1	0.2
Lease Expense	12.4	1.5	10.0	0.9	-	-
Interest Expense	31.5	10.5	7.7	5.1	-	8.2
-----						
Operating Income (Loss) Before ACE	109.1	33.7	45.8	10.6	35.1	(16.1)
Income from Disposition of ACE	48.0	-	-	-	48.0	-
-----						
Operating Income (Loss)	157.1	33.7	45.8	10.6	83.1	(16.1)
Distributions on Redeemable Preferred Securities of Subsidiary	3.0	0.9	-	-	-	2.1
Income Tax Expense (Benefit)	59.5	12.8	19.2	4.1	31.0	(7.6)
-----						
Net Income (Loss)	\$ 94.6	\$ 20.0	\$ 26.6	\$ 6.5	\$52.1	\$(10.6)
-----						
EBITDAL	\$194.4	\$68.8	\$74.0	\$24.1	\$35.2	\$(7.7)
Total Assets	\$2,560.2	\$889.4	\$1,073.8	\$324.4	\$272.1	\$0.5
Property, Plant and Equipment	\$1,311.5	\$769.4	\$279.5	\$262.6	-	-
Accumulated Depreciation and Amortization	\$1,018.0	\$650.7	\$162.5	\$202.8	\$2.0	-
Capital Expenditures	\$56.5	\$20.4	\$24.5	\$11.6	-	-
-----						

Included \$73.0 million of Canadian operating revenue in 2001 (\$44.3 million in 2000).  
Included \$310.4 million of Canadian assets in 2001 (\$227.9 million in 2000).

NOTE 2. ACQUISITIONS

ADESA AUCTION FACILITIES. On January 18, 2001 we acquired all of the outstanding stock of ComSearch in exchange for ALLETE common stock and paid cash to purchase all of the assets of APC in transactions with an aggregate value of \$62.4 million. APC was accounted for using the purchase method. APC financial results have been included in our consolidated financial statements since the date of purchase. ComSearch was accounted for as a pooling of interests with financial results included in our consolidated financial statements since January 1, 2001. Pro forma financial results have not been presented due to immateriality. APC is a provider of "total loss" vehicle recovery services with ten auction facilities in the United States. ComSearch provides Internet-based parts location and insurance adjustment audit services nationwide.

On May 1, 2001 ADESA purchased the assets of the I-44 Auto Auction in Tulsa, Oklahoma. The transaction was accounted for using the purchase method. Financial results have been included in our consolidated financial statements since the date of purchase. Pro forma financial results have not been presented due to immateriality. The I-44 Auto Auction, which is located on 75 acres, was renamed ADESA Tulsa and offers six auction lanes, storage for over 3,000 vehicles and a five-bay reconditioning and detail facility.

DICKS CREEK. In February 2001 ALLETE Water Services completed the December 2000 purchase of the assets of Dicks Creek, a wastewater utility located near Atlanta, Georgia, for \$6.6 million plus a commitment to pay the seller a fee for residential connections. The commitment requires the payment of a minimum of \$400,000 annually beginning December 31, 2001 for four years or until cumulative payments reach \$2 million, whichever occurs first. The transaction was accounted for using the purchase method. Financial results have been included in our consolidated financial statements since February 2001. Pro forma financial results have not been presented due to immateriality.

NOTE 3. INVESTMENT IN ACE

In May 2000 we recorded a \$30.4 million, or \$0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that we received in December 1999 when Capital Re merged with ACE. At the time of the merger we owned 7.3 million shares, or 20 percent, of Capital Re.

NOTE 4. LONG-TERM DEBT

On February 21, 2001 ALLETE issued \$125 million of 7.80% Senior Notes, due February 15, 2008. Proceeds were used to repay a portion of ALLETE's short-term borrowings incurred for the acquisition of vehicle auction facilities purchased in 2000 and early 2001, and for general corporate purposes.

NOTE 5. COMMON STOCK

During the quarter ended June 30, 2001, we issued and sold 6.6 million shares of common stock at \$23.68 per share in an underwritten public offering. Net proceeds of \$150 million were used to repay a portion of our short-term borrowings with the remainder invested in short-term instruments.

NOTE 6. TOTAL COMPREHENSIVE INCOME

For the quarter ended June 30, 2001 total comprehensive income was \$52.8 million (\$42.7 million for the quarter ended June 30, 2000). For the six months ended June 30, 2001 total comprehensive income was \$79.2 million (\$91.7 million for the six months ended June 30, 2000). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, changes in the fair value of an interest rate swap and foreign currency translation adjustments.

## NOTE 7. INCOME TAX EXPENSE

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
-----				
Millions				
Current Tax				
Federal	\$18.4	\$43.1	\$38.2	\$62.7
Foreign	0.4	0.6	1.2	1.1
State	2.2	5.2	4.6	8.5
	-----	-----	-----	-----
	21.0	48.9	44.0	72.3
	-----	-----	-----	-----
Deferred Tax				
Federal	6.3	(8.3)	5.1	(10.6)
Foreign	(0.2)	(0.2)	(0.4)	(0.3)
State	1.3	(0.8)	1.7	(1.3)
	-----	-----	-----	-----
	7.4	(9.3)	6.4	(12.2)
	-----	-----	-----	-----
Deferred Tax Credits	(0.2)	(0.2)	(0.6)	(0.6)
	-----	-----	-----	-----
Total Income Tax Expense	\$28.2	\$39.4	\$49.8	\$59.5
	-----	-----	-----	-----

## NOTE 8. EARNINGS PER SHARE

The difference between basic and diluted earnings per share arises from outstanding stock options and performance share awards granted under our Executive and Director Long-Term Incentive Compensation Plans.

RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE	QUARTER ENDED JUNE 30, 2001			SIX MONTHS ENDED JUNE 30, 2001		
	Basic EPS	Dilutive Securities	Diluted EPS	Basic EPS	Dilutive Securities	Diluted EPS
Millions Except Per Share Amounts						
Net Income	\$42.5	-	\$42.5	\$75.4	-	\$75.4
Common Shares	73.4	0.6	74.0	72.4	0.6	73.0
Per Share	\$0.58	-	\$0.57	\$1.04	-	\$1.03
	-----	-----	-----	-----	-----	-----

There was no difference between basic and diluted earnings per share for the quarter and six months ended June 30, 2000.

## NOTE 9. NEW ACCOUNTING STANDARD

In July 2001 the FASB issued SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease for fiscal years beginning after December 15, 2001. We have \$537 million of goodwill as of June 30, 2001 and after-tax goodwill amortization expense of approximately \$5.5 million for the first six months of 2001. Annual after-tax goodwill amortization expense is expected to be approximately \$11 million in 2001. We do not believe we have any goodwill impairment at this time.

NOTE 10. SQUARE BUTTE PURCHASED POWER CONTRACT

Minnesota Power, our electric utility business, has a power purchase agreement with Square Butte that extends through 2026 (Agreement). It provides a long-term supply of low-cost energy to customers in our electric service territory and enables Minnesota Power to meet power pool reserve requirements. Square Butte, a North Dakota cooperative corporation, owns a 455-megawatt coal-fired generating unit (Unit) near Center, North Dakota. The Unit is adjacent to a generating unit owned by Minnkota Power Cooperative, Inc. (Minnkota), a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as the operator of the Unit and also purchases power from Square Butte.

Minnesota Power is entitled to approximately 71 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce Minnesota Power's entitlement by 5 percent annually, to a minimum of 50 percent. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At June 30, 2001 Square Butte had total debt outstanding of \$314.9 million. Total annual debt service for Square Butte is expected to be approximately \$36 million in each of the years 2001 through 2003 and \$23 million in both 2004 and 2005. Variable operating costs include the price of coal purchased from BNI Coal, Ltd., our subsidiary, under a long-term contract. Minnesota Power's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and FERC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

ALLETE is a multi-services company with operations in four business segments: (1) ENERGY SERVICES, which include electric and gas services, coal mining and telecommunications; (2) AUTOMOTIVE SERVICES, which include a network of vehicle auctions, an automobile dealer finance company, and several subsidiaries that are integral parts of the vehicle redistribution business; (3) WATER SERVICES, which include water and wastewater services; and (4) INVESTMENTS, which include real estate operations, investments in emerging technologies related to the electric utility industry and a securities portfolio. Corporate charges represent general corporate expenses, including interest, not specifically related to any one business segment.

CONSOLIDATED OVERVIEW

Each of our operating segments produced solid financial results during the first six months of 2001, reflecting the success of ALLETE's growth initiatives. Excluding the ACE transaction (see net income discussion below), net income and earnings per share for the quarter ended June 30, 2001 increased 26 percent and 19 percent, respectively, over the same period in 2000. For the six months ended June 30, 2001, excluding the ACE transaction, net income was up 17 percent and earnings per share were up 13 percent over the same period in 2000.

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
-----				
Millions Except Per Share Amounts				
OPERATING REVENUE				
Energy Services	\$147.9	\$138.9	\$307.3	\$280.5
Automotive Services	220.8	129.7	431.9	249.2
Water Services	31.4	31.7	60.9	59.7
Investments	42.9	26.7	55.9	60.2
	-----	-----	-----	-----
	\$443.0	\$327.0	\$856.0	\$649.6
-----				
OPERATING EXPENSES				
Energy Services	\$131.7	\$123.1	\$270.8	\$246.8
Automotive Services	187.6	104.7	368.3	203.4
Water Services	25.3	25.0	49.8	49.1
Investments	14.3	10.1	18.6	25.1
Corporate Charges	11.9	7.0	20.3	16.1
	-----	-----	-----	-----
	\$370.8	\$269.9	\$727.8	\$540.5
-----				
NET INCOME				
Energy Services	\$ 9.5	\$ 9.3	\$21.4	\$20.0
Automotive Services	20.1	14.7	37.8	26.6
Water Services	3.7	4.1	6.8	6.5
Investments	17.3	10.2	22.8	21.7
Corporate Charges	(8.1)	(4.5)	(13.4)	(10.6)
	-----	-----	-----	-----
	42.5	33.8	75.4	64.2
ACE Transaction	-	30.4	-	30.4
	-----	-----	-----	-----
	\$42.5	\$64.2	\$75.4	\$94.6
-----				
DILUTED AVERAGE SHARES OF COMMON STOCK				
	74.0	69.9	73.0	69.5
-----				
DILUTED EARNINGS PER SHARE OF COMMON STOCK				
Before ACE Transaction	\$0.57	\$0.48	\$1.03	\$0.91
ACE Transaction	-	0.44	-	0.44
	-----	-----	-----	-----
	\$0.57	\$0.92	\$1.03	\$1.35
-----				

Including the \$30.4 million gain associated with the ACE transaction, net income from Investments was \$40.6 million for the quarter ended June 30, 2000 and \$52.1 million for the six months ended June 30, 2000. (See Note 3.)

## NET INCOME

The following net income discussion summarizes significant events for the six months ended June 30, 2001.

ENERGY SERVICES' net income in 2001 reflected more profitable wholesale marketing and trading activities because of overall market conditions, decreased sales to industrial customers and additional costs incurred as a result of a severe ice storm.

AUTOMOTIVE SERVICES reported a 42 percent increase in net income in 2001 due to significant acquisitions made in 2000 and early 2001 and increased financing activity at AFC's loan production offices. EBITDAL for ADESA's 28 same-store auction facilities was up 7 percent for the six months ended June 30, 2001 (13 percent for the quarter ended June 30, 2001). Increased costs and reduced sales volumes because of inclement weather in early 2001 hampered financial results. Costs of assimilating the 28 vehicle auction facilities acquired or opened in 2000 also impacted 2001 results.

WATER SERVICES' net income was slightly higher in 2001 reflecting customer growth, an October 2000 rate increase implemented by Heater, cost control efforts and the release of escrow proceeds received from the sale of assets to Orange County, Florida in 1997. Above-average rainfall in Florida during the second quarter and conservation efforts negatively impacted net income in 2001.

INVESTMENTS reported higher net income in 2001 primarily due to increased sales by our real estate operations. In June 2001 our real estate operations closed its largest sale ever. The after-tax return on our securities portfolio was 10.02 percent in 2001 (6.02 percent in 2000), however, we had a lower average balance in 2001. During 2000 we reduced the size of our securities portfolio to partially fund significant acquisitions made by Automotive Services.

CORPORATE CHARGES reflected increased interest expense and additional incentive compensation accruals.

ACE TRANSACTION. In May 2000 we recorded a \$30.4 million, or \$0.44 per share, after-tax gain on the sale of the 4.7 million shares of ACE that we received in December 1999 when Capital Re merged with ACE.

## COMPARISON OF THE QUARTERS ENDED JUNE 30, 2001 AND 2000

### OPERATING REVENUE

ENERGY SERVICES' operating revenue was up \$9.0 million, or 6 percent, in 2001, due to additional demand revenue from large power customers who converted a portion of their interruptible power to firm power, fuel clause recoveries for higher purchased power and gas prices, and wholesale power marketing and trading activities by Split Rock and Minnesota Power. Minnesota Power's retail megawatt-hour sales were down 3 percent because of temporary shutdowns and reduced production by taconite customers. Minnesota Power's wholesale megawatt-hour sales were lower because sales are now made by Split Rock and recorded in its financial statements. Split Rock, a joint venture between Minnesota Power and Great River Energy, combines power supply capabilities and customer loads to share market and supply risks and to optimize power trading opportunities. Our equity income from Split Rock was \$2.9 million more in 2001.

Revenue from electric sales to taconite customers accounted for 9 percent of consolidated operating revenue in 2001 (13 percent in 2000). Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in 2001 (5 percent in 2000). Sales to other power suppliers accounted for 4 percent of consolidated operating revenue in 2001 (6 percent in 2000).

AUTOMOTIVE SERVICES' operating revenue was up \$91.1 million, or 70 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. At ADESA auction facilities 492,000 vehicles were sold in 2001 (307,000 in 2000), an increase of 60 percent. Financial results for 2001 included three months of operations from 28 auction facilities acquired or opened primarily in the second half of 2000 and results from acquisitions made in January and May 2001. Operating revenue from AFC was higher in

2001 reflecting a 15 percent increase in vehicles financed through existing loan production offices. AFC financed approximately 232,000 vehicles in 2001 (202,000 in 2000). AFC had 87 loan production offices at June 30, 2001 (86 at June 30, 2000).

WATER SERVICES' operating revenue was down \$0.3 million, or 1 percent, in 2001 due to a 9 percent decrease in consumption primarily attributable to above-average rainfall in Florida and conservation efforts. The decrease was tempered by additional revenue from a 7 percent increase in customers and an October 2000 rate increase implemented by Heater.

INVESTMENTS' operating revenue was up \$16.2 million, or 61 percent, in 2001 primarily due to stronger sales by our real estate operations. In 2001 two large real estate sales contributed \$30.4 million to revenue, one which was real estate operations' largest single transaction to date. In 2000 four large real estate sales contributed \$13.1 million to revenue. Revenue from our securities portfolio was down slightly in 2001 due to a lower average balance.

#### OPERATING EXPENSES

ENERGY SERVICES' operating expenses were up \$8.6 million, or 7 percent, in 2001 because of higher prices paid for purchased power and purchased gas. Operating expenses also increased in 2001 due to higher plant maintenance expenses and additional costs incurred as a result of a severe ice storm.

AUTOMOTIVE SERVICES' operating expenses were up \$82.9 million, or 79 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. In addition to the increased costs associated with having more vehicle auction facilities in operation, expenses in 2001 included integration costs, additional amortization of goodwill and higher interest expense related to debt issued in late 2000 to finance these acquisitions.

WATER SERVICES' operating expenses were up \$0.3 million, or 1 percent, in 2001 due to customer growth and the inclusion of water and wastewater systems acquired in 2000.

INVESTMENTS' operating expenses were up \$4.2 million, or 42 percent, in 2001 as a result of higher sales by our real estate operations.

#### COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2001 AND 2000

##### OPERATING REVENUE

ENERGY SERVICES' operating revenue was up \$26.8 million, or 10 percent, in 2001 due to additional demand revenue from large power customers who converted a portion of their interruptible power to firm power, fuel clause recoveries for higher purchased power and gas prices, and wholesale power marketing and trading activities. Minnesota Power's retail megawatthour sales were down 5 percent because of temporary shutdowns and reduced production by taconite customers. Minnesota Power's wholesale megawatthour sales were lower because sales are now made by Split Rock and recorded in its financial statements. Our equity income from Split Rock was \$3.1 million more in 2001.

Revenue from electric sales to taconite customers accounted for 9 percent of consolidated operating revenue in 2001 (13 percent in 2000). Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in 2001 (5 percent in 2000). Sales to other power suppliers accounted for 5 percent of consolidated operating revenue in 2001 (6 percent in 2000).

AUTOMOTIVE SERVICES' operating revenue was up \$182.7 million, or 73 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. At ADESA auction facilities 993,000 vehicles were sold in 2001 (602,000 in 2000), an increase of 65 percent. Financial results for 2001 included six months of operations from 28 auction facilities acquired or opened primarily in the second half of 2000 and results from acquisitions made in January and May 2001. Sales volumes in 2001 were hampered by inclement weather that resulted in both low attendance at and canceled auctions earlier in the year. Operating revenue from AFC was higher in 2001 reflecting a 14 percent increase in vehicles financed through

existing loan production offices. AFC financed approximately 453,000 vehicles in 2001 (397,000 in 2000). AFC had 87 loan production offices in 2001 (86 in 2000).

WATER SERVICES' operating revenue was up \$1.2 million, or 2 percent, in 2001 due to customer growth of 7 percent, an October 2000 rate increase implemented by Heater and the release of escrow proceeds received from the 1997 sale of assets to Orange County, Florida. Above-average rainfall in Florida and conservation efforts negatively impacted revenue in 2001.

INVESTMENTS' operating revenue was down \$4.3 million, or 7 percent, in 2001 primarily due to \$4.0 million less revenue from our emerging technology investments as a result of fewer sales of these investments in 2001. Revenue from our securities portfolio was down in 2001 due to a lower average balance. Our real estate operations reported stronger sales at all locations in 2001. Four large real estate sales in 2001 contributed \$33.1 million to revenue and included our largest single real estate transaction to date. In 2000 seven large real estate sales contributed \$31.9 million to revenue.

#### OPERATING EXPENSES

ENERGY SERVICES' operating expenses were up \$24 million, or 10 percent, in 2001 because of higher prices paid for purchased power and purchased gas. Operating expenses also increased in 2001 due to higher plant maintenance expenses and additional costs incurred as a result of a severe ice storm.

AUTOMOTIVE SERVICES' operating expenses were up \$164.9 million, or 81 percent, in 2001 primarily due to significant acquisitions made in 2000 and early 2001. In addition to the increased costs associated with having more vehicle auction facilities in operation, expenses in 2001 included integration costs, additional amortization of goodwill and higher interest expense related to debt issued in late 2000 to finance acquisitions. Operating expenses in 2001 also reflected additional expenses for utility and labor costs incurred as a result of inclement weather conditions compared to 2000 when weather conditions were relatively mild.

WATER SERVICES' operating expenses were up \$0.7 million, or 1 percent, in 2001 due to customer growth and the inclusion of water and wastewater systems acquired in 2000.

INVESTMENTS' operating expenses were down \$6.5 million, or 26 percent, in 2001 due to reduced expenses associated with sales by our real estate operations.

#### OUTLOOK

The solid performance from each of our four business segments during the first six months of 2001 reflected the success of ALLETE's growth initiatives.

ENERGY SERVICES. The economic health of the taconite industry is important to us and the impact of cheap foreign steel imports concerns us. While taconite production is currently expected to continue at annual levels of about 40 million tons, the longer-term outlook of this cyclical industry is less certain. In May 2001 we submitted a bid to acquire LTV Steel Mining Co.'s (LTV) three 75-megawatt electric generating units located in northern Minnesota. This bid was submitted in connection with a bid by Cleveland-Cliffs Inc. to acquire LTV's Minnesota mining assets. We believe our offer is competitive, but LTV has not yet responded to our proposal. Our recent acquisition of Enventis, Inc., a data network systems provider headquartered in the Minneapolis-St. Paul area, complements our existing infrastructure and fiber optics network in Minnesota and Wisconsin. While relatively small, this transaction helps position our telecommunications business as one of the leading integrated data service providers in the Upper Midwest. Overall, we believe Energy Services is well positioned for future growth opportunities.

AUTOMOTIVE SERVICES acquisitions made during 2000 and early 2001, and continued growth of AFC's vehicle finance business, contributed significantly to net income for the first six months of 2001. With the planned addition of "total loss" vehicle recovery services at existing ADESA vehicle auction facilities and economies of scale as a result of integration efficiencies at newly acquired vehicle auction facilities, we continue to expect that Automotive Services' 2001 net income contribution will be at least 40 percent over

last year. We also expect that EBITDAL from same-store ADESA auction facilities will increase 10 percent to 15 percent.

In 2001 industry-wide, dealer consignment sales have been down due to pricing pressure in the used vehicle market. The pricing pressure is partially caused by aggressive incentives currently offered by vehicle manufacturers. These incentives reduce the value of used vehicles. We continue to believe that vehicle sales within the auto auction industry are expected to rise at a rate of 2 percent to 4 percent annually over the next several years.

WATER SERVICES. Even though Florida had above-average rainfall during the second quarter of 2001 and water use restrictions remain in effect, Water Services' 2001 financial results are still on target due to customer growth at water and wastewater systems in both Florida and North Carolina.

INVESTMENTS. The \$29 million sale of the Tarpon Point property in Cape Coral, Florida in June 2001 was our real estate operations' largest single transaction to date. The real estate strategy continues to be to acquire large properties at low cost, add value and sell them at current market prices. Through subsidiaries, we own Florida real estate operations in four different locations:

- LEHIGH ACRES with 1,100 acres of land and approximately 500 home sites adjacent to Fort Myers, Florida;
- SUGARMILL WOODS with 475 home sites in Citrus County, Florida;
- PALM COAST with 1,630 home sites and 9,300 acres of residential, commercial and industrial land at Palm Coast, Florida. Palm Coast is a planned community between St. Augustine and Daytona Beach; and
- CAPE CORAL, located adjacent to Fort Myers, Florida, with approximately 600 acres of commercial and residential zoned land, including home sites and commercial buildings.

#### LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES. During the first six months of 2001 cash flow from operations reflected strong operating results and continued focus on working capital management. The decrease in cash flow from operations in 2001 was primarily attributable to changes in trading securities. In 2001 additional trading securities were purchased with a portion of the proceeds from our recent common stock issuance (see Securities below), while in 2000 trading securities were sold to partially fund the acquisition of Auction Finance Group, Inc. Cash flow from operations was also affected by a number of factors representative of normal operations.

WORKING CAPITAL. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. Our securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses. Approximately 6 million original issue shares of our common stock are available for issuance through Invest Direct, our direct stock purchase and dividend reinvestment plan.

A substantial amount of ADESA's working capital is generated internally from payments for services provided. However, ADESA has arrangements to use proceeds from the sale of commercial paper issued by ALLETE to meet short-term working capital requirements arising from the timing of payment obligations to vehicle sellers and the availability of funds from vehicle purchasers. During the sales process, ADESA does not typically take title to vehicles.

AFC also has arrangements to use proceeds from the sale of commercial paper issued by ALLETE to meet its operational requirements. AFC offers short-term on-site financing for dealers to purchase vehicles at auctions in exchange for a security interest in those vehicles. The financing is provided through the earlier of the date the dealer sells the vehicle or a general borrowing term of 30 to 45 days.

AFC sells certain finance receivables on a revolving basis to a wholly owned, unconsolidated, qualified special purpose subsidiary. This subsidiary in turn sells, on a revolving basis, an undivided interest in eligible finance receivables, up to a maximum at any one time outstanding of \$300 million, to third party purchasers under an agreement that expires at the end of 2002. At June 30, 2001 AFC had sold

\$421.5 million of finance receivables to the special purpose subsidiary (\$335.7 million at December 31, 2000). Third party purchasers had purchased an undivided interest in finance receivables of \$281.0 million from this subsidiary at June 30, 2001 (\$239 million at December 31, 2000). Unsold finance receivables and unfinanced receivables held by the special purpose subsidiary are recorded by AFC as residual interest at fair value. Fair value is based upon estimates of future cash flows, using assumptions that market participants would use to value such instruments, including estimates of anticipated credit losses over the life of the receivables sold without application of a discount rate due to the short-term nature of the receivables sold. The fair value of AFC's residual interest was \$137.2 million at June 30, 2001 (\$106.2 million at December 31, 2000). Proceeds from the sale of the receivables were used to repay borrowings from ALLETE and fund vehicle inventory purchases for AFC's customers.

Significant changes in accounts receivable and accounts payable balances at June 30, 2001 compared to December 31, 2000 were due to increased sales and financing activity at Automotive Services. Typically auction volumes are down during the winter months and in December because of the holidays. As a result, both ADESA and AFC had higher receivables and higher payables at June 30, 2001.

**ACQUISITIONS.** In January 2001 we acquired all of the outstanding stock of ComSearch in exchange for ALLETE common stock and paid cash to purchase all of the assets of APC in transactions with an aggregate value of \$62.4 million. APC was funded with internally generated funds and short-term debt which was refinanced with long-term debt. (See Securities below.) APC is a provider of "total loss" vehicle recovery services with ten auction facilities in the United States. ComSearch provides Internet-based parts location and insurance adjustment audit services nationwide. Both APC and ComSearch are based in Rhode Island.

In February 2001 ALLETE Water Services completed the purchase of the assets of Dicks Creek, a wastewater utility located near Atlanta, Georgia, for \$6.6 million plus a commitment to pay the seller a fee for future residential connections. The commitment requires payment of a minimum of \$400,000 annually beginning December 31, 2001 for four years or until cumulative payments reach \$2 million, whichever occurs first. The transaction was funded with internally generated funds.

In May 2001 ADESA purchased the assets of the I-44 Auto Auction in Tulsa, Oklahoma. The I-44 Auto Auction, which is located on 75 acres, was renamed ADESA Tulsa and offers six auction lanes, storage for over 3,000 vehicles and a five-bay reconditioning and detail facility. The transaction was funded with internally generated funds.

In July 2001 we acquired Enventis, Inc., a data network systems provider headquartered in the Minneapolis-St. Paul area. In connection with this acquisition, we issued 310,878 shares of our common stock. This transaction complements our existing infrastructure and fiber optics network in Minnesota and Wisconsin, and helps position our telecommunications business as one of the leading integrated data service providers in the Upper Midwest.

**SECURITIES.** In February 2001 we issued \$125 million of 7.80% Senior Notes, due February 15, 2008. Proceeds were used to repay a portion of ALLETE's short-term bank borrowings incurred for the acquisition of vehicle auction facilities in 2000 and early 2001 and for general corporate purposes.

In March 2001 ALLETE, ALLETE Capital II and ALLETE Capital III, jointly filed a registration statement with the SEC pursuant to Rule 415 under the Securities Act of 1933. The registration statement, which has been declared effective by the SEC, relates to the possible issuance, from time to time when market conditions and the needs of ALLETE warrant, of an aggregate amount of \$500 million of securities which may include ALLETE common stock, first mortgage bonds, and other debt securities and ALLETE Capital II and ALLETE Capital III preferred trust securities, of which approximately \$387 million remains available to be issued. ALLETE also previously filed a registration statement, which has been declared effective by the SEC, relating to the possible issuance, from time to time when market conditions and the needs of ALLETE warrant, of \$25 million of first mortgage bonds and other debt securities. We may sell all or a portion of the remaining registered securities if warranted by market conditions and our capital requirements. Any offer and sale of the above mentioned securities will be made only by means of a prospectus meeting the requirements of the Securities Act of 1933 and the rules and regulations thereunder.

On May 30, 2001 we issued and sold in an underwritten public offering 6.5 million shares of common stock at \$23.68 per share. In addition, an over-allotment option for 100,000 shares at \$23.68 per share was exercised by the underwriters and sold on June 7, 2001. Total net proceeds of \$150 million were used to repay a portion of our short-term borrowings with the remainder invested in short-term instruments. The increase in the number of shares of our common stock outstanding as of June 30, 2001 had an immaterial impact on earnings per share for the 2001 periods.

INVESTMENTS. As companies included in our emerging technology investments are sold, we may recognize a gain or loss. In the second half of 2000, several of the private companies included in our emerging technology investments went public by completing initial public offerings. Typically, investors in a private company are not permitted to sell stock in the company for a period of 180 days following the company's initial public offering. Other restrictions on sale may also apply and certain shares are held indirectly by us through our investments in independent investment funds. Since going public, the market value of these companies has experienced significant volatility. Our investment in the companies that have gone public has a cost basis of approximately \$12 million. The aggregate market value of our investment in these companies at June 30, 2001 was \$38 million.

Our emerging technology investments provide us with access to developing technologies before their commercial debut, as well as potential financial returns and diversification opportunities. We view these investments as a source of capital for redeployment in existing businesses and a potential entree into additional business opportunities. Portions of any proceeds received on these investments may be reinvested back into companies to encourage development of future technology.

CAPITAL REQUIREMENTS. Consolidated capital expenditures for the six months ended June 30, 2001 totaled \$78.3 million (\$56.5 million in 2000). Expenditures for 2001 included \$29.3 million for Energy Services, \$33.9 million for Automotive Services and \$15.1 million for Water Services. Internally generated funds and the issuance of long-term debt were the primary sources of funding for these expenditures.

#### NEW ACCOUNTING STANDARDS

In July 2001 the FASB issued SFAS 141, 142 and 143. SFAS 141, "Business Combinations" requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling of interests method of accounting will be prohibited. We do not have any pending acquisitions that will be impacted by this new rule.

SFAS 142, "Goodwill and Other Intangible Assets" changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease for fiscal years beginning after December 15, 2001. We have \$537 million of goodwill as of June 30, 2001 and after-tax goodwill amortization expense of approximately \$5.5 million for the first six months of 2001. Annual after-tax goodwill amortization expense is expected to be approximately \$11 million in 2001. We do not believe we have any goodwill impairment at this time.

SFAS 143, "Accounting for Asset Retirement Obligations" requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. We are currently reviewing the impact of SFAS 143 on the Company.

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READERS ARE CAUTIONED THAT FORWARD-LOOKING STATEMENTS INCLUDING THOSE CONTAINED ABOVE, SHOULD BE READ IN CONJUNCTION WITH OUR DISCLOSURES UNDER THE HEADING: "SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" LOCATED ON PAGE 3 OF THIS FORM 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our securities portfolio has exposure to both price and interest rate risk. Investments held principally for near-term sale are classified as trading securities and recorded at fair value. Trading securities consist primarily of the common stock of publicly traded companies. In strategies designed to hedge overall market risks, we also sell common stock short. Investments held for an indefinite period of time are classified as available-for-sale securities and also recorded at fair value. Available-for-sale securities consist of our direct investments in emerging technology companies and securities in a grantor trust established to fund certain employee benefits.

JUNE 30, 2001	FAIR VALUE
-----	
Millions	
Trading Securities Portfolio	\$159.6
Available-For-Sale Securities Portfolio	\$29.3
-----	

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) We held our Annual Meeting of Shareholders on May 8, 2001.
- (b) Included in (c) below.
- (c) The election of directors, the appointment of independent accountants and the approval of changing our legal name to ALLETE, Inc. were voted on at the Annual Meeting of Shareholders.

The results were as follows:

	VOTES FOR	VOTES WITHHELD OR AGAINST	ABSTENTIONS	BROKER NONVOTES
-----				
DIRECTORS				
Kathleen A. Brekken	60,603,953	773,867	-	-
Dennis E. Evans	60,642,460	735,360	-	-
Glenda E. Hood	60,538,591	839,229	-	-
Peter J. Johnson	60,688,499	689,321	-	-
George L. Mayer	60,618,350	759,470	-	-
Jack I. Rajala	60,663,022	714,798	-	-
Edwin L. Russell	60,545,745	832,075	-	-
Arend J. Sandbulte	60,553,653	824,167	-	-
Nick Smith	60,632,020	745,800	-	-
Bruce W. Stender	60,675,183	702,637	-	-
Donald C. Wegmiller	60,649,493	728,327	-	-
INDEPENDENT ACCOUNTANTS				
PricewaterhouseCoopers LLP	60,417,093	538,868	421,859	-
NAME CHANGE				
Change Company legal name to ALLETE, Inc.	58,832,427	1,896,612	648,781	-
-----				

- (d) Not applicable.

ITEM 5. OTHER INFORMATION

Reference is made to our 2000 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2000 Form 10-K.

Ref. Page 23. - Fifth Paragraph  
Ref. Page 24. - Table - Power Supply  
Ref. Page 44. - Second Paragraph

In June 2001 Minnesota Power successfully completed testing its new generating unit at Potlatch Corp.'s pulp and paper mill in Cloquet, Minnesota. Pending approval of test results from MAPP, the new unit will be ready to generate up to 23 megawatts of electricity. The new cogeneration unit will burn a mixture of 50 percent wood waste and 50 percent natural gas. Minnesota Power will own the new turbine generator and have access to its excess power in times of high demand. Potlatch will operate and maintain it at Minnesota Power's expense.

Ref. Page 25. - Third Paragraph

On July 31, 2001 we acquired Enventis, Inc., a data network systems provider headquartered in the Minneapolis-St. Paul area. In connection with this acquisition, we issued 310,878 shares of our common stock. The transaction helps position our telecommunications business as one of the leading integrated data service providers in the Upper Midwest. Enventis, Inc. will operate as a subsidiary of our telecommunications business, MP Telecom.

Ref. Page 26. - Table - Contract Status for Minnesota Power Large Power Customers

On May 23, 2001 Minnesota Power and Lakehead Pipe Line Co. L.P. entered into a new electric service agreement to continue to meet all of Lakehead's electric requirements through May 2004. The agreement was approved by the MPUC on July 24, 2001.

Ref. Page 27. - Second Paragraph

Minnesota Power and The Burlington Northern and Santa Fe Railway Company (BNSF) entered into a ten-year agreement for transportation of coal to Minnesota Power's generating stations near Grand Rapids, Minnesota and Hoyt Lakes, Minnesota. As a result, Minnesota Power will not pursue construction of an alternative railroad line to serve the generating stations. Under terms of the agreement, BNSF will ship all of Minnesota Power's coal needs, about four million tons annually, to the Boswell Energy Center near Grand Rapids and to the Laskin Energy Center near Hoyt Lakes through 2011. Minnesota Power purchases low-sulfur, sub-bituminous coal from the Powder River Basin in Montana and Wyoming.

Ref. Page 28. - Fourth Full Paragraph  
Ref. Page 29. - First Full Paragraph  
Ref. 10-Q for the quarter ended March 31, 2001, Page 16. - Sixth Paragraph

Midwest Independent System Operator (MISO) participation by Minnesota Power and SWL&P was contingent on several conditions. However, by a letter dated July 13, 2001, Minnesota Power waived the remaining contingencies to its MISO application. This waiver was based on Minnesota Power's assessment that the conditions will be fulfilled shortly in order to be eligible for the super-regional rate for transmission usage throughout the MISO region at the earliest opportunity.

Ref. Page 28. - Eighth Full Paragraph  
Ref. 10-Q for the quarter ended March 31, 2001, Page 17. - Second Paragraph

On June 28, 2001 the MPUC approved Minnesota Power's request to recover \$3.5 million, plus \$1 million in interest, of lost margins associated with activities related to Conservation Improvement Programs for 1998. We anticipate collecting this revenue over the remainder of 2001.

Ref. Page 34. - Seventh Paragraph

In May 2001 the Florida First District Court of Appeals affirmed the FPSC's January 1998 order. The opinion was not challenged. The court action ends the appeal process relating to uniform rates and any potential refund liability for Florida Water.

Ref. Page 35. - First Paragraph

In February 2001 the FPSC approved the settlement agreement relating to the Spring Hill refund issue. The appeal was dismissed. The rate reduction became effective on April 16, 2001.

Ref. Page 35. - Seventh Paragraph

On June 22, 2001 ALLETE Properties completed the sale of Tarpon Point Marina and the surrounding 150 acres of development property in Cape Coral, Florida to the Grosse Point Development Company for \$29 million in cash.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

None

(b) Reports on Form 8-K.

Report on Form 8-K filed April 11, 2001 with respect to Item 5.  
Other Events.

Report on Form 8-K filed April 18, 2001 with respect to Item 7. Financial  
Statements and Exhibits.

Report on Form 8-K filed May 18, 2001 with respect to Item 5. Other Events.

Report on Form 8-K filed July 19, 2001 with respect to Item 7. Financial  
Statements and Exhibits.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLETE, INC.

August 3, 2001

D. G. Gartzke

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D. G. Gartzke  
Senior Vice President - Finance  
and Chief Financial Officer

August 3, 2001

Mark A. Schober

-----  
Mark A. Schober  
Vice President and Controller