Washington, D.C. 20549

FORM 10-K

(Mark One)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended DECEMBER 31, 2000

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 1-3548

ALLETE
(LEGALLY INCORPORATED AS MINNESOTA POWER, INC.)
(Exact name of registrant as specified in its charter)

MINNESOTA	41-0418150
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

30 WEST SUPERIOR STREET, DULUTH, MINNESOTA 55802-2093
(Address of principal executive offices including Zip Code)

(218) 279-5000

(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH STOCK EXCHANGE ON WHICH REGISTERED
Common Stock, without par value	New York Stock Exchange
8.05% Cumulative Quarterly Income Preferred Securities of ALLETE Capital I, a subsidiary of ALLETE	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/ No / /

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

The aggregate market value of voting stock held by nonaffiliates on January 29, 2001 was $1,668,941,155.

As of January 29, 2001 there were 75,335,983 shares of ALLETE Common Stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2001 Annual Meeting of Shareholders are incorporated by reference in Part III.

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DEFINITIONS

The following abbreviations or acronyms are used in the text.

ABBREVIATION OR ACRONYM	TERM
ACE	ACE Limited
ADESA	ADESA Corporation
ADESA Canada	ADESA Canada Inc.
ADESA Importation	ADESA Importation Services, Inc.
ADT	ADT Automotive, Inc.
AFC	Automotive Finance Corporation
Americas' Water	Americas' Water Services Corporation
APC	Auto Placement Center, Inc.
AutoVIN	AutoVIN, Inc.
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
CAG	Canadian Auction Group
Cape Coral Holdings	Cape Coral Holdings, Inc.
Capital Re	Capital Re Corporation
CIP	Conservation Improvement Program(s)
Company	ALLETE and its subsidiaries
ComSearch	ComSearch, Inc.
Dicks Creek	Dicks Creek Wastewater Utility
EBITDAL	Earnings Before Interest, Taxes, Depreciation, Amortization and Lease Expense
EndTrust	EndTrust Lease End Services, LLC
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
Form 8-K	ALLETE Current Report on Form 8-K
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
FPSC	Florida Public Service Commission
Georgia Water	Georgia Water Services Corporation
Great Rigs	Great Rigs Incorporated
Great River	Great River Energy
Heater	Heater Utilities, Inc.
Hibbard	M.L. Hibbard Station
Impact Auto	Impact Auto Auctions Ltd. And Suburban Auto Parts Inc., collectively
Invest Direct	ALLETE's Direct Stock Purchase and Dividend Reinvestment Plan
kWh	Kilowatthour(s)
Laskin	Laskin Energy Center
Lehigh	Lehigh Acquisition Corporation
LS Power	LS Power, LLC
Manheim	Manheim Auctions, Inc.
MAPP	Mid-Continent Area Power Pool
MBtu	Million British thermal units
Mid South	Mid South Water Systems, Inc.
Minnesota Power	Minnesota Power, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MP Telecom	Minnesota Power Telecom, Inc.
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
MWh	Megawatthour(s)
NCUC	North Carolina Utilities Commission
Note___	Note___ to the consolidated financial statements indexed in Item 14(a) of this Form 10-K
NPDES	National Pollutant Discharge Elimination System
Palm Coast	Palm Coast Holdings, Inc.
PAR	PAR, Inc.
PCUC	Palm Coast Utility Corporation
PSCW	Public Service Commission of Wisconsin
Rainy River	Rainy River Energy Corporation
SFAS	Statement of Financial Accounting Standards No.
Split Rock	Split Rock Energy LLC
Spruce Creek	Spruce Creek South Utilities Inc.
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
WPPI	Wisconsin Public Power, Inc.

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 (Reform Act), 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 such term is defined in the Reform Act) made by or on behalf of ALLETE in this Annual Report on Form 10-K, 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 development opportunities; and

- legal and administrative proceedings (whether civil or criminal) and settlements that influence the business and profitability of ALLETE.

Any forward-looking statement speaks only as of the date on which such 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 these factors, nor can it assess the impact of each of these factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. [GRAPHIC OMITTED - SQUARE]

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PART I

ITEM 1. BUSINESS

ALLETE is a multi-services company incorporated under the laws of Minnesota since 1906. ALLETE is legally incorporated as Minnesota Power, Inc. References in this report to "we" and "our" are to ALLETE and its subsidiaries, collectively.

We have operations in 43 states and nine Canadian provinces engaged in four business segments:

- ENERGY SERVICES includes electric and gas services, coal mining and telecommunications;

- AUTOMOTIVE SERVICES includes a network of vehicle auctions, a finance company, an auto transport company, a vehicle remarketing company, a company that provides field information services to the automotive industry and its lenders, and a company that provides Internet-based parts location and insurance adjustment audit services nationwide;

- WATER SERVICES includes water and wastewater services; and

- INVESTMENTS includes 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. As of December 31, 2000 we had approximately 13,000 employees, 4,000 of which were not full time.

Since the inception of the 1996 corporate strategic plan, we have pursued and will continue to pursue a course of expanding our existing business segments. Acquisitions have been and will continue to be a primary means of expansion.

Energy Services continues to pursue plans to construct in partnership with Wisconsin Public Service Corporation a 250-mile, 345-kilovolt transmission line from Wausau, Wisconsin to Duluth, Minnesota and pursue regional wholesale merchant generating plant opportunities. In 2000 Minnesota Power in alliance with Great River formed Split Rock. (See Energy Services.) Minnesota Power also signed an agreement to install, by mid-2001, a 24-MW turbine generator at Potlatch Corp.'s facility in Cloquet, Minnesota and Electric Odyssey expanded into the Minneapolis/St. Paul area.

In 2000 and early 2001 Automotive Services expanded significantly with the addition of 28 vehicle auction facilities and 19 auction facilities that provide "total loss" vehicle recovery services to insurance companies. These additions established ADESA as the premier automotive services company in Canada and the second largest vehicle auction business in North America and position us as the third largest provider of "total loss" vehicle recovery services in North America.

In 2000 Water Services experienced customer growth through increased population in the states they serve and the acquisition of Spruce Creek in Florida and other small water and wastewater systems in North Carolina and Florida. Water Services also closed on a transaction, subject to certain conditions, that will expand its wastewater services into a third state, Georgia.

In 2000 Investments sold its investment in ACE and reported record sales by its real estate operations.

Year Ended December 31	2000	1999	1998
Consolidated Operating Revenue - Millions	$1,332	$1,132	$1,039
Percentage of Consolidated Operating Revenue			
Energy Services			
Retail			
Industrial			
Taconite Producers	13%	13%	16%
Paper and Pulp Mills	5	5	6
Pipelines and Other Industries	3	3	3
Total Industrial	21	21	25
Residential	5	6	6
Commercial	5	6	6
Sales to Other Power Suppliers	6	9	8
Other Revenue	7	7	9
Total Energy Services	44	49	54
Automotive Services	41	36	32
Water Services	9	10	9
Investments	6	5	5
	100%	100%	100%

For a detailed discussion of results of operations and trends, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. For business segment information, see Notes 1 and 2. [GRAPHIC OMITTED - SQUARE]

ENERGY SERVICES

The businesses we include in Energy Services generate, transmit, distribute, market and trade electricity. Coal mining and telecommunications are also included in Energy Services. The discussion below summarizes the major businesses we include in Energy Services. Statistical information is presented as of December 31, 2000. All subsidiaries are wholly owned unless otherwise specifically indicated.

MINNESOTA POWER provides electricity in a 26,000 square mile electric service territory located in northeastern Minnesota. Minnesota Power supplies retail electric service to 130,000 customers and wholesale electric service to 16 municipalities. SWL&P sells electricity and natural gas, and provides water service in northwestern Wisconsin. SWL&P has 14,000 electric customers, 11,000 natural gas customers and 10,000 water customers.

Minnesota Power had an annual net peak load of 1,454 MW on December 11, 2000. Our power supply sources are shown below.

We have electric transmission and distribution lines of 500 kilovolts (kV) (8 miles), 230 kV (606 miles), 161 kV (43 miles), 138 kV (6 miles), 115 kV (1,259 miles) and less than 115 kV (6,393 miles). We own and operate 177 substations with a total capacity of 8,534 megavoltamperes. Some of our transmission and distribution lines interconnect with other utilities.

We own offices and service buildings, an energy control center, repair shops, motor vehicles, construction equipment and tools, office furniture and equipment, and lease offices and storerooms in various localities. Substantially all of our electric plant is subject to our mortgages which collateralize our outstanding first mortgage bonds. Generally, our properties are held by the Company in fee and are free from other encumbrances, subject to minor exceptions. Some property, including certain offices and equipment, is utilized under leases. Some of our electric lines are located on land not owned in fee, but are covered by necessary permits of governmental authorities or by appropriate easement rights. In 1990 we sold a portion of Boswell Unit 4 to WPPI. WPPI has the right to use our transmission line facilities to transport its share of generation.

MPEX is Minnesota Power's power marketing division which buys and sells capacity and energy in the wholesale power market. Customers are other power suppliers in the Midwest and Canada. During 2000 Minnesota Power and Great River formed Split Rock. Headquartered in Elk River, Minnesota, Great River is a consumer-owned generation and transmission cooperative and is Minnesota's second largest utility in terms of generating capacity. Split Rock combines the two companies' power supply capabilities and customer loads for power pool operations and generation outage protection. Ownership of generation assets and current customer supply arrangements have not changed for either company. Split Rock contracts for wholesale power marketing services from MPEX.

Power Supply	Unit No.	Year Installed	Net Winter Capability	For the Year Ended December 31, 2000 Electric Requirements	
			MW	MWh	%
Steam					
Coal-Fired					
Boswell Energy Center - near Grand Rapids, MN	1	1958	69		
	2	1960	69		
	3	1973	353		
	4	1980	428		
			919	5,774,422	46.7%
Laskin Energy Center - Hoyt Lakes, MN	1	1953	55		
	2	1953	55		
			110	573,765	4.6
Purchased Steam					
M.L. Hibbard - Duluth, MN	3&4	1949, 1951	53	45,101	0.4
Total Steam			1,082	6,393,288	51.7
Hydro					
Group consisting of ten stations in MN		Various	115	544,908	4.4
Purchased Power					
Square Butte burns lignite in Center, ND			322	2,351,916	19.0
All other - Net			-	3,069,176	24.9
Total Purchased Power			322	5,421,092	43.9
Total			1,519	12,359,288	100.0%

BNI COAL owns and operates a lignite mine in North Dakota. Two electric generating cooperatives, Minnkota Power and Square Butte, presently consume virtually all of BNI Coal's production of lignite coal under cost-plus coal supply agreements expiring in 2027. (See Fuel and Note 14.) A large dragline, shop complex and other property at BNI Coal are leased under a leveraged lease agreement that expires in 2002. During 2000 BNI Coal entered into an agreement to purchase in 2002 all property and equipment subject to this lease for $4.7 million.

ELECTRIC OUTLET, INC., doing business as Electric Odyssey, is a retail store, catalog and e-commerce merchandiser that sells electric-related products. Electric Odyssey has three Minnesota stores located in leased mall facilities. Its catalogs are distributed nationwide. In addition, Electric Odyssey has established alliances with several utilities, membership-based organizations and other Internet businesses to market Electric Odyssey products through Internet electronic commerce.

MP TELECOM provides highly reliable fiber optic-based communication and advanced data services to businesses and communities in Minnesota and Wisconsin. MP Telecom owns or has rights to approximately 1,500 route miles of fiber optic cable. These route miles contain multiple fibers that total approximately 47,500 fiber miles. MP Telecom also owns optronic and data switching equipment that is used to "light up" the fiber optic cable and provides customer bandwidth services. Most of the locations from which MP Telecom services customers are leased from third parties.

RAINY RIVER is engaged in wholesale power marketing. (See Wholesale Electric Sales.)

RETAIL ELECTRIC SALES

Approximately 62% of the ore consumed by integrated steel facilities in the Great Lakes region originates from five taconite customers of Minnesota Power. Taconite, an iron-bearing rock of relatively low iron content that is abundantly available in Minnesota, is an important domestic source of raw material for the steel industry. Taconite processing plants use large quantities of electric power to grind the ore-bearing rock, and agglomerate and pelletize the iron particles into taconite pellets. Annual taconite production in Minnesota was 47 million tons in 2000 (43 million tons in 1999; 47 million tons in 1998). Based on our research of the taconite industry, Minnesota taconite production for 2001 is anticipated to be about 37 million tons. The anticipated decrease in 2001 taconite production is due to high import levels and a softening economy. The majority of the anticipated 10-million ton reduction in taconite production for 2001 is occurring at mines that are not Large Power Customers. Two Large Power Customers have announced temporary shut downs, accounting for approximately 2 million tons of the anticipated decrease. 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. We expect any excess energy not used by our Large Power Customers will be marketed by MPEX and Split Rock.

LARGE POWER CUSTOMER CONTRACTS. Minnesota Power has large power customer contracts with twelve customers (Large Power Customers), each of which requires 10 MW or more of generating capacity. Large Power Customer contracts require Minnesota Power to have a certain amount of generating capacity available. (See table on next page.) In turn, each Large Power Customer is required to pay a minimum monthly demand charge that covers the fixed costs associated with having this capacity available to serve the customer, including a return on common equity. Most contracts allow customers to establish the level of megawatts subject to a demand charge on a bi-annual (power pool season) basis and require that a portion of their megawatt needs be comitted on a take-or-pay basis for the entire term of the agreement. In addition to the demand charge, each Large Power Customer is billed an energy charge for each kilowatthour used that recovers the variable costs incurred in generating electricity. Six of the Large Power Customers have interruptible service for a portion of their needs which provides a discounted demand rate and energy priced at Minnesota Power's incremental cost after serving all firm power obligations. Minnesota Power also provides incremental production service for customer demand levels above the contract take-or-pay levels. There is no demand charge for this service and energy is priced at an increment above Minnesota Power's cost. Incremental production service is interruptible. Contracts with ten of the twelve Large Power Customers provide for deferral without interest of one-half of demand charge obligations incurred during the first three months of a strike or illegal walkout at a customer's facilities, with repayment required over the 12-month period following resolution of the work stoppage.

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

Minimum Revenue and Demand Under Contract
As of February 1, 2001

Minimum Annual Revenue	Monthly Megawatts

2001	$89.4 million	560
2002	$69.7 million	419
2003	$62.7 million	368
2004	$57.1 million	336
2005	$41.6 million	248

Based on past experience and projected operating levels, we believe revenue from Large Power Customers will be substantially in excess of the minimum contract amounts.

Contract Status for Minnesota Power Large Power Customers
As of February 1, 2001

Customer	Industry	Location	Ownership	Earliest Termination Date
Eveleth Mines LLC	Taconite	Eveleth, MN	45% Rouge Steel Co. 40% AK Steel Co. 15% Stelco Inc.	October 31, 2008
Hibbing Taconite Co.	Taconite	Hibbing, MN	70.3% Bethlehem Steel Corp. 15% Cleveland-Cliffs Inc. 14.7% Stelco Inc.	December 31, 2008
Ispat Inland Mining Company	Taconite	Virginia, MN	Ispat Inland Steel Company	December 31, 2007
National Steel Pellet Co.	Taconite	Keewatin, MN	National Steel Corp.	December 31, 2005
USX Corporation	Taconite	Mt. Iron, MN	USX Corporation	December 31, 2007
Blandin Paper Co.	Paper	Grand Rapids, MN	UPM-Kymmene Corporation	April 30, 2006
Boise Cascade Corporation	Paper	International Falls, MN	Boise Cascade Corporation	December 31, 2002
Potlatch Corp.	Paper	Cloquet, MN Brainerd, MN Grand Rapids, MN	Potlatch Corp.	December 31, 2008
Stora Enso North America, Duluth Paper Mill and Duluth Recycled Pulp Mill	Paper and Pulp	Duluth, MN	Stora Enso Oyj	July 31, 2008
USG Interiors, Inc.	Manufacturer	Cloquet, MN	USG Corporation	December 31, 2005
Lakehead Pipe Line Co. L.P.	Pipeline	Deer River, MN Floodwood, MN	Lakehead Pipe Line Partners, L.P.	May 31, 2001
Minnesota Pipeline Company	Pipeline	Staples, MN Little Falls, MN Park Rapids, MN	60% Koch Pipeline Co. L.P. 40% Marathon Ashland Petroleum LLC	September 30, 2002

PURCHASED POWER AND CAPACITY SALES

A purchase or sale is generally made to balance the supply or demand, thereby capping the cost of power or fixing a margin. Minnesota Power's risk management policy, contract provisions, operational flexibility, credit policy and procedures for purchasing power to cap cost or fix margins are designed to minimize Minnesota Power's risk and exposure in a market with volatile prices.

Minnesota Power has contracts to purchase capacity and energy from various entities. The largest contract is with Square Butte. Under an agreement with Square Butte, expiring at the end of 2026, Minnesota Power is currently entitled to approximately 71% of the output of a 455-MW coal-fired generating unit located near Center, North Dakota. (See Note 14.)

Minnesota Power has a power purchase contract with LTV Steel Mining Co. under which it may purchase approximately 60 MW of capacity from LTV to the extent LTV does not utilize this capacity for its own use. LTV has historically supplied its own power requirements through its own 225 MW generation plant. In December 2000 LTV filed for bankruptcy in a Chapter 11 reorganization proceeding and in January 2001 shut down its taconite pellet operation in Hoyt Lakes, Minnesota. LTV was not a Large Power Customer. Minnesota Power is in discussions with LTV concerning existing capacity purchase and interconnection contracts and ongoing electric needs.

In October 2000 Minnesota Power entered into a power purchase agreement with Great River. Under this agreement Minnesota Power will purchase 240 MW from June 2001 to April 2003 and 80 MW from May 2003 to April 2004 from a natural gas-fired Lakefield Junction generating plant located in southern Minnesota. Excess energy will be marketed by Split Rock.

FUEL

Minnesota Power purchases low-sulfur, sub-bituminous coal from the Powder River Basin coal field located in Montana and Wyoming. Coal consumption for electric generation at Minnesota Power's Minnesota coal-fired generating stations in 2000 was about 4 million tons. As of December 31, 2000 Minnesota Power had a coal inventory of about 300,000 tons. Minnesota Power has three coal supply agreements with Montana suppliers. Under these agreements Minnesota Power has the tonnage flexibility to procure 70% to 100% of its total coal requirements. Minnesota Power will obtain coal in 2001 under these agreements and in the spot market. This mix of coal supply options allows Minnesota Power to manage market price and supply risk and to take advantage of favorable spot market prices. Minnesota Power is exploring future coal supply options and believes that adequate supplies of low-sulfur, sub-bituminous coal will continue to be available.

Burlington Northern Santa Fe Railroad transports coal by unit train from the Powder River Basin to Minnesota Power's generating stations. Minnesota Power and Burlington Northern Santa Fe Railroad have two long-term coal freight-rate contracts. One contract provides for coal deliveries through 2003 to Boswell. The other contract provides for coal deliveries through 2003 to Laskin via a Duluth Missabe & Iron Range Railway interchange.

Coal Delivered to Minnesota Power

Year Ended December 31	2000	1999	1998
Average Price Per Ton	$21.19	$20.60	$20.37
Average Price Per MBtu	$1.16	$1.14	$1.12

The Square Butte generating unit operated by Minnkota Power burns North Dakota lignite supplied by BNI Coal, pursuant to the terms of a contract expiring in 2027. Square Butte's cost of lignite burned in 2000 was approximately 63 cents per MBtu. The lignite acreage that has been dedicated to Square Butte by BNI Coal is located on lands essentially all of which are under private control and presently leased by BNI Coal. This lignite supply is sufficient to provide the fuel for the anticipated useful life of the generating unit.

WHOLESALE ELECTRIC SALES

Minnesota Power has wholesale contracts with a number of municipal customers. (See Regulatory Issues - Federal Energy Regulatory Commission.)

In an increasingly volatile wholesale marketplace, Minnesota Power's wholesale alliance through Split Rock mitigates marketplace risk while creating additional marketing opportunities for both Minnesota Power and Great River. MPEX provides power trading, energy sourcing and risk management services to Split Rock. Split Rock's risk management policies are consistent with Minnesota Power's.

In September 1999 Rainy River entered into an amended 15-year power purchase agreement with a subsidiary of LS Power, a privately owned, independent power producer. Rainy River will take the full output of one entire unit (approximately 275 MW) of a four unit (approximately 1,100 MW) natural gas-fired combined cycle generation facility located near Chicago, Illinois. Construction of the generation facility began in 2000 with commercial operation expected in May 2002. Minnesota Power expects the agreement will enhance its ability to serve an expanding customer base outside of the MAPP region, as well as enable additional participation in the wholesale bulk power marketplace. Rainy River has entered into a 15-year agreement to resell approximately 50 MW, has a letter of intent to sell another 50 MW and is engaged in the wholesale marketing of the remaining electrical power. There will be a charge for both capacity made available and energy delivered. Rainy River will be responsible for the purchase and transportation of natural gas to the facility. Rainy River will be obligated to pay fixed capacity related charges when commercial operation of the unit occurs.

In June 1999 Minnesota Power announced plans to build a natural gas-fired, combustion turbine power plant near Superior, Wisconsin. Combustion turbines produce low emissions and will help alleviate a developing regional shortage of electricity during periods of peak electrical demand. Unavailability of combustion turbines led to a decision to purchase near-term peaking capacity from Great River's new Lakefield Junction Project for 2001 to 2004. The project in Superior is still being considered along with a number of other options to meet regional needs beyond this time period.

REGULATORY ISSUES

We are exempt from regulation under the Public Utility Holding Company Act of 1935, except as to Section 9(a)(2) which relates to acquisition of securities of public utility companies.

We are subject to the jurisdiction of various regulatory authorities. The MPUC has regulatory authority over Minnesota Power's service area in Minnesota, retail rates, retail services, issuance of securities and other matters. The FERC has jurisdiction over the licensing of hydroelectric projects, the establishment of rates and charges for the sale of electricity for resale and transmission of electricity in interstate commerce, and certain accounting and record keeping practices. The PSCW has regulatory authority over the retail sales of electricity, water and gas by SWL&P. The MPUC, FERC and PSCW had regulatory authority over 29%, 3% and 3%, respectively, of our 2000 consolidated

operating revenue.

ELECTRIC RATES. Minnesota Power has historically designed its electric service rates based on cost of service studies under which allocations are made to the various classes of customers. Nearly all retail sales include billing adjustment clauses which adjust electric service rates for changes in the cost of fuel and purchased energy, and recovery of current and deferred CIP expenditures.

In addition to Large Power Customer contracts, Minnesota Power also has contracts with large industrial and commercial customers with monthly demands of more than 2 MW but less than 10 MW of capacity. The terms of these contracts vary depending upon the customer's demand for power and the cost of extending Minnesota Power's facilities to provide electric service.

Minnesota Power requires that all large industrial and commercial customers under contract specify the date when power is first required, and thereafter the customer is billed for at least the minimum power for which they contracted. These conditions are part of all contracts covering power to be supplied to new large industrial and commercial customers and to current customers as

their contracts expire or are amended. All contracts provide that new rates which have been approved by appropriate regulatory authorities will be substituted immediately for existing rates, without regard to any unexpired term of the existing contract. All rate schedules and other contract terms are subject to approval by appropriate regulatory authorities.

FEDERAL ENERGY REGULATORY COMMISSION. The FERC has jurisdiction over our wholesale electric service and open access transmission service. Minnesota Power's hydroelectric facilities, which are located in Minnesota, are licensed by the FERC. (See Environmental Matters - Water.)

Minnesota Power has long-term contracts with 16 Minnesota municipalities receiving wholesale electric service. Four contracts are for service through 2002 and 2005, while the other 12 are for service through at least 2007. The contracts limit rate increases (including fuel costs) to about 2% per year on a cumulative basis. In 2000 municipal customers purchased 703,555 MWh from Minnesota Power.

Minnesota Power filed a pro forma open access transmission tariff with FERC in 1996, as required. The tariff governs Minnesota Power's rates for transmission and ancillary services to transmission customers.

Issued in December 1999 FERC Order No. 2000 strongly encouraged transmission-owning utilities to participate in large independent regional transmission organizations (RTOs). The formation and structure of RTOs are evolving in the implementation of this federal policy. RTOs will plan and operate, and sometimes own regional transmission systems. Members will be required to turn over ownership or operational control of their transmission facilities to the RTO. In compliance with FERC Order No. 2000, in October 2000 Minnesota Power filed its intent to join an RTO, indicating a preference for the Midwest Independent System Operator, Inc. (MISO) while seeking to resolve certain organizational issues at the MISO. Order No. 2000 seeks voluntary participation in an RTO by December 15, 2001. SWL&P is impacted by a Wisconsin statute that mandates membership in an RTO.

Minnesota Power participates in MAPP, a power pool operating in parts of eight states in the Upper Midwest and in three provinces in Canada. MAPP functions include a regional reliability council that maintains generation reserve sharing requirements, a regional transmission planning group and a wholesale power and energy market committee. MAPP enhances regional electric service reliability, provides the opportunity for members to enter into various economic wholesale power transactions and coordinates the planning and operation of existing as well as the installation of new generation and transmission facilities. MAPP has open membership which includes various electric utilities within the MAPP area, and marketers and brokers located throughout North America. MAPP operates under a 1996 agreement, as amended, and an open access transmission tariff approved by FERC. Under this agreement, any member who elects to withdraw from MAPP must first provide a three-year notice of their intent to do so.

MINNESOTA PUBLIC UTILITIES COMMISSION. Minnesota Power's retail rates are based on a 1994 MPUC retail rate order that allows for an 11.6% return on common equity dedicated to utility plant.

Minnesota requires investor owned electric utilities to spend a minimum of 1.5% of gross annual retail electric revenue on conservation improvement programs (CIP) each year. These investments are recovered from retail customers through a billing adjustment and amounts included in retail base rates. The MPUC allows utilities to accumulate, in a deferred account for future recovery, all CIP expenditures as well as a carrying charge on the deferred account balance, which amount was $1.1 million at December 31, 2000. During 1999 the Minnesota legislature enacted Minnesota Power-supported legislation allowing customers with 20 MW or more of connected load at one service point to opt out of the CIP minimum spending requirements, and associated expense recovery, upon showing the MPUC that they had implemented all reasonably available conservation measures. Opt outs were approved in early 2000 for seven of Minnesota Power's industrial customers. As a result, the 2000 CIP investment goal was $2.7 million with actual spending at $1.9 million, down substantially from the $7.1 million spent in 1999. The 2000 spending shortfall is expected to be made up by additional 2001 spending.

Until 1999 the MPUC approved Minnesota Power's request to recover lost margins. Lost margins represent energy sales lost over a five-year period due to Minnesota Power's efforts to assist customers in conserving energy. Lost margin recovery compensates utilities for reduced sales resulting from CIP activities. In 1999 the MPUC denied Minnesota Power's request to recover $3.5 million of lost margins related to 1998 CIP activities. Minnesota Power appealed the decision to the Minnesota Court of Appeals. In December 2000 the court reversed the MPUC's denial of Minnesota Power's 1998 lost margin claim. The court found that the MPUC's action constituted retroactive ratemaking and was arbitrary and capricious. In January 2001 the MPUC appealed the court's decision to the Minnesota Supreme Court. We are unable to predict the outcome of this matter.

PUBLIC SERVICE COMMISSION OF WISCONSIN. In December 1999 SWL&P filed an application with the PSCW for authority to increase retail utility rates 1.8%. This average increase is comprised of a 3.2% decrease in electric rates, a 1.1% increase in gas rates and a 31% increase in water rates. The proposed water increase is the result of construction currently under way to replace an aging well system. A final order is expected in March 2001. SWL&P's current retail rates are based on a 1996 PSCW retail rate order that allows for an 11.6% return on common equity.

In April 1999 Minnesota Power and Wisconsin Public Service Corporation (WPS) announced plans to construct a 250-mile, 345-kilovolt transmission line from

Wausau, Wisconsin to Duluth, Minnesota. The proposal, called "Power Up Wisconsin," is a direct response to former Wisconsin Governor Thompson's call to address the pressing need for more dependable electricity in Wisconsin and the Upper Midwest. Alternative routes for the line using existing rights-of-way are proposed where feasible. The Final Environmental Impact Statement was issued in October 2000 by the PSCW. Hearings in Wisconsin for public input were completed

in December 2000. Technical hearings are under way and expected to be completed in early 2001. The PSCW is expected to make a decision in mid 2001 based on evidence introduced at the hearings. Application for approval of the Minnesota portion of the line was filed with the Minnesota Environmental Quality Board (MEQB) in 1999. The scope of the MEQB hearings was defined as limited to impacts from construction and operation of the transmission line on human health and the environment within Minnesota. Minnesota evidentiary and public hearings were held in August and September 2000. A recommendation for approval was received from the Administrative Law Judge and the application is expected to be voted on by the full MEQB in mid 2001. Depending on siting and regulatory review and approval, the new transmission line could be in service in 2004 at an estimated cost of between $125 million and $175 million. Approximately $30 million to $40 million of the estimated cost is for facilities in Minnesota that will be owned by Minnesota Power. The facilities in Wisconsin are being financed and owned by WPS and may ultimately be owned in part by Minnesota Power (if it exercises a buy-out option for roughly one half the line), WPS or the American Transmission Company RTO in Wisconsin.

In December 2000 the PSCW ordered SWL&P to apply for membership in a federally approved RTO by February 1, 2001, which was extended to April 1, 2001. In January 2001 SWL&P filed an application for rehearing and reopening of this order. We are unable to predict the outcome of this matter. (See Federal Energy Regulatory Commission.)

The PSCW must approve the ownership, control and operation of any affiliated wholesale merchant generating plants in Wisconsin. (See Wholesale Electric Sales.)

COMPETITION

INDUSTRY RESTRUCTURING. The electric utility industry continues to restructure in response to growing competition at both the wholesale and retail levels. This restructuring has primarily affected Minnesota Power's wholesale power marketing and trading activity through Split Rock discussed above. New legislation and regulation to increase reliability and address wholesale price volatility while encouraging competition at both the wholesale and retail levels is being considered at both the federal and state levels. Legislative and regulatory activity as well as the actions of competitors affect the way Minnesota Power strategically plans for its future.

CUSTOMER CHOICE. Twenty-five states representing approximately 70% of the United States population have passed either legislation or regulation that initiates a process which may lead to retail customer choice. In 2001 retail competition legislation will likely again be debated at the federal level and in Minnesota and Wisconsin though these initiatives currently lack momentum. We cannot predict the timing or substance of any future legislation.

FRANCHISES

Minnesota Power holds franchises to construct and maintain an electric distribution and transmission system in 84 cities and towns located within its electric service territory. SWL&P holds franchises in 15 cities and towns within its service territory. The remaining cities and towns served do not require a franchise to operate within their boundaries.

ENVIRONMENTAL MATTERS

Certain businesses included in our Energy Services segment are subject to regulation by various federal, state and local authorities about air quality, water quality, solid wastes and other environmental matters. We consider these businesses to be in substantial compliance with those environmental regulations currently applicable to their operations and believe all necessary permits to conduct such operations have been obtained. We do not currently anticipate that potential capital expenditures for environmental matters will be material. However, because environmental laws and regulations are constantly evolving, the character, scope and ultimate costs of environmental compliance cannot be estimated.

AIR. Minnesota Power's generating facilities in Minnesota burn mainly low-sulfur western coal and Square Butte, located in North Dakota, burns lignite coal. All of these facilities are equipped with pollution control equipment such as scrubbers, baghouses or electrostatic precipitators. The federal Clean Air Act Amendments of 1990 (Clean Air Act) created emission allowances for sulfur dioxide. Each allowance is an authorization to emit one ton of sulfur dioxide, and each utility must have sufficient allowances to cover its annual emissions. Sulfur dioxide emission requirements are currently being met by all of Minnesota Power's generating facilities, creating a surplus allowance situation for Minnesota Power. Square Butte anticipates meeting its sulfur dioxide requirements through increased use of existing scrubbers and by annually purchasing additional allowances as necessary.

In accordance with the Clean Air Act, the EPA has established nitrogen oxide limitations for electric generating units. To meet nitrogen oxide limitations, Minnesota Power installed advanced low emission burner technology and associated control equipment to operate the Boswell and Laskin facilities at or below the compliance emission limits. Nitrogen oxide limitations at Square Butte are being met by combustion tuning. Minnesota Power has obtained all necessary Title V air operating permits from the Minnesota Pollution Control Agency for its applicable facilities to conduct electric operations.

In December 2000 the EPA announced their decision to regulate mercury emissions from coal and oil fired power plants under Section 112 of the Clean Air Act. Section 112 will require all such power plants in the United States to adhere to

the EPA maximum achievable control technology (MACT) standards for mercury. The EPA's announcements clarified that the EPA will establish applicable mercury MACT standards through a four-year rule making and public comment period, giving consideration to factors such as a facility's installed design and operation. Final regulations defining control requirements are planned for December 2004. Cost estimates are premature at this time.

In December 2000 Minnesota Power received a request from the EPA, under Section 114 of the Clean Air Act, seeking information regarding capital expenditures at all of its coal-fired generating stations. This action is part of an industry-wide investigation assessing compliance with the New Source Review and the New Source Performance Standards (emissions standards that apply to new and changed units) of the Clean Air Act at electric generating stations. We are unable to predict whether any further action will be taken by the EPA on this matter or whether Minnesota Power will be required to incur any costs as a result.

WATER. The Federal Water Pollution Control Act of 1972 (FWPCA), as amended by the Clean Water Act of 1977 and the Water Quality Act of 1987, established the National Pollutant Discharge Elimination System (NPDES) permit program. The FWPCA requires NPDES permits to be obtained from the EPA (or, when delegated, from individual state pollution control agencies) for any wastewater discharged into navigable waters. Minnesota Power has obtained all necessary NPDES permits, including NPDES storm water permits for applicable facilities, to conduct their electric operations.

Minnesota Power holds FERC licenses authorizing the ownership and operation of seven hydroelectric generating projects with a total generating capacity of about 118 MW. In June 1996 Minnesota Power filed in the U.S. Court of Appeals for the District of Columbia Circuit a petition for review of the license as issued by the FERC for Minnesota Power's St. Louis River project. Separate petitions for review were also filed by the U.S. Department of the Interior and the Fond du Lac Band of Lake Superior Chippewa (Fond du Lac Band), two intervenors in the licensing proceedings. The court consolidated the three petitions for review and suspended the briefing schedule while Minnesota Power and the Fond du Lac Band negotiate the reasonable fee for use of tribal lands as mandated by the new license. Both parties informed the court that these negotiations may resolve other disputed issues, and they are obligated to report to the court periodically the status of these discussions. Beginning in 1996, and most recently in January 2001, Minnesota Power filed requests with the FERC for extensions of time to comply with certain plans and studies required by the license that might conflict with the settlement discussions.

SOLID AND HAZARDOUS WASTE. The Resource Conservation and Recovery Act of 1976 regulates the management and disposal of solid wastes. As a result of this legislation, the EPA has promulgated various hazardous waste rules. Minnesota Power is required to notify the EPA of hazardous waste activity and routinely submits the necessary annual reports to the EPA.

In response to EPA Region V's request for utilities to participate in the Great Lakes Initiative by voluntarily removing remaining polychlorinated biphenyl (PCB) inventories, Minnesota Power has scheduled replacement of PCB-contaminated oil by 2004. The total cost is expected to be between $2.5 million and $3 million, of which $1.1 million was spent through December 31, 2000. [GRAPHIC OMITTED - SQUARE]

AUTOMOTIVE SERVICES

Automotive Services includes several subsidiaries that are integral parts of the vehicle redistribution business. Vehicle sales within the auto auction industry are expected to rise at a rate of 2% to 4% annually over the next several years. With the continued increased popularity of leasing and the high cost of new vehicles, a steady flow of vehicles is expected to return to auction. Automotive Services plans to grow through increased sales at existing businesses, selective acquisitions and expansion of its services to customers. The discussion below summarizes the major businesses we include in Automotive Services. Statistical information is presented as of the date of this Form 10-K. All subsidiaries are wholly owned unless otherwise specifically indicated.

ADESA is the second largest vehicle auction network in North America. Headquartered in Indianapolis, Indiana, ADESA owns (or leases) and operates 54 vehicle auction facilities in the United States and Canada through which used cars and other vehicles are sold to franchised automobile dealers and licensed used car dealers. Sellers at ADESA's auctions include domestic and foreign auto manufacturers, car dealers, automotive fleet/lease companies, banks and finance companies. ADESA also has 19 auction facilities in the United States and Canada that provide "total loss" vehicle recovery services to insurance companies. During 2000 ADESA acquired or opened 28 new vehicle auction facilities and purchased the remaining 53% of Canada's largest provider of "total loss" vehicle recovery services.

Also in 2000 ADESA Importation Services, Inc. purchased all of the assets of International Vehicle Importers, Inc., a United States registered importer. ADESA Importation is headquartered in Flint, Michigan with facilities in Buffalo, New York; Grand Forks, North Dakota; Sweetgrass, Montana and Blaine, Washington. ADESA Importation is the second largest independent commercial registered importer of vehicles in the United States.

In January 2001 ALLETE and ADESA acquired all of the outstanding stock of ComSearch, Inc. and purchased the assets of Auto Placement Center, Inc. (APC), in an overall transaction valued at $62.4 million. APC provides "total loss" vehicle recovery services at eight 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.

The table on the next page lists the vehicle auctions currently owned or leased by ADESA. Each auction has a multi-lane, drive-through auction facility, as well as additional buildings for reconditioning, registration, maintenance, body work, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles for auction. All vehicle auction property owned by ADESA is subject to liens securing various notes payable.

AFC provides inventory financing for wholesale and retail automobile dealers who purchase vehicles from ADESA auctions, independent auctions, other auction chains and outside sources. AFC is headquartered in Indianapolis, Indiana and has 86 loan production offices at or near auto auctions across North America. These offices provide qualified dealers credit to purchase vehicles at any of the 400 plus auctions approved by AFC. In October 2000 AFC launched its new computer application system, COSMOS (an acronym for computer operating system managing our success). COSMOS, an Oracle-based system, follows each loan from origination to payoff and allows AFC to better manage its business, while expediting services through its branch network to more than 15,000 registered dealers.

GREAT RIGS is one of the nation's largest independent used automobile transport carriers with more than 140 automotive carriers, the majority of which are leased. Headquartered in Moody, Alabama, Great Rigs offers customers pick up and delivery services as well as marshalling services through 11 strategically located transportation hubs. Customers of Great Rigs include both ADESA and competitors' auctions, car dealerships, vehicle manufacturers, leasing companies and finance companies. Great Rigs' major customers include Ford Motor Credit, GE Capital, General Motors Acceptance Corp., Nissan and DaimlerChrysler.

PAR, which is doing business as PAR North America, provides customized vehicle remarketing services to various companies such as banks, non-prime finance, non-prime servicing, captive finance, credit unions, company owned fleets, commercial fleets and rental car dealers in the United States and Canada. PAR's services include repossessions, remarketing, pre- and post-term lease-end management, United States and Canadian registration title service, and Canadian registered importation. PAR offers its telemarketing service through its affiliate company, EndTrust and its Canadian import service through ADESA Importation. Together PAR and ADESA Importation offer a complete and full range of import servicing, including marshalling, point-to-point transportation, Department of Transportation compliance registration, odometer replacement, auction representation and sales tax processing.

AUTOVIN is a 90% owned subsidiary that provides professional field information services to the automotive industry and the industry's secured lenders. Its services include vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspection. AutoVIN works closely with AFC to offer auto dealers one-stop shopping for financial and information services. AutoVIN expanded its inspection services in 2000 to include dealers selling other products, such as motorcycles and lawn equipment. While inventory verification is still the core of AutoVIN's business, its growth potential is increased by providing inspection services for other products.

ADESA Auctions	City	State/ Province	Year Operations Commenced	Number of Auction Lanes
United States				
ADESA Birmingham	Moody	Alabama	1987	10
ADESA Phoenix	Phoenix	Arizona	1988	12
ADESA Central Arkansas	Beebe	Arkansas	1987	6
ADESA Little Rock	Little Rock	Arkansas	1984	10
ADESA Los Angeles	Mira Loma	California	2000	6
ADESA Sacramento	Sacramento	California	1997	5
ADESA San Diego	San Diego	California	1982	6
ADESA Golden Gate	San Francisco	California	1985	6
ADESA Colorado Springs	Colorado Springs	Colorado	1982	3
ADESA Clearwater	Clearwater	Florida	1972	4
ADESA Jacksonville	Jacksonville	Florida	1996	6
ADESA Ocala	Ocala	Florida	1996	5
ADESA Orlando-Sanford	Orlando	Florida	1987	6
ADESA Tampa	Tampa	Florida	1989	8
ADESA Atlanta	Atlanta	Georgia	1986	6
ADESA Southern Indiana	Columbus	Indiana	1997	3
ADESA Indianapolis	Plainfield	Indiana	1983	10
ADESA Des Moines	Des Moines	Iowa	1967	3
ADESA Lexington	Lexington	Kentucky	1982	6
ADESA Ark-La-Tex	Shreveport	Louisiana	1979	5
ADESA Concord	Concord	Massachusetts	1947	5
ADESA Boston	Framingham	Massachusetts	1995	11
ADESA Lansing	Dimondale	Michigan	1976	5
ADESA St. Louis	Barnhart	Missouri	1987	3
ADESA Kansas City	Kansas City	Missouri	1963	7
ADESA New Jersey	Manville	New Jersey	1996	8
ADESA Buffalo	Akron	New York	1992	10
ADESA Charlotte	Charlotte	North Carolina	1994	10
ADESA Cincinnati/Dayton	Franklin	Ohio	1986	8
ADESA Cleveland	Northfield	Ohio	1994	8
ADESA Pittsburgh	Mercer	Pennsylvania	1971	7
ADESA Knoxville	Lenoir City	Tennessee	1984	6
ADESA Memphis	Memphis	Tennessee	1990	6
ADESA Austin	Austin	Texas	1990	6
ADESA Houston	Houston	Texas	1995	8
ADESA Dallas	Mesquite	Texas	1990	8
ADESA San Antonio	San Antonio	Texas	1989	8
ADESA Seattle	Seattle	Washington	1984	4
ADESA Wisconsin	Portage	Wisconsin	1984	5
Canada				
ADESA Calgary	Airdrie	Alberta	2000	4
ADESA Edmonton	Edmonton	Alberta	1988	3
ADESA Vancouver	New Westminster	British Columbia	1972	7
CAG Vancouver	Surrey	British Columbia	1986	2
ADESA Winnipeg	Winnipeg	Manitoba	1987	4
ADESA Moncton	Moncton	New Brunswick	1987	2
ADESA St. John's	St. John's	Newfoundland	1994	1
ADESA Dartmouth	Dartmouth	Nova Scotia	1985	3
ADESA Halifax	Enfield	Nova Scotia	1993	3
ADESA Kitchener	Ayr	Ontario	1988	4
ADESA Toronto	Brampton	Ontario	1987	6
CAG Hamilton	Hamilton	Ontario	1978	2
ADESA Ottawa	Vars	Ontario	1990	5
ADESA Montreal	St. Eustache	Quebec	1974	12
ADESA Saskatoon	Saskatoon	Saskatchewan	1980	2

Leased auction facilities. (See Note 7.)
ADESA owns 51% of this auction business.
ADESA owns 80% of this auction business.

COMPETITION

Within the automobile auction industry, ADESA's competition includes independently owned auctions as well as a major chain and associations with auctions in geographic proximity. ADESA competes with these other auctions for a supply of vehicles to be sold on consignment for automobile dealers, financial institutions and other sellers. ADESA also competes for a supply of rental repurchase vehicles from automobile manufacturers for auction at factory sales. Automobile manufacturers often choose between auctions across multi-state areas in distributing rental repurchase vehicles. ADESA competes for these customers by attempting to attract a large number of dealers to purchase vehicles, which ensures competitive prices and supports the volume of vehicles auctioned. ADESA also competes by providing a full range of automotive services, including dealer inventory financing, reconditioning services that prepare vehicles for auction, transportation of vehicles and processing of sales transactions.

ADESA utilizes e-commerce as another component in its array of services. Dealers are provided training on how to use on-line products, including the purchase of vehicles on-line. The dealers can also access auction runlists and other market report information offered on ADESA's website, www.ADESA.com. ADESA believes it has a competitive advantage in a small but growing segment of the used vehicle market combining on-line services with auction facilities and knowledgeable auction personnel located across North America.

AFC is the largest provider of dealer floorplan financing to independent automobile dealers in North America. AFC's competition includes other specialty lenders, banks and other financial institutions. AFC has distinguished itself from its competitors by convenience of payment, quality of service and scope of services offered. In addition to its floorplan services, AFC, through alliances with other experienced vendors, has expanded its service array to include sub-prime financing, physical damage insurance and warranty products to its dealer base. These alliances make AFC a one-stop shopping provider.

PAR provides customized remarketing services throughout North America. Although other providers are larger in size and volume, PAR's competition comes from a handful of similar service providers, none of which offer as many diverse services as it does. In June 2000 PAR introduced its interactive website, electronically connecting customers with its services. Further enhancements scheduled for availability in the first quarter of 2001 include interactive connection with repossession agents and auction vendor networks. PAR's affiliation with EndTrust gives it a competitive edge in gaining market share in the lease-end management services arena. Another area that distinguishes PAR from its competition is ADESA Importation.

ENVIRONMENTAL MATTERS

Certain businesses in our Automotive Services segment are subject to regulation by various federal, state and local authorities concerning air quality, water quality, solid wastes and other environmental matters. We consider these businesses to be in substantial compliance with those environmental regulations currently applicable to their operations and believe all necessary permits to conduct such operations have been obtained. We do not currently anticipate that potential capital expenditures for environmental matters will be material. However, because environmental laws and regulations are constantly evolving, the character, scope and ultimate costs of environmental compliance cannot be estimated. [GRAPHIC OMITTED - SQUARE]

WATER SERVICES

Our Water Services segment consists of regulated and non-regulated wholly owned subsidiaries. Non-regulated subsidiaries market our water expertise outside traditional utility boundaries. The discussion below summarizes the major businesses we include in Water Services. Statistical information is presented as of December 31, 2000.

REGULATED SUBSIDIARIES. FLORIDA WATER, the largest investor owned water supplier in Florida, owns and operates water and wastewater treatment facilities within that state. Florida Water serves 152,000 water customers and 73,000 wastewater customers, and maintains 157 water and wastewater facilities with plants ranging in size from 6 connections to greater than 25,000 connections. Florida Water provides customers with over 19 billion gallons of water per year, primarily from Florida's underground aquifer. Substantially all of Florida Water's properties used in water and wastewater operations are encumbered by a mortgage. During 2000 Florida Water purchased the assets of Spruce Creek which serves 5,600 water and wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate a total of 10,000 water and wastewater customers. In December 2000 Florida Water also purchased the assets of Steeplechase Utility Company, Inc. which serves 1,200 water and wastewater customers in Marion County, Florida. The system is designed to accommodate a total of 3,200 water and wastewater customers.

HEATER provides water and wastewater treatment services in North Carolina. Heater serves 44,000 water customers and 5,000 wastewater customers. Heater has water and wastewater systems located in subdivisions surrounding Raleigh and Fayetteville, North Carolina, and the Piedmont and Mountain regions of North Carolina. Water supply is primarily from ground water deep wells. Community ground water systems vary in size from 25 connections to 6,000 connections. Some systems are supplied by purchased water. Heater has approximately 415 interconnected and stand-alone systems and 972 wells. Heater also has 33 wastewater treatment plants, ranging in size from 10,000 gallons per day to 670,000 gallons per day, and 79 lift stations located in its wastewater collection systems. Substantially all of Heater's properties used in its water and wastewater operations are encumbered by a mortgage. During 2000 Heater acquired the assets of several small water and wastewater systems which added approximately 1,100 customers.

NON-REGULATED SUBSIDIARIES. AMERICAS' WATER was incorporated in 1997 and has offices in Grand Rapids, Michigan, Plymouth, Wisconsin and Orlando, Florida. Americas' Water offers contract management, operations and maintenance services for water and wastewater treatment facilities to governments and industries. Americas' Water provides services in Minnesota, Michigan, Wisconsin, Ohio and Florida.

INSTRUMENTATION SERVICES, INC. provides predictive maintenance and instrumentation consulting services to water and wastewater utilities and other industrial operations throughout the southeastern part of the United States as well as Texas and Minnesota.

GEORGIA WATER SERVICES CORPORATION was established in 2000. In December 2000 ALLETE Water Services, Inc. purchased, subject to certain conditions, the assets of Dicks Creek Wastewater Utility for $6.6 million plus a commitment to pay a fee for residential connections. Beginning in 2001, the commitment fee will be a minimum of $400,000 annually for four years or until the cumulative fees paid reach $2 million. Dicks Creek, which is located near Atlanta in Forsyth County, Georgia, will be operated by Georgia Water. The transaction is expected to be completed in early 2001.

REGULATORY ISSUES

FLORIDA PUBLIC SERVICE COMMISSION. In 1995 the Florida First District Court of Appeals (Court of Appeals) reversed a 1993 FPSC order establishing uniform rates for most of Florida Water's service areas. With "uniform rates" all customers in each uniform rate area pay the same rates for water and wastewater services. In response to the Court of Appeals' order, in August 1996 the FPSC ordered Florida Water to issue refunds to those customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. This order did not permit a balancing surcharge to customers who paid less under uniform rates. Florida Water appealed, and the Court of Appeals ruled in June 1997 that the FPSC could not order refunds without balancing surcharges. In response to the Court of Appeals' ruling, the FPSC issued an order in January 1998 that did not require refunds. Florida Water's potential refund liability at that time was about $12.5 million, which included interest, to customers who paid more under uniform rates.

In the same January 1998 order, the FPSC required Florida Water to refund, with interest, $2.5 million, the amount paid by customers in the Spring Hill service area from January 1996 through June 1997 under uniform rates that exceeded the amount these customers would have paid under a modified stand-alone rate structure. No balancing surcharge was permitted. The FPSC ordered this refund because Spring Hill customers continued to pay uniform rates after other customers began paying modified stand-alone rates effective January 1996 pursuant to the FPSC's interim rate order in Florida Water's 1995 Rate Case. The FPSC did not include Spring Hill in this interim rate order because Hernando County had assumed jurisdiction over Spring Hill's rates. In June 1997 Florida Water reached an agreement with Hernando County to revert prospectively to stand-alone rates for Spring Hill customers.

Customer groups that paid more under uniform rates appealed the FPSC's January 1998 order, arguing that they are entitled to a refund because the FPSC had no authority to order uniform rates. Florida Water also appealed the $2.5 million

refund order. Initial briefs were filed by all parties in May 1998. In June 1998 the Court of Appeals reversed its previous ruling that the FPSC was without authority to order uniform rates at which time customer groups supporting the FPSC's January 1998 order filed a motion with the Court of Appeals seeking dismissal of the appeal by customer groups seeking refunds. Customers seeking refunds filed amended briefs in September 1998. A provision for refund related to the $2.5 million refund order was recorded in 1999.

In December 2000 Hernando County approved a settlement agreement relating to the Spring Hill refund issue that was before the Court of Appeals. Under the settlement agreement, Spring Hill customers would receive a prospective rate reduction over three years totaling $1.8 million with no refunds. Florida Water also agreed it would not file a rate case to increase rates to Spring Hill customers for a period of three years. In December 2000 the Court of Appeals remanded the issue back to the FPSC for settlement consideration. We are unable to predict the timing or outcome of the appeal and settlement process.

NORTH CAROLINA UTILITIES COMMISSION. In October 2000 the NCUC issued a final order approving a $2.2 million, or 18%, annual rate increase for water and wastewater customers of Heater. Heater had requested an annual rate increase of $3.3 million, or 26%, for its water and waste water customers.

COMPETITION

Water Services provides water and wastewater services at regulated rates within exclusive service territories granted by regulators. Significant competition exists for the provision of the types of services provided by Americas' Water. Although a few private contractors control a large percentage of the market for contract management, operations and maintenance services, we believe that continued growth in these markets will enable emerging companies like Americas' Water to succeed.

FRANCHISES

Florida Water provides water and wastewater treatment services in 21 counties regulated by the FPSC and holds franchises in 5 counties which have retained authority to regulate such operations. (See Regulatory Issues - Florida Public Service Commission.) Water and wastewater services provided by Heater are under the jurisdiction of the NCUC. The NCUC grants franchises for Heater's service territory when the rates are authorized.

ENVIRONMENTAL MATTERS

Our Water Services are subject to regulation by various federal, state and local authorities concerning water quality, solid wastes and other environmental matters. We consider these businesses to generally be in compliance with those environmental regulations currently applicable to their operations and have the permits necessary to conduct such operations. We do not currently anticipate that potential capital expenditures for environmental matters will be material. However, because environmental laws and regulations are constantly evolving, the character, scope and ultimate costs of environmental compliance cannot be estimated. [GRAPHIC OMITTED - SQUARE]

INVESTMENTS

Our Investments segment consists of real estate operations, investments in emerging technologies related to the electric utility industry and an actively traded securities portfolio. The discussion below summarizes the major components of Investments. Statistical information is presented as of December 31, 2000. All subsidiaries are wholly owned unless otherwise specifically indicated.

REAL ESTATE OPERATIONS. Our real estate operations include CAPE CORAL HOLDINGS and an 80% ownership in LEHIGH. Through subsidiaries, we own Florida real estate operations in four different locations:

- Lehigh Acres with 1,000 acres of land and approximately 700 home sites adjacent to Fort Myers, Florida;
- Sugarmill Woods with 530 home sites in Citrus County, Florida;
- Palm Coast with 1,950 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, also located adjacent to Fort Myers, Florida, with approximately 1,000 acres of commercial and residential zoned land, including home sites, marina and commercial buildings.

The real estate strategy is to continue to acquire large properties at low cost, add value and sell them at going market prices.

EMERGING TECHNOLOGY INVESTMENTS. Since 1985 we have invested $38.6 million in start-up companies that are developing technologies that may be utilized by the electric utility industry. We are comitted to invest an additional $13.3 million through 2008. The investments were first made through emerging technology funds initiated by us and other electric utilities. More recently, we have made investments directly in privately held companies. The majority of our direct investments relate to distributed generation technology, such as micro generation and fuel cell technology.

Emerging Technology Investments As of December 31, 2000	Investment	Future Commitment
Millions		
Emerging Technology Funds	$27.2	$12.8
Proton Energy Systems, Inc.	3.1	-
Metallic Power, Inc.	3.7	-

Enporion, Inc.	3.0	-
Other	1.6	0.5
Total	$38.6	$13.3

The emerging technology funds (Funds) have made investments in companies that develop advanced technologies to be used by the utility industry, including electrotechnologies and renewable energy technologies and software and communications technologies related to utility customer support systems. Customer support systems include customer information systems, energy management systems, Internet marketing, broadband communications and power quality.

PROTON ENERGY SYSTEMS, INC. develops and manufactures proton exchange membrane products for use in hydrogen generating devices and regenerative fuel cell systems that function as power generating and energy storage devices. In addition to our direct investment, the Funds are also invested in Proton.

METALLIC POWER, INC. is engaged in the development and commercialization of zinc/air fuel cells to be used in place of battery operated and small combustion engines (i.e., forklifts, golf carts, lawn mowers and portable generation for mobile applications). Metallic is privately held and located in California. In addition to our direct investment, the Funds are also invested in Metallic.

ENPORION, INC. is a start-up business-to-business electronic marketplace focusing on the supply chain of energy utilities. Enporion was founded in 2000 by seven electric and gas utilities, including us. The electronic marketplace began transacting business in the fourth quarter of 2000. Our $3 million investment represents a 12.5% ownership interest.

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 companies included in the Funds completed an initial public offering. Typically, investors are not permitted to sell stock of the companies for a period of 180 days following an initial public offering. Other restrictions on sale may also apply. 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 $13 million. The aggregate market value of these companies at December 31, 2000 was $52 million.

Our emerging technology investments provide us with access to developing technologies before their commercial debut, as well as 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.

SECURITIES PORTFOLIO. Our securities portfolio is managed by selected outside managers as well as internal managers. It is intended to provide stable earnings and liquidity. Proceeds from the securities portfolio are available for investment in existing businesses, to fund strategic initiatives and for other corporate purposes. Our investment in the securities portfolio at December 31, 2000 was $91 million ($257 million at December 31, 1999).

In May 2000 we sold 4.7 million shares of ACE common stock that we received in exchange for 7.3 million shares of Capital Re common stock in December 1999. The exchange of stock was the result of a merger in which each Capital Re share was exchanged for 0.65 ordinary shares of ACE plus $3.4456 in cash. At the time of the merger we owned 20% of Capital Re which converted to 2% of ACE. The ACE shares were included in our securities portfolio at December 31, 1999.

ENVIRONMENTAL MATTERS

Certain businesses included in our Investments segment are subject to regulation by various federal, state and local authorities concerning air quality, water quality, solid wastes and other environmental matters. We consider these businesses to be in substantial compliance with those environmental regulations currently applicable to their operations and believe all necessary permits to conduct such operations have been obtained. We do not currently anticipate that potential capital expenditures for environmental matters will be material. However, because environmental laws and regulations are constantly evolving, the character, scope and ultimate costs of environmental compliance cannot be estimated. [GRAPHIC OMITTED - SQUARE]

EXECUTIVE OFFICERS OF THE REGISTRANT

Executive Officers	Initial Effective Date
John Cirello, Age 57	
Executive Vice President ALLETE and President and Chief Executive Officer - ALLETE Water Services, Inc.	July 24, 1995
Donnie R. Crandell, Age 56	
Executive Vice President ALLETE and President - ALLETE Properties, Inc.	January 15, 1999
Senior Vice President and President - ALLETE Properties, Inc.	January 1, 1996
Robert D. Edwards, Age 56	
Executive Vice President ALLETE and President - Minnesota Power	July 26, 1995
Brenda J. Flayton, Age 45	
Vice President - Human Resources	July 22, 1998
John E. Fuller, Age 57	
Executive Vice President ALLETE and President and Chief Executive Officer - AFC	January 15, 1999
Senior Vice President and President and Chief Executive Officer - AFC	April 23, 1997
President and Chief Executive Officer - AFC	January 1, 1994
Laurence H. Fuller, Age 52	
Vice President - Corporate Development	February 10, 1997
David G. Gartzke, Age 57	
Senior Vice President - Finance and Chief Financial Officer	December 1, 1994
James P. Hallett, Age 47	
Executive Vice President ALLETE and President and Chief Executive Officer - ADESA	April 23, 1997
President and Chief Executive Officer - ADESA	August 21, 1996
President - ADESA Canada Inc.	May 26, 1994
Philip R. Halverson, Age 52	
Vice President, General Counsel and Secretary	January 1, 1996
David P. Jeronimus, Age 58	
Vice President - Environmental Services	February 1, 1999
James A. Roberts, Age 50	
Vice President - Corporate Relations	January 1, 1996
Edwin L. Russell, Age 55	
Chairman, President and Chief Executive Officer	May 14, 1996
President and Chief Executive Officer	January 22, 1996
President	May 9, 1995
Mark A. Schober, Age 45	
Controller	March 1, 1993
James K. Vizanko, Age 47	
Treasurer	March 1, 1993
Claudia Scott Welty, Age 48	
Vice President - Information Technology	February 1, 1999
Vice President - Support Services	July 1, 1995

All of the executive officers except Mr. Laurence Fuller have been employed by us for more than five years in executive or management positions.

MR. LAURENCE FULLER was previously senior vice president, new business development and strategic planning, for Diners Club International, a subsidiary of Citicorp, Inc.

In the five years prior to election to the positions shown above, Ms. Flayton and Mr. Jeronimus held other positions with us.

MS. FLAYTON was director of human resources.

MR. JERONIMUS was director of environmental resources.

There are no family relationships between any of the executive officers. All officers and directors are elected or appointed annually.

The present term of office of the above executive officers extends to the first meeting of our Board of Directors after the next annual meeting of shareholders. Both meetings are scheduled for May 8, 2001. [GRAPHIC OMITTED - SQUARE]

ITEM 2. PROPERTIES

Properties are included in the discussion of our business in Item 1. and are incorporated by reference herein.

ITEM 3. LEGAL PROCEEDINGS

Material legal and regulatory proceedings are included in the discussion of our business in Item 1. and are incorporated by reference herein.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

We have paid dividends without interruption on our common stock since 1948. A quarterly dividend of $0.2675 per share on our common stock will be paid on March 1, 2001 to the holders of record on February 15, 2001. Our common stock is listed on the New York Stock Exchange under the symbol ALE. Dividends paid per share, and the high and low prices for our common stock for the periods indicated as reported by THE WALL STREET JOURNAL, Midwest Edition, are in the accompanying chart.

On March 2, 1999 our common stock was split two-for-one. All common share and per share amounts have been adjusted for all periods to reflect the two-for-one stock split.

The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors. In 2000 we paid out 51% (64% excluding the gain related to the ACE transaction) of our per share earnings in dividends.

Our Articles of Incorporation, and Mortgage and Deed of Trust contain provisions which under certain circumstances would restrict the payment of common stock dividends. As of December 31, 2000 no retained earnings were restricted as a result of these provisions. At January 29, 2001 there were approximately 38,000 common stock shareholders of record. [GRAPHIC OMITTED - SQUARE]

Quarter	Price Range High	Price Range Low	Dividends Paid
2000 - First	$18.06	$14.75	$0.2675
Second	20.75	16.00	0.2675
Third	24.25	17.31	0.2675
Fourth	25.50	20.13	0.2675
Annual Total			$1.07
1999 - First	$22.09	$19.53	$0.2675
Second	21.81	18.94	0.2675
Third	19.88	16.56	0.2675
Fourth	18.69	16.00	0.2675
Annual Total			$1.07

ITEM 6. SELECTED FINANCIAL DATA

All common share and per share amounts have been adjusted for all periods to reflect our March 2, 1999 two-for-one common stock split. Financial information presented in the table below may not be comparable between periods due to our purchase of 80% of ADESA, including AFC and Great Rigs, in July 1995, another 3% in January 1996 and the remaining 17% in August 1996.

BALANCE SHEET	2000	1999	1998	1997	1996	1995
Millions						
Assets						
Current Assets	$ 731.0	$ 564.5	$ 487.5	$ 385.3	$ 334.4	$ 251.9
Property, Plant and Equipment	1,479.7	1,258.8	1,178.9	1,170.2	1,188.8	1,149.1
Investments	116.4	197.2	263.5	252.9	236.5	201.4
Goodwill	472.8	181.0	169.8	158.9	167.0	120.2
Other Assets	114.1	111.1	109.2	119.0	123.6	126.8
	$2,914.0	$2,312.6	$2,208.9	$2,086.3	$2,050.3	$1,849.4
Liabilities and Stockholders' Equity						
Current Liabilities	$ 707.0	$ 398.3	$ 346.0	$ 342.6	$ 339.7	$ 256.8
Long-Term Debt	952.3	712.8	672.2	685.4	694.4	639.5
Other Liabilities	278.9	289.2	298.6	301.8	298.9	320.5
Mandatorily Redeemable Preferred Securities of ALLETE Capital I	75.0	75.0	75.0	75.0	75.0	-
Redeemable Preferred Stock	-	20.0	20.0	20.0	20.0	20.0
Stockholders' Equity	900.8	817.3	797.1	661.5	622.3	612.6
	$2,914.0	$2,312.6	$2,208.9	$2,086.3	$2,050.3	$1,849.4
INCOME STATEMENT						
Millions						
Operating Revenue						
Energy Services	$ 589.5	$ 554.5	$ 559.8	$ 541.9	$ 529.2	$ 503.5
Automotive Services	546.4	406.6	328.4	255.5	183.9	61.6
Water Services	118.6	112.9	95.6	95.5	85.2	66.1
Investments	77.4	57.8	55.5	60.7	48.6	36.1
	1,331.9	1,131.8	1,039.3	953.6	846.9	667.3
Expenses						
Fuel and Purchased Power	229.0	200.2	205.7	194.1	190.9	177.0
Operations	842.6	705.9	635.4	579.9	512.2	389.1
Interest Expense	69.2	59.5	64.9	64.2	62.1	48.0
	1,140.8	965.6	906.0	838.2	765.2	614.1
Operating Income Before Capital Re and ACE	191.1	166.2	133.3	115.4	81.7	53.2
Income (Loss) from Investment in Capital Re and Related Disposition of ACE	48.0	(34.5)	15.2	14.8	11.8	9.8
Operating Income	239.1	131.7	148.5	130.2	93.5	63.0
Distributions on Redeemable Preferred Securities of ALLETE Capital I	6.0	6.0	6.0	6.0	4.7	-
Income Tax Expense	84.5	57.7	54.0	46.6	19.6	1.1
Income from Continuing Operations	148.6	68.0	88.5	77.6	69.2	61.9
Income from Discontinued Operations	-	-	-	-	-	2.8
Net Income	148.6	68.0	88.5	77.6	69.2	64.7
Preferred Dividends	0.9	2.0	2.0	2.0	2.4	3.2
Earnings Available for Common Stock	147.7	66.0	86.5	75.6	66.8	61.5
Common Stock Dividends	74.5	73.0	65.0	62.5	59.6	57.9
Retained (Deficit) in the Business	$ 73.2	$ (7.0)	$ 21.5	$ 13.1	$ 7.2	$ 3.6

	2000	1999	1998	1997	1996	1995
Shares Outstanding - Millions						
Year-End	74.7	73.5	72.3	67.1	65.5	62.9
Average	69.8	68.4	64.0	61.2	58.6	57.0
Diluted Earnings Per Share						
Continuing Operations	$2.11	$0.97	$1.35	$1.24	$1.14	$1.03
Discontinued Operations	-	-	-	-	-	0.05
	$2.11	$0.97	$1.35	$1.24	$1.14	$1.08
Return on Common Equity	17.1%	8.3%	12.4%	12.1%	11.3%	10.7%
Common Equity Ratio	46.3%	49.3%	49.9%	44.9%	43.1%	45.6%
Dividends Paid Per Share	$1.07	$1.07	$1.02	$1.02	$1.02	$1.02
Dividend Payout	50.7%	110%	76%	83%	89%	94%
Book Value Per Share at Year-End	$12.06	$10.97	$10.86	$9.69	$9.32	$9.28
Market Price Per Share						
High	$25.50	$22.09	$23.13	$22.00	$14.88	$14.63
Low	$14.75	$16.00	$19.03	$13.50	$13.00	$12.13
Close	$24.81	$16.94	$22.00	$21.78	$13.75	$14.19
Market/Book at Year-End	2.06	1.54	2.03	2.25	1.48	1.53
Price Earnings Ratio at Year-End	11.8	17.5	16.3	17.6	12.1	13.1
Dividend Yield at Year-End	4.3%	6.3%	4.6%	4.7%	7.4%	7.2%
Employees	12,633	8,246	7,003	6,817	6,537	5,649
Net Income						
Energy Services	$43.1	$45.0	$47.4	$43.1	$39.4	$41.0
Automotive Services	48.5	39.9	25.5	14.0	3.7	-
Water Services	13.1	12.2	7.5	8.2	5.4	(1.0)
Investments	59.7	(9.4)	29.6	32.1	38.1	41.3
Corporate Charges	(15.8)	(19.7)	(21.5)	(19.8)	(17.4)	(19.4)
	148.6	68.0	88.5	77.6	69.2	61.9
Discontinued Operations	-	-	-	-	-	2.8
	$148.6	$68.0	$88.5	$77.6	$69.2	$64.7
Customers - Thousands						
Electric	141.0	139.7	138.1	135.8	135.1	135.8
Water	273.8	255.3	205.1	201.0	197.2	198.4
Electric Sales - Millions of MWh	11.7	11.3	12.0	12.4	13.2	11.5
Power Supply - Millions of MWh						
Steam Generation	6.4	6.2	6.3	6.1	6.4	6.0
Hydro Generation	0.5	0.7	0.6	0.6	0.7	0.7
Long-Term Purchase - Square Butte	2.4	2.3	2.1	2.3	2.4	1.9
Purchased Power	3.1	2.6	3.2	3.8	4.4	3.6
	12.4	11.8	12.2	12.8	13.9	12.2
Water Sold - Billions of Gallons	22.7	20.3	18.1	16.5	16.0	14.7
Coal Sold - Millions of Tons	4.4	4.5	4.2	4.2	4.5	4.0
Vehicles Sold - Thousands	1,319	1,037	897	769	637	230
Vehicles Financed - Thousands	795	695	531	323	140	70
Capital Expenditures - Millions						
Energy Services	$ 64.7	$47.7	$36.1	$34.6	$ 37.5	$ 39.4
Automotive Services	74.2	23.8	22.0	11.2	41.7	42.7
Water Services	29.6	26.9	21.8	22.2	22.2	32.7
Investments	0.2	0.9	0.1	0.2	0.1	-
Corporate	-	0.4	0.8	4.0	-	-
Discontinued Operations	-	-	-	-	-	0.7
	$168.7	$99.7	$80.8	$72.2	$101.5	$115.5

Excludes unallocated ESOP Shares.

In May 2000 we recorded a $30.4 million, or $0.44 per share, after-tax gain on the sale of 4.7 million shares of ACE that we received in December 1999 when Capital Re merged with ACE. As a result of the merger, in 1999 we recorded a $36.2 million, or $0.52 per share, after-tax non-cash charge. Excluding the Capital Re and ACE transactions, diluted earnings per share were $1.67 in 2000 ($1.49 in 1999), the return on common equity was 13.6% in 2000 (12.9% in 1999), the dividend payout was 64.1% in 2000 (72% in 1999), the price earnings ratio was 14.9 in 2000 (11.4 in 1999) and net income from Investments was $29.3 million in 2000 ($26.8 million in 1999).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CONSOLIDATED OVERVIEW

Millions	2000	1999	1998
Operating Revenue			
Energy Services	$ 589.5	$ 554.5	$ 559.8
Automotive Services	546.4	406.6	328.4
Water Services	118.6	112.9	95.6
Investments	77.4	57.8	55.5
	$1,331.9	$1,131.8	$1,039.3
Operating Expenses			
Energy Services	$ 516.0	$479.0	$480.5
Automotive Services	464.3	337.3	281.5
Water Services	96.7	93.3	83.1
Investments	32.7	23.9	22.3
Corporate Charges	31.1	32.1	38.6
	$1,140.8	$965.6	$906.0
Net Income			
Energy Services	$ 43.1	$ 45.0	$ 47.4
Automotive Services	48.5	39.9	25.5
Water Services	13.1	12.2	7.5
Investments	29.3	26.8	29.6
Corporate Charges	(15.8)	(19.7)	(21.5)
	118.2	104.2	88.5
Capital Re and ACE Transactions	30.4	(36.2)	-
	$ 148.6	$ 68.0	$ 88.5
Diluted Average Shares of Common Stock - Millions	70.1	68.7	64.2
Diluted Earnings Per Share of Common Stock			
Before Capital Re and ACE Transactions	$1.67	$1.49	$1.35
Capital Re and ACE Transactions	0.44	(0.52)	-
	$2.11	$0.97	$1.35
Return on Common Equity	13.6%	12.9%	12.4%

Including the $30.4 million gain associated with the ACE transaction, 2000 net income from Investments was $59.7 million and the return on equity was 17.1%. (See Note 6.)

Including the $36.2 million non-cash charge associated with the Capital Re transaction, 1999 net income from Investments was a $9.4 million loss and the return on equity was 8.3%. (See Note 6.)

We achieved strong earnings growth as 2000 net income, exclusive of the Capital Re and ACE transactions (see net income discussion for Capital Re and ACE transactions on the next page), increased $14.0 million, or 13%, and earnings per share increased $0.18, or 12%, over 1999. Much of the growth came from Automotive Services, as net income from that segment in 2000 was up $8.6 million, or 22%, over 1999. Although a cooler summer in 2000 resulted in lower net income from Energy Services, financial results for all business segments reflected ongoing operational improvements and the successful strategies initiated to grow and diversify each business.

We measure performance of our operations through careful budgeting and monitoring of contributions by each business segment to consolidated net income. Corporate Charges represent general corporate expenses, including interest, not specifically related to any one business segment.

The following summarizes significant events which impacted net income for each of our business segments for the past three years.

ENERGY SERVICES' net income in 2000 declined $1.9 million, or 4%, from 1999 as strong megawatthour sales were more than offset by lower margins on wholesale power marketing activities. Megawatthour sales increased 4% to 11.7 million in 2000 (11.3 million in 1999; 12 million in 1998) primarily due to more sales to large industrial customers. Lower demand in the region's wholesale power market as a result of more moderate summer weather led to the decrease in wholesale margins in 2000. In 1999 Energy Services reflected lower megawatthour sales to industrial customers and higher margins from wholesale power marketing activities, a denial of lost margin recovery for conservation improvement programs and a one-time property tax levy associated with an industrial development project. The 1999 decline in sales was primarily attributable to

fewer sales to taconite, paper and pipeline customers because of lower demand for domestic steel, stronger competition in the paper markets and lower pipeline pumping levels. In 1998 net income reflected higher margins from wholesale power marketing activities. An unusually mild winter in 1998 negatively impacted both net income and megawatthour sales to retail customers.

AUTOMOTIVE SERVICES continued its strong growth, as 2000 net income increased $8.6 million, or 22%, over 1999. The growth was due to increased sales activity at ADESA auction facilities and increased financing activity at AFC's loan production offices. ADESA added 28 new auction facilities in 2000 (two in 1999; three in 1998) and completed the acquisition of 11 auction facilities that provide "total loss" vehicle recovery services to insurance companies. At ADESA auction facilities 1.3 million vehicles were sold in 2000 (1.0 million in 1999; 0.9 million in 1998). Same store growth at ADESA auction facilities increased 12% as measured by earnings before interest, taxes, depreciation, amortization and lease expense. AFC contributed 48% of the net income from Automotive Services in 2000. AFC had 86 loan production offices in 2000 (84 in 1999; 84 in 1998). The growth of AFC's dealer/customer base from 11,500 in 1998 to 15,000 in 2000 has enabled AFC to finance more vehicles, 795,000 vehicles in 2000 (695,000 in 1999; 531,000 in 1998). In 1999 Automotive Services showed significant growth reflecting a profitable mix of same-store growth and selective acquisitions at ADESA as well as increased financing activity and the maturing of loan production offices that were opened in 1998 by AFC. In 1998 AFC added 30 loan production offices.

WATER SERVICES' net income in 2000 was up $0.9 million, or 7%, compared to 1999 due to increased water consumption as a result of drier weather conditions and customer growth, regulatory relief granted by Florida's Hillsborough Board of County Commissioners

in 2000 and higher rates approved by the FPSC in 1999. In 1999 Water Services generated higher net income due to strategic acquisitions and customer growth that increased the customer base by 24%, regulatory relief granted by the FPSC in the settlement of Florida Water's 1995 rate case and increased average consumption. In 1998 Water Services results reflected regulatory relief, customer growth, increased consumption and operating efficiencies.

INVESTMENTS' net income in 2000 was $2.5 million, or 9%, more than 1999 due to record sales by our real estate operations. While the balance of our securities portfolio was reduced to fund significant acquisitions by Automotive Services, improved returns on our investments contributed to higher net income. Our securities portfolio earned an annualized after-tax return of 7.0% in 2000 (3.3% in 1999; 5.5% in 1998). In 1999 Investments reported gains from an emerging technology investment and lower returns on our securities portfolio due to stock market volatility. In 1998 Investments reported a lower after-tax return from our securities portfolio due to the under performance of certain investments, which was offset by dividend income received from an emerging technology investment and strong sales by our real estate operations.

CORPORATE CHARGES in 2000 were $3.9 million, or 20%, less than 1999 due to the resolution of various federal and state tax issues and less preferred dividends because of redemption. Corporate Charges in 1999 reflected reduced interest expense as a result of a lower average commercial paper balance. Corporate Charges in 1998 included reduced interest expense due to the availability of cash from the sale of common stock offset by higher expenses associated with benefit incentives, a change in accounting for start-up costs, and technological and communication improvements made to corporate-wide systems.

CAPITAL RE AND ACE TRANSACTIONS. In May 2000 we recorded a $30.4 million, or $0.44 per share, after-tax gain on the sale of 4.7 million shares of ACE that we received in December 1999 when Capital Re merged with ACE. As a result of the merger, in 1999 we recorded a $36.2 million, or $0.52 per share, after-tax non-cash charge as follows: a $24.1 million, or $0.35 per share, charge in the second quarter following the merger agreement and discontinuance of our equity accounting for Capital Re; and a $12.1 million, or $0.17 per share, charge in the fourth quarter upon completion of the merger.

2000 COMPARED TO 1999

OPERATING REVENUE

ENERGY SERVICES' operating revenue was up $35.0 million, or 6%, in 2000 due to a 6% increase in retail megawatthour sales because of higher demand from large industrial customers. This increase was partially offset by fewer sales from wholesale power marketing activities. Wholesale prices and volumes were down from 1999 because of lower demand for electricity in the region's wholesale power market as a result of more moderate summer weather and transmission constraints.

AUTOMOTIVE SERVICES' operating revenue was up $139.8 million, or 34%, in 2000 primarily due to a 27% increase in vehicles sold through ADESA auction facilities and a 14% increase in the number of vehicles financed by AFC. The increase in vehicles sold was primarily attributable to new auctions acquired or opened in 1999 and 2000. Financial results for 2000 included a full year of operations for auction facilities acquired in 1999 and a partial year of operations for auction facilities acquired or opened in 2000.

WATER SERVICES' operating revenue was up $5.7 million, or 5%, in 2000 because of a 12% increase in water consumption. Drier weather conditions, customer growth and the inclusion of water systems acquired during 1999 and early 2000 all influenced the increase in water consumption. In addition, revenue in 2000 was $1.0 million higher due to regulatory relief granted by Florida's Hillsborough Board of County Commissioners in 2000 and $0.8 million higher due to higher rates approved by the FPSC in 1999. Revenue in 1999 reflected the recognition of $2.7 million of regulatory relief granted by the FPSC.

INVESTMENTS' operating revenue was up $19.6 million, or 34%, in 2000. Significant sales by our real estate operations were the primary reason for the increase. In 2000 seven large sales contributed $31.9 million to revenue while in 1999 five large sales contributed $17.1 million to revenue. Despite a lower average balance in 2000, income from our securities portfolio was higher due to improved returns. Income from our emerging technology investments was $4.6 million lower in 2000 because in 1999 we reported gains received from one of our emerging technology investments.

OPERATING EXPENSES

ENERGY SERVICES' operating expenses were up $37.0 million, or 8%, in 2000 primarily due to increased fuel and purchased power expenses. Fuel expense was $5.7 million higher in 2000 because we paid higher prices for coal and generated 247,000, or 4%, more megawatthours to meet the higher requirements of our industrial customers. In 2000 purchased power expense was up $23.1 million because of higher prices.

AUTOMOTIVE SERVICES' operating expenses were up $127.0 million, or 38%, in 2000 primarily due to the inclusion of new vehicle auction facilities acquired or opened in 1999 and 2000. Increased sales activity at the auction facilities and increased financing activity at AFC also increased operating expenses in 2000.

WATER SERVICES' operating expenses were up $3.4 million, or 4%, in 2000 due to the inclusion of water systems acquired in 1999 and 2000.

INVESTMENTS' operating expenses were up $8.8 million, or 37%, in 2000 due to the

cost of property sold by our real estate operations.

1999 COMPARED TO 1998

OPERATING REVENUE

ENERGY SERVICES' operating revenue was down $5.3 million, less than 1%, in 1999. Revenue in 1999 reflected a $23.0 million increase from wholesale power marketing activities because of extreme weather conditions affecting power market prices during the third quarter of 1999. Temperatures, which were at record highs during the last week of July 1999, created a high demand for power from other power suppliers. Revenue from industrial customers was down approximately $19 million in 1999 due to decreased taconite production, paper manufacturing and pipeline usage. Revenue from residential and commercial customers was $3.8 million higher in 1999 because the winter weather in northern Minnesota and Wisconsin was colder than 1998 and July 1999 was unusually hot. Revenue in 1998 included $3.8 million of CIP lost margin recovery. Minnesota Power was denied CIP lost margin recovery in 1999. (See Item 1. - Energy Services - Minnesota Public Utilities Commission.)

AUTOMOTIVE SERVICES' operating revenue was up $78.2 million, or 24%, in 1999 due to stronger sales at ADESA auction facilities, and increased financing activity and 12 months of operations at loan production offices opened in 1998 by AFC. At ADESA auction facilities 16% more vehicles were sold in 1999 compared to 1998. In 1999 ADESA auction financial results included 12 months of operations from three vehicle auctions acquired in 1998 and partial year results for two vehicle auction facilities acquired in 1999. AFC financed 31% more vehicles in 1999 compared to 1998. AFC has had 84 loan production offices since August 1998, 30 of which were opened during 1998.

WATER SERVICES' operating revenue was up $17.3 million, or 18%, in 1999, with $12.3 million of the increase coming from PCUC, which was purchased in January 1999. The remainder of the increase was attributed to regulatory relief granted by the FPSC in December 1998 and September 1999, the acquisition of Mid South and more consumption due to customer growth. Overall consumption increased 12% in 1999. In 1998 overall consumption was lower than normal due to some of our water systems being adversely impacted by record rainfall during the first quarter. Gains totaling $600,000 from the sale of a water system and the sale of land were included in 1998 revenue.

INVESTMENTS' operating revenue was up $2.3 million, or 4%, in 1999 primarily due to $10.7 million in gains from an investment in an emerging technology fund and higher sales by our real estate operations. These increases were partially offset by lower returns on the securities portfolio due to stock market volatility. Also, revenue in 1998 included $4.3 million of dividend income received from an emerging technology investment.

OPERATING EXPENSES

ENERGY SERVICES' operating expenses decreased $1.5 million, or 3%, in 1999 primarily due to a $5.5 million reduction in fuel and purchased power expenses because of less steam generation and fewer purchases from other power suppliers, and a $1.9 million decrease in depreciation expense primarily the result of an updated production plant depreciation study. Operating expenses were also $2.7 million lower in 1999 because the amortization of an early retirement program was completed in July 1998. These decreases were partially offset by a one-time property tax levy and other expenses related to an industrial development project totaling $3.6 million, and higher compensation and consulting service expenses.

AUTOMOTIVE SERVICES' operating expenses were up $55.8 million, or 20%, in 1999 primarily due to increased sales activity at the auction facilities and the floorplan financing business. Additional expenses associated with more auction facilities and loan production offices also contributed to higher expenses in 1999.

WATER SERVICES' operating expenses were up $10.2 million, or 12%, in 1999 primarily due to inclusion of PCUC and Mid South operations.

INVESTMENTS' operating expenses were up $1.6 million, or 7%, in 1999 primarily due to more sales by our real estate operations.

CORPORATE CHARGES decreased $6.5 million, or 17%, in 1999 because interest expense in 1998 reflected a settlement with the Internal Revenue Service on tax issues relating to prior years. As a result of the settlement, a previous $4.7 million income tax expense accrual was reversed and recorded as interest expense in the first quarter of 1998. There was no impact on consolidated net income from this transaction. Also, interest expense was reduced in 1999 because the average commercial paper balance was lower.

OUTLOOK

CORPORATE. Our businesses in 43 states and nine Canadian provinces employ 13,000 employees engaged in Energy Services, Automotive Services, Water Services and Investments. We expect to continue to focus on attaining our strategic objectives of substantially growing earnings, achieving market leadership in each of our businesses, significantly enhancing total shareholder return with the objective of increasing our market capitalization to over $4 billion by 2005 and achieving market recognition as a multi-services company. While maintaining the quality of our credit and security ratings, we plan to achieve these goals through selective acquisitions and internal growth within our businesses. Our $438 million investment in new vehicle auction facilities during 2000, followed by our $63 million investment in auction facilities that provide "total loss" vehicle recovery services in January 2001, is consistent with our growth strategy. These investments are expected to contribute to our goal of 12% growth

in operating earnings in 2001.

ENERGY SERVICES. Energy Services continues to be a strong cash flow generator for us. Our access to and ownership of low-cost power are Energy Services' greatest strengths and we will continue to look for opportunities to add to our low-cost energy portfolio. We have more than adequate generation to serve our native load. Power over and above our customers' requirements is marketed through MPEX and Split Rock.

Since approximately half of the electricity Minnesota Power sells is to large industrial customers, primarily taconite producers, which have long-term all-requirements contracts, the livelihood of the taconite industry is important to us. Annual taconite production in Minnesota was 47 million tons in 2000 (43 million tons in 1999; 47 million tons in 1998). Based on our research of the taconite industry, Minnesota taconite production for 2001 is anticipated to be about 37 million tons.

The anticipated decrease in 2001 taconite production is due to high import levels and a softening economy. The majority of the anticipated 10-million ton reduction in taconite production for 2001 is occurring at mines that are not Large Power Customers. Two Large Power Customers have announced temporary shut downs, accounting for approximately 2 million tons of the decrease. While taconite production is currently expected to continue at annual levels of about 40 million tons, the longer-term outlook for this cyclical industry is less certain. Long-term contracts with our Large Power Customers help minimize the impact on earnings that otherwise would result from such decreases in taconite production. We expect any excess energy not used by our Large Power Customers will be marketed by MPEX and Split Rock.

Energy Services continues to pursue plans to construct in partnership with Wisconsin Public Service Corporation a 250-mile, 345-kilovolt transmission line from Wausau, Wisconsin to Duluth, Minnesota and pursue regional wholesale merchant generating plant opportunities. Minnesota Power also signed an agreement to install a 24-MW turbine generator at Potlatch Corp.'s facility in Cloquet, Minnesota by mid-2001. While Minnesota Power will own the turbine generator and have access to its excess power in times of high demand, Potlatch will operate and maintain the facility. Energy Services intends to seek additional cost saving alternatives and efficiencies, and expand its non-regulated services to maintain its contribution to overall net income.

AUTOMOTIVE SERVICES. We anticipate earnings from Automotive Services to increase by more than 40% in 2001. This earnings growth includes a 10% to 15% increase in EBITDAL from same store ADESA auction facilities. Since 1995 when we first entered the automotive industry, we have transformed and expanded our Automotive Services operations. Automotive Services is now our largest contributor to net income.

ADESA is the second largest and fastest growing vehicle auction business in North America. The 2000 acquisition of CAG added 13 Canadian vehicle auction facilities and associated dealer financing business to Automotive Services and established ADESA as the premier automotive services company in Canada. ADESA also acquired or opened 15 other vehicle auction facilities in 2000.

ADESA's purchase of the remaining 53% ownership in Impact Auto in 2000 and APC in January 2001 position us as the third largest provider of "total loss" vehicle recovery services in North America with 19 auction facilities. Simultaneously with the APC transaction, ADESA acquired ComSearch. Supplementing Internet product offerings at ADESA and APC, ComSearch brings Internet-based technology in the auto parts location and insurance adjustment business. We will continue to look for accretive acquisitions not only in the wholesale vehicle auction business, but also in the "total loss" vehicle recovery auction business.

AFC's new computer application system allows AFC to manage its business more effectively while expediting services through its branch network to more than 15,000 registered dealers. AutoVIN expanded its inventory inspection services in 2000 to include dealers selling other products, such as motorcycles and lawn equipment. While inventory verification is still the core of AutoVIN's business, its growth potential is dramatically increased by providing inspection services for other products.

Vehicle sales within the auto auction industry are expected to rise at a rate of 2% to 4% annually over the next several years. With the continued increased popularity of leasing and the high cost of new vehicles, a steady flow of vehicles is expected to return to auction. Automotive Services also expects to participate in the industry's growth through selective acquisitions and expanded services.

ADESA and AFC continue to focus on growth in the volume of vehicles sold and financed, increased ancillary services, and operating and technological efficiencies. Great Rigs, PAR and ADESA Importation plan to participate in the growth of auction volume and enhance market share.

WATER SERVICES. Florida Water will continue to grow by selectively acquiring targeted water systems. The strategic emphasis at Heater is growth in North Carolina. Both Florida Water and Heater operate in states that are currently experiencing rapid population growth, which should contribute to our expected annual customer growth of 4% to 7% over the next two years.

Severe drought conditions over the last several months in Florida have prompted three out of the five Florida water management districts to issue Water Shortage Orders limiting lawn watering to one or two days per week. The Orders request all local governments to enforce the restrictions which will be in effect until further notice from each water district. The Water Shortage Orders affect the majority of Florida Water's customers (all but one community) and could affect water revenue in 2001. At this time, however, we are unable to predict what impact these Orders may have on Water Services' financial results for 2001.

INVESTMENTS. Over the last 5 years, sales by real estate operations have been 3 to 4 times more than the acquisition cost of property sold, creating strong cash generation and profitability. Our real estate operations may, from time to time, acquire large residential community properties at low cost, add value and sell them at current market prices in order to continue a consistent earnings contribution from this business.

Our investments in emerging technology funds make capital available to companies developing products and services critical to the future of the electric utility industry. Our focus has been primarily on micro generation and fuel cell technology. We view our investments in these funds as a source of capital for redeployment into existing businesses and additional business opportunities.

With many of these funds now maturing, our investments may add to income in the future. The balance in our securities portfolio declined significantly in 2000 due to acquisitions. We plan to continue to concentrate on market-neutral investment strategies designed to provide stable and acceptable returns without sacrificing needed liquidity. Our portfolio is hedged against market downturns. Our objective is to maintain corporate liquidity.

LIQUIDITY AND CAPITAL RESOURCES

A primary goal of the strategic plan is to improve cash flow from operations. Since 1996 cash from operating activities has tripled. This increase in cash flow from operations has been accomplished due to operating results and better management of working capital throughout our company. Our strategy includes growing the businesses both internally with expanded facilities, services and operations (see Capital Requirements) and externally through acquisitions.

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. ALLETE's $205 million bank line of credit provides credit support for our commercial paper program. The amount and timing of future sales of our securities will depend upon market conditions and our specific needs. We may from time to time sell securities to meet capital requirements, to provide for the retirement or early redemption of issues of long-term debt, to reduce short-term debt and for other corporate purposes.

A substantial amount of ADESA's working capital is generated internally from payments for services provided. However, ADESA has arrangements to use the 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 ALLETE has issued 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 December 31, 2000 AFC had sold $335.7 million of finance receivables to the special purpose subsidiary ($296.8 million at December 31, 1999). Third party purchasers had purchased an undivided interest in finance receivables of $239 million from this subsidiary at December 31, 2000 ($225 million at December 31, 1999). AFC has also entered into an arrangement in December 2000 with a manufacturer to floorplan certain vehicles located at auctions awaiting resale for a security interest in those vehicles. AFC sells these finance receivables, on a revolving basis, to another wholly owned, unconsolidated, qualified special purpose subsidiary. This subsidiary borrows money from a third party under an agreement that expires June 15, 2001. At December 31, 2000 AFC had sold $53.5 million of these finance receivables to the special purpose subsidiary. The third party lender had advanced $43 million against these receivables. Unsold finance receivables and unfinanced receivables held by the special purpose subsidiaries 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 $106.2 million at December 31, 2000 ($57.6 million at December 31, 1999). 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 December 31, 2000 compared to December 31, 1999 were due to significant acquisitions in 2000, and increased sales and financing activity at Automotive Services.

SALE OF INVESTMENTS. In May 2000 we sold 4.7 million shares of ACE. ALLETE received the ACE shares and $25 million in cash in December 1999 when Capital Re merged with ACE. Prior to the merger, we owned 7.3 million shares, or 20%, of Capital Re. The $127 million in proceeds from the sale of ACE shares and proceeds from the sale of a portion of our securities portfolio were used to fund auction acquisitions.

ACQUISITIONS. In February 2000 ADESA purchased the Mission City Auto Auction in San Diego, California.

In May 2000 ADESA Canada purchased the remaining 27% of Impact Auto. ADESA Canada acquired 20% of Impact Auto on October 1, 1995, 27% in March 1999 and another 26% in January 2000. Impact Auto is Canada's largest provider of "total loss" vehicle recovery services. Impact Auto provides these services to insurance companies.

In June 2000 ADESA acquired all of the outstanding common shares of Auction Finance Group, Inc. (AFG). AFG owns CAAG Auto Auction Holdings Ltd., which was doing business as Canadian Auction Group. This acquisition added 13 vehicle auction facilities and associated dealer financing business to ADESA's existing locations and established ADESA as the premier automotive services company in Canada.

In August 2000 ADESA acquired Beebe Auto Exchange, Inc. which operated two Arkansas auto auctions: Mid-Ark Auto Auction in North Little Rock and Central

Arkansas Auto Auction in Beebe, Arkansas, and 51% of Interstate Auto Auction located in Ocala, Florida.

In October 2000 ADESA purchased nine auction facilities from Manheim.

The transactions described in the five preceding paragraphs had a combined purchase price of approximately $438 million. We funded these transactions with proceeds from the sale of ACE shares, proceeds from the sale of a portion of our securities portfolio, internally generated funds and long-term debt.

In June 2000 Florida Water purchased the assets of Spruce Creek for $5.5 million, plus a commitment to pay fees for water connections through June 2005. Spruce Creek serves 5,600 water and wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate a total of 10,000 water and wastewater customers. The transaction was funded with internally generated funds.

In December 2000 ALLETE Water Services, Inc. purchased, subject to certain conditions, the assets of Dicks Creek Wastewater Utility for $6.6 million plus a commitment to pay a fee for residential connections. Beginning in 2001, the commitment fee will be a minimum of $400,000 annually for four years or until the cumulative fees paid reach $2 million. We expect to complete the transaction in early 2001. Dicks Creek is located near Atlanta in Forsyth County, Georgia. The transaction was funded with internally generated funds.

In January 2001 ALLETE and ADESA acquired all of the outstanding stock of ComSearch and all of the assets of APC in an overall transaction valued at $62.4 million. APC is a provider of "total loss" vehicle recovery services with eight 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. APC and ComSearch's combined revenue for 2000 was $38 million. The transactions were funded with internally generated funds and the issuance of our common stock.

LONG-TERM DEBT. In March 2000 ADESA issued $35 million of 8.10% Senior Notes, Series B, due March 2010. Proceeds were used to refinance short-term bank indebtedness incurred for the acquisition of vehicle auction facilities purchased in 1999 and for general corporate purposes.

In June 2000 ALLETE refinanced $4.6 million of 6.875% Pollution Control Revenue Refunding Bonds, Series 1991-A, with $4.6 million of Adjustable Rate Pollution Control Revenue Refunding Bonds Series 2000 due December 2015. The new bonds had an initial interest rate of 4.75%.

In June 2000 Heater issued an $8 million, 8.24%, note to CoBank, ACB, due June 2025. Proceeds were used to refinance short-term indebtedness incurred for the 1999 acquisition of Mid South and capital improvements in 1999 and 2000.

In July 2000 we filed a registration statement with the SEC pursuant to Rule 415 under the Securities Act of 1933 for an aggregate of $400 million of first mortgage bonds and debt securities. In October 2000 we issued $250 million of Floating Rate First Mortgage Bonds due October 2003. We have the option to redeem these bonds on or after October 20, 2001, in whole or in part from time to time, on any interest payment date prior to their maturity. Proceeds were used to refinance short-term debt incurred in connection with the October 2000 acquisition of nine vehicle auction facilities from Manheim. The new bonds had an initial interest rate of 7.61%. We may sell the remaining securities if warranted by market conditions and our capital requirements. Any offer and sale of the remaining first mortgage bonds and debt securities will be made only by means of a prospectus.

PREFERRED STOCK. In 2000 we redeemed all of our outstanding Preferred Stock and Preferred Stock A with proceeds from the sale of a portion of our securities portfolio and internally generated funds.

All 100,000 outstanding shares of Serial Preferred Stock A, $7.125 Series, were redeemed in April 2000 for an aggregate of $10 million.

All 100,000 outstanding shares of Serial Preferred Stock A, $6.70 Series, were redeemed in July 2000 for an aggregate of $10 million.

All 113,358 outstanding shares of 5% Preferred Stock were redeemed in August 2000 at $102.50 per share plus accrued and unpaid dividends of $0.75 per share for an aggregate of $11.7 million.

LEASES. In April 2000 leases for three ADESA auction facilities (Boston, Charlotte and Knoxville) were refinanced in a $28.4 million leveraged lease transaction. The new lease expires on April 1, 2010, but may be terminated after 2005 under certain conditions. ALLETE has guaranteed ADESA's obligations under the lease.

BOND RATINGS. ALLETE's first mortgage bonds and secured pollution control bonds are currently rated Baa1 by Moody's Investors Service and A by Standard and Poor's. The disclosure of these bond ratings is not a recommendation to buy, sell or hold our securities.

PAYOUT RATIO. In 2000 we paid out 51% (110% in 1999; 76% in 1998) of our per share earnings in dividends. Excluding the gain related to the ACE transaction, in 2000 we paid out 64% of our per share earnings in dividends. Excluding the non-cash charge related to the Capital Re transaction, in 1999 we paid out 72% of our per share earnings in dividends.

CAPITAL REQUIREMENTS

Consolidated capital expenditures totaled $168.7 million in 2000 ($99.7 million in 1999; $80.8 million in 1998). Expenditures in 2000 included $64.7 million for Energy Services, $74.2 million for Automotive Services, $29.6 million for Water Services and $0.2 million for Investments. Internally generated funds and the proceeds from the issuance of long-term debt were the primary sources of funding these capital expenditures.

Capital expenditures are expected to be $166 million in 2001 and total about $350 million for 2002 through 2005. The 2001 amount includes $58 million for

electric co-generation, system component replacement and upgrades, telecommunication fiber and coal handling equipment; $75 million for new auctions currently under construction, expansions and on-going improvements at existing vehicle auction facilities and associated computer systems; and $33 million to expand water and wastewater treatment facilities to accommodate customer growth, to meet environmental standards and for water conservation initiatives. We expect to use internally generated funds, and the proceeds from the issuance of long-term debt and equity securities to fund these capital expenditures.

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 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. At December 31, 2000 available-for-sale securities consisted of equity securities in a grantor trust established to fund certain employee benefits.

December 31, 2000 Millions	Fair Value
Trading Securities Portfolio	$90.8
Available-For-Sale Securities Portfolio	$12.3

We are also subject to interest rate risk through outstanding debt. (See Note 9.) A portion of the interest rate risk is hedged through the use of interest rate swap agreements.

In October 2000 we entered into an interest rate swap agreement with a notional amount of $250 million to hedge $250 million of floating rate debt also issued in October 2000. Under the one-year swap agreement, we make fixed quarterly payments based on a fixed rate of 6.5% and receive payments at a floating rate based on LIBOR (6.8% at December 31, 2000).

In March 2000 Florida Water entered into an interest rate swap agreement with a notional amount of $35.1 million to hedge $35.1 million of fixed rate industrial development bond debt. The swap agreement superseded a previous swap agreement entered into in 1998. Under the 25 year agreement, Florida Water makes quarterly payments at a floating rate based upon The Bond Market Association Municipal Swap Index plus 174 basis points (4.8% at December 31, 2000) and receives payments based on a fixed rate of 6.5%.

NEW ACCOUNTING STANDARDS

As of January 1, 2001 we adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. Changes in fair value are to be recognized in current earnings or other comprehensive income, depending on the purpose for which the derivative is held. Our use of derivative instruments is not significant. Upon adoption of SFAS 133, we held two derivatives in the form of interest rate swaps, both of which qualify for hedge accounting. Both hedges are highly effective resulting in minimal earnings impact. [GRAPHIC OMITTED - SQUARE]

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 22 OF THIS FORM 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition - Market Risk for information related to quantitative and qualitative disclosure about market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See our consolidated financial statements as of December 31, 2000 and 1999 and for each of the three years ended December 31, 2000, and supplementary data, also included, which are indexed in Item 14(a).

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required for this Item is incorporated by reference herein and will be set forth under the "Election of Directors" section in our Proxy Statement for the 2001 Annual Meeting of Shareholders, except for information with respect to executive officers which is set forth in Part I hereof. The 2001 Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of our 2000 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required for this Item is incorporated by reference herein from the "Compensation of Executive Officers" section in our Proxy Statement for the 2001 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required for this Item is incorporated by reference herein from the "Security Ownership of Certain Beneficial Owners and Management" section in our Proxy Statement for the 2001 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required for this Item is incorporated by reference herein from the "Certain Relationships and Related Transactions" section in our Proxy Statement for the 2001 Annual Meeting of Shareholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Certain Documents Filed as Part of this Form 10-K.

(1) Financial Statements — Pages

(2) Financial Statement Schedules

All other schedules have been omitted either because the information is not required to be reported by ALLETE or because the information is included in the consolidated financial statements or the notes.

(3) Exhibits including those incorporated by reference

Exhibit Number

*2 - Agreement and Plan of Merger by and among the Company, AC Acquisition Sub, Inc., ADESA Corporation and Certain ADESA Management Shareholders dated February 23, 1995 (filed as Exhibit 2 to the March 3, 1995 Form 8-K, File No. 1-3548).

*3(a)1 - Articles of Incorporation, amended and restated as of May 27, 1998 (filed as Exhibit 4(a) to the June 3, 1998 Form 8-K, File No. 1-3548).

*3(a)2 - Amendment to Certificate of Assumed Name, filed with the Minnesota Secretary of State on August 29, 2000 (filed as Exhibit 4 to the October 10, 2000 Form 8-K, File No. 1-3548).

*3(b) - Bylaws, as amended effective May 27, 1998 (filed as Exhibit 4(b) to the June 3, 1998 Form 8-K, File No. 1-3548).

*4(a)1 - Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and The Bank of New York (formerly Irving Trust Company) and Douglas J. MacInnes (successor to Richard H. West), Trustees (filed as Exhibit 7(c), File No. 2-5865).

Exhibit Number

*4(a)2 - Supplemental Indentures to ALLETE's Mortgage and Deed of Trust:

Number	Dated as of	Reference File	Exhibit
First	March 1, 1949	2-7826	7(b)
Second	July 1, 1951	2-9036	7(c)
Third	March 1, 1957	2-13075	2(c)
Fourth	January 1, 1968	2-27794	2(c)
Fifth	April 1, 1971	2-39537	2(c)
Sixth	August 1, 1975	2-54116	2(c)
Seventh	September 1, 1976	2-57014	2(c)
Eighth	September 1, 1977	2-59690	2(c)
Ninth	April 1, 1978	2-60866	2(c)
Tenth	August 1, 1978	2-62852	2(d)2
Eleventh	December 1, 1982	2-56649	4(a)3
Twelfth	April 1, 1987	33-30224	4(a)3
Thirteenth	March 1, 1992	33-47438	4(b)
Fourteenth	June 1, 1992	33-55240	4(b)
Fifteenth	July 1, 1992	33-55240	4(c)
Sixteenth	July 1, 1992	33-55240	4(d)
Seventeenth	February 1, 1993	33-50143	4(b)
Eighteenth	July 1, 1993	33-50143	4(c)
Nineteenth	February 1, 1997	1-3548 (1996 Form 10-K)	4(a)3
Twentieth	November 1, 1997	1-3548 (1997 Form 10-K)	4(a)3
Twenty-first	October 1, 2000	333-54330	4(c)3

*4(b)1 - Mortgage and Deed of Trust, dated as of March 1, 1943, between Superior Water, Light and Power Company and Chemical Bank & Trust Company and Howard B. Smith, as Trustees, both succeeded by U.S. Bank Trust N.A., as Trustee (filed as Exhibit 7(c), File No. 2-8668).

*4(b)2 - Supplemental Indentures to Superior Water, Light and Power Company's Mortgage and Deed of Trust:

Number	Dated as of	Reference File	Exhibit
First	March 1, 1951	2-59690	2(d)(1)
Second	March 1, 1962	2-27794	2(d)1
Third	July 1, 1976	2-57478	2(e)1
Fourth	March 1, 1985	2-78641	4(b)
Fifth	December 1, 1992	1-3548 (1992 Form 10-K)	4(b)1
Sixth	March 24, 1994	1-3548 (1996 Form 10-K)	4(b)1
Seventh	November 1, 1994	1-3548 (1996 Form 10-K)	4(b)2
Eighth	January 1, 1997	1-3548 (1996 Form 10-K)	4(b)3

*4(c)1 - Indenture, dated as of March 1, 1993, between Southern States Utilities, Inc. (now Florida Water Services Corporation) and Nationsbank of Georgia, National Association (now SunTrust Bank, Central Florida, N.A.), as Trustee (filed as Exhibit 4(d) to the 1992 Form 10-K, File No. 1-3548).

*4(c)2 - Supplemental Indentures to Florida Water Services Corporation's Indenture:

Number	Dated as of	Reference File	Exhibit
First	March 1, 1993	1-3548 (1996 Form 10-K)	4(c)1
Second	March 31, 1997	1-3548 (March 31, 1997 Form 10-Q)	4
Third	May 28, 1997	1-3548 (June 30, 1997 Form 10-Q)	4

*4(d) - Amended and Restated Trust Agreement, dated as of March 1, 1996, relating to MP&L (now ALLETE) Capital I's 8.05% Cumulative Quarterly Income Preferred Securities, between the Company, as Depositor, and The Bank of New York, The Bank of New York (Delaware), Philip R. Halverson, David G. Gartzke and James K. Vizanko, as Trustees (filed as Exhibit 4(a) to the March 31, 1996 Form 10-Q, File No. 1-3548), as modified by Amendment No. 1, dated April 11, 1996 (filed as Exhibit 4(b) to the March 31, 1996 Form 10-Q, File No. 1-3548) and First Amendment [2000] dated August 23, 2000 (filed as Exhibit 4(f)2, File No. 333-54330).

*4(e) - Indenture, dated as of March 1, 1996, relating to the Company's 8.05% Junior Subordinated Debentures, Series A, Due 2015, between the Company and The Bank of New York, as Trustee (filed as Exhibit 4(c) to the March 31, 1996 Form 10-Q, File No. 1-3548).

*4(f) - Guarantee Agreement, dated as of March 1, 1996, relating to MP&L (now ALLETE) Capital I's 8.05% Cumulative Quarterly Income Preferred Securities, between the Company, as Guarantor, and The Bank of New York, as Trustee (filed as Exhibit 4(d) to the March 31, 1996 Form 10-Q, File No. 1-3548).

*4(g) - Agreement as to Expenses and Liabilities, dated as of March 20, 1996, relating to MP&L (now ALLETE) Capital I's 8.05% Cumulative Quarterly Income Preferred Securities, between the Company and MP&L (now ALLETE) Capital I (filed as Exhibit 4(e) to the March 31, 1996 Form 10-Q, File No. 1-3548).

*4(h) - Officer's Certificate, dated March 20, 1996, establishing the terms of the 8.05% Junior Subordinated Debentures, Series A, Due 2015

issued in connection with the 8.05% Cumulative Quarterly Income Preferred Securities of MP&L (now ALLETE) Capital I (filed as Exhibit 4(i) to the 1996 Form 10-K, File No. 1-3548).

*4(i) - Rights Agreement dated as of July 24, 1996, between the Company and the Corporate Secretary of the Company, as Rights Agent (filed as Exhibit 4 to the August 2, 1996 Form 8-K, File No. 1-3548).

Exhibit Number

*4(j) - Indenture (for Unsecured Debt Securities), dated as of May 15, 1996, between ADESA Corporation and The Bank of New York, as Trustee relating to the ADESA Corporation's 7.70% Senior Notes, Series A, Due 2006, and its 8.10% Senior Notes, Series B, Due 2010 (filed as Exhibit 4(k) to the 1996 Form 10-K, File No. 1-3548).

*4(k) - Guarantee of the Company, dated as of May 30, 1996, relating to the ADESA Corporation's 7.70% Senior Notes, Series A, Due 2006 (filed as Exhibit 4(l) to the 1996 Form 10-K, File No. 1-3548).

*4(l) - ADESA Corporation Officer's Certificate 1-D-1, dated May 30, 1996, relating to the ADESA Corporation's 7.70% Senior Notes, Series A, Due 2006 (filed as Exhibit 4(m) to the 1996 Form 10-K, File No. 1-3548).

*4(m) - Guarantee of the Company, dated as of March 30, 2000, relating to ADESA Corporation's 8.10% Senior Notes, Series B, Due 2010 (filed as Exhibit 4(a) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*4(n) - ADESA Corporation Officer's Certificate 2-D-2, dated as of March 30, 2000, relating to ADESA Corporation's 8.10% Senior Notes, Series B, Due 2010 (filed as Exhibit 4(b) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*10(a) - Participation Agreement, dated as of March 31, 2000, among Asset Holdings III, L.P., as Lessor, ADESA Corporation, as Lessee, SunTrust Bank, as Credit Bank, and Cornerstone Funding Corporation I, as Issuer (filed as Exhibit 10(a) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*10(b) - Lease Agreement, dated as of March 31, 2000, between Asset Holdings III, L.P., as Lessor and ADESA Corporation, as Lessee (filed as Exhibit 10(b) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*10(c) - Reimbursement Agreement, dated as of March 31, 2000, between SunTrust Bank, as Credit Bank, and Asset Holdings III, L.P., as Lessor (filed as Exhibit 10(c) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*10(d) - Appendix I to Participation Agreement, Lease Agreement and Reimbursement Agreement, all which are dated as of March 31, 2000, relating to the Lease Financing for ADESA Corporation Auto Auction Facilities (filed as Exhibit 10(d) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*10(e) - Assignment of Lease and Rents (without Exhibit A) entered into as of March 31, 2000, by and between Asset Holdings III, L.P., as Lessor and SunTrust Bank, as Credit Bank (filed as Exhibit 10(e) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*10(f) - Limited Guaranty of the Company, dated as of March 31, 2000, relating to the Lease Financing for ADESA Corporation Auto Auction Facilities (filed as Exhibit 10(f) to the March 31, 2000 Form 10-Q, File No. 1-3548).

*10(g) - Wholesale Power Coordination and Dispatch Operating Agreement, dated April 14, 2000, between the Company and Split Rock Energy LLC (filed as Exhibit 10(a) to the June 30, 2000 Form 10-Q, File No. 1-3548).

*10(h) - Letter addressed to the Federal Regulatory Commission, dated April 21, 2000, amending the Wholesale Power Coordination and Dispatch Operating Agreement, dated April 14, 2000, between the Company and Split Rock Energy LLC (filed as Exhibit 10(b) to the June 30, 2000 Form 10-Q, File No. 1-3548).

*10(i) - Guarantee Agreement, dated August 16, 2000, made by and among the Company, CoBank, ACB and ABN AMRO Bank, N.V. (filed as Exhibit 10 to the September 30, 2000 Form 10-Q, File No. 1-3548).

*10(j)1 - Receivables Purchase Agreement dated as of December 31, 1996, among AFC Funding Corporation, as Seller, Automotive Finance Corporation, as Servicer, Pooled Accounts Receivable Capital Corporation, as Purchaser, and Nesbitt Burns Securities Inc., as Agent (filed as Exhibit 10(f) to the 1996 Form 10-K, File No. 1-3548).

*10(j)2 - Amendments to Receivables Purchase Agreement:

Number	Dated as of	Reference File	Exhibit
First	February 28, 1997	1-3548 (1996 Form 10-K)	10(g)
Second	August 15, 1997	1-3548 (September 30, 1997 Form 10-Q)	10
Third	October 30, 1998	1-3548 (September 30, 1999 Form 10-Q)	10(a)
Fourth	September 22, 1999	1-3548 (September 30, 1999 Form 10-Q)	10(b)

*10(k) - Purchase and Sale Agreement dated as of December 31, 1996, between AFC Funding Corporation and Automotive Finance Corporation (filed as Exhibit 10(h) to the 1996 Form 10-K, File No. 1-3548).

10(l) - Loan and Servicing Agreement dated as of December 22, 2000 among AFC

AIM Corporation, as Borrower, Automotive Finance Corporation, as Servicer, and Bank of Montreal, as Lender.

Exhibit Number

10(m) - Purchase and Sale Agreement dated as of December 22, 2000 between AFC AIM Corporation and Automotive Finance Corporation.

*10(n) - Power Purchase and Sale Agreement between the Company and Square Butte Electric Cooperative, dated as of May 29, 1998 (filed as Exhibit 10 to the June 30, 1998 Form 10-Q, File No. 1-3548).

+*10(o) - Minnesota Power (now ALLETE) Executive Annual Incentive Plan, effective January 1, 1996 (filed as Exhibit 10(a) to the 1995 Form 10-K, File No. 1-3548).

+*10(p) - Minnesota Power (now ALLETE) and Affiliated Companies Supplemental Executive Retirement Plan, as amended and restated, effective August 1, 1994 (filed as Exhibit 10(b) to the 1995 Form 10-K, File No. 1-3548).

*10(q) - Executive Investment Plan-I, as amended and restated, effective November 1, 1988 (filed as Exhibit 10(c) to the 1988 Form 10-K, File No. 1-3548).

*10(r) - Executive Investment Plan-II, as amended and restated, effective November 1, 1988 (filed as Exhibit 10(d) to the 1988 Form 10-K, File No. 1-3548).

+*10(s) - Deferred Compensation Trust Agreement, as amended and restated, effective January 1, 1989 (filed as Exhibit 10(f) to the 1988 Form 10-K, File No. 1-3548).

+*10(t) - Minnesota Power (now ALLETE) Executive Long-Term Incentive Compensation Plan, effective January 1, 1996 (filed as Exhibit 10(a) to the June 30, 1996 Form 10-Q, File No. 1-3548).

+*10(u) - Minnesota Power (now ALLETE) Director Stock Plan, effective January 1, 1995 (filed as Exhibit 10 to the March 31, 1995 Form 10-Q, File No. 1-3548).

+*10(v) - Minnesota Power (now ALLETE) Director Long-Term Stock Incentive Plan, effective January 1, 1996 (filed as Exhibit 10(b) to the June 30, 1996 Form 10-Q, File No. 1-3548).

12 - Computation of Ratios of Earnings to Fixed Charges and Supplemental Ratios of Earnings to Fixed Charges. (Included as page 75 of this document.)

*21 - Subsidiaries of the Registrant (reference is made to ALLETE's Form U-3A-2 for the year ended December 31, 2000, File No. 69-78).

23(a) - Consent of Independent Accountants.

23(b) - Consent of General Counsel.

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* INCORPORATED HEREIN BY REFERENCE AS INDICATED.

\+ MANAGEMENT CONTRACT OR COMPENSATORY PLAN OR ARRANGEMENT REQUIRED TO BE FILED AS AN EXHIBIT TO THIS REPORT PURSUANT TO ITEM 14(C) OF FORM 10-K.

(b) Reports on Form 8-K.

Report on Form 8-K filed October 10, 2000 with respect to Item 5. Other Events and Item 7. Financial Statements and Exhibits.

Report on Form 8-K filed October 18, 2000 with respect to Item 7. Financial Statements and Exhibits.

Report on Form 8-K filed January 19, 2001 with respect to Item 5. Other Events and Item 7. Financial Statements and Exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
(legally incorporated as Minnesota Power, Inc.)

Dated: February 6, 2001 By Edwin L. Russell
Edwin L. Russell
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
Edwin L. Russell Edwin L. Russell	Chairman, President, Chief Executive Officer and Director	February 6, 2001
David G. Gartzke David G. Gartzke	Senior Vice President - Finance and Chief Financial Officer	February 6, 2001
Mark A. Schober Mark A. Schober	Controller	February 6, 2001
Kathleen A. Brekken Kathleen A. Brekken	Director	February 6, 2001
Merrill K. Cragun Merrill K. Cragun	Director	February 6, 2001
Dennis E. Evans Dennis E. Evans	Director	February 6, 2001
Glenda E. Hood Glenda E. Hood	Director	February 6, 2001
Peter J. Johnson Peter J. Johnson	Director	February 6, 2001
George L. Mayer George L. Mayer	Director	February 6, 2001
Jack I. Rajala Jack I. Rajala	Director	February 6, 2001
Arend J. Sandbulte Arend J. Sandbulte	Director	February 6, 2001
Nick Smith Nick Smith	Director	February 6, 2001
Bruce W. Stender Bruce W. Stender	Director	February 6, 2001
Donald C. Wegmiller Donald C. Wegmiller	Director	February 6, 2001

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

WITH

REPORT OF INDEPENDENT ACCOUNTANTS

AND

REPORT OF MANAGEMENT

REPORTS

INDEPENDENT ACCOUNTANTS

[PRICEWATERHOUSECOOPERS LLP LOGO]

To the Shareholders and
Board of Directors of ALLETE

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of ALLETE and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of ALLETE's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. [GRAPHIC OMITTED - SQUARE]

Pricewaterhouse Coopers LLP

PricewaterhouseCoopers LLP

Minneapolis, Minnesota
January 17, 2001

MANAGEMENT

The consolidated financial statements and other financial information were prepared by management, who is responsible for their integrity and objectivity. The financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include some amounts that are based on informed judgments and best estimates and assumptions of management.

To meet management's responsibilities with respect to financial information, we maintain and enforce a system of internal accounting controls designed to provide assurance, on a cost effective basis, that transactions are carried out in accordance with management's authorizations and that assets are safeguarded against loss from unauthorized use or disposition. The system includes an organizational structure that provides an appropriate segregation of responsibilities, careful selection and training of personnel, written policies and procedures, and periodic reviews by our internal audit department. In addition, we have personnel policies that require all employees to maintain a high standard of ethical conduct. Management believes the system is effective and provides reasonable assurance that all transactions are properly recorded and have been executed in accordance with management's authorization. Management modifies and improves our system of internal accounting controls in response to changes in business conditions. Our internal audit staff is charged with the responsibility for determining compliance with our procedures.

Four of our directors, not members of management, serve as the Audit Committee. Our Board of Directors, through the Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent accountants to discuss auditing and financial matters and to assure that each is carrying out their responsibilities. The internal auditors and the independent accountants have full and free access to the Audit Committee without management present. PricewaterhouseCoopers LLP, independent accountants, are engaged to express an opinion on the financial statements. Their audit is conducted in accordance with generally accepted auditing standards and includes a review of internal controls and tests of transactions to the extent necessary to allow them to report on the fairness of our operating results and financial condition. [GRAPHIC OMITTED - SQUARE]

Edwin L. Russell

Edwin L. Russell
Chairman, President and Chief Executive Officer

David G. Gartzke

David G. Gartzke
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

ALLETE Consolidated Balance Sheet

December 31	2000	1999
Millions		
Assets		
Current Assets		
Cash and Cash Equivalents	$ 219.3	$ 101.5
Trading Securities	90.8	179.6
Accounts Receivable	265.7	176.4
Inventories	26.4	24.2
Prepayments and Other	128.8	82.8
Total Current Assets	731.0	564.5
Property, Plant and Equipment	1,479.7	1,258.8
Investments	116.4	197.2
Goodwill	472.8	181.0
Other Assets	114.1	111.1
Total Assets	$2,914.0	$2,312.6
Liabilities and Stockholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$ 269.1	$ 124.7
Accrued Taxes, Interest and Dividends	52.3	79.4
Notes Payable and Long-Term Debt Due Within One Year	290.0	105.6
Other	95.6	88.6
Total Current Liabilities	707.0	398.3
Long-Term Debt	952.3	712.8
Accumulated Deferred Income Taxes	125.1	139.9
Other Liabilities	153.8	149.3
Commitments and Contingencies		
Total Liabilities	1,938.2	1,400.3
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary ALLETE Capital I Which Holds Solely Company Junior Subordinated Debentures	75.0	75.0
Redeemable Serial Preferred Stock	-	20.0
Stockholders' Equity		
Cumulative Preferred Stock	-	11.5
Common Stock Without Par Value, 130.0 Shares Authorized 74.7 and 73.5 Shares Outstanding	576.9	552.0
Unearned ESOP Shares	(55.7)	(59.2)
Accumulated Other Comprehensive Income (Loss)	(4.2)	2.4
Retained Earnings	383.8	310.6
Total Stockholders' Equity	900.8	817.3
Total Liabilities and Stockholders' Equity	$2,914.0	$2,312.6

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Income

For the Year Ended December 31	2000	1999	1998
Millions Except Per Share Amounts			
Operating Revenue			
Energy Services	$ 589.5	$ 554.5	$ 559.8
Automotive Services	546.4	406.6	328.4
Water Services	118.6	112.9	95.6
Investments	77.4	57.8	55.5
Total Operating Revenue	1,331.9	1,131.8	1,039.3
Operating Expenses			
Fuel and Purchased Power	229.0	200.2	205.7
Operations	842.6	705.9	635.4
Interest Expense	69.2	59.5	64.9
Total Operating Expenses	1,140.8	965.6	906.0
Operating Income Before Capital Re and ACE	191.1	166.2	133.3
Income (Loss) from Investment in Capital Re and Related Disposition of ACE	48.0	(34.5)	15.2
Operating Income	239.1	131.7	148.5
Distributions on Redeemable Preferred Securities of ALLETE Capital I	6.0	6.0	6.0
Income Tax Expense	84.5	57.7	54.0
Net Income	$ 148.6	$ 68.0	$ 88.5
Average Shares of Common Stock			
Basic	69.8	68.4	64.0
Diluted	70.1	68.7	64.2
Earnings Per Share of Common Stock			
Basic	$2.12	$0.97	$1.35
Diluted	$2.11	$0.97	$1.35
Dividends Per Share of Common Stock	$1.07	$1.07	$1.02

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Cash Flows

For the Year Ended December 31	2000	1999	1998
Millions			
Operating Activities			
Net Income	$ 148.6	$ 68.0	$ 88.5
Loss (Income) from Investment in Capital Re and Related Disposition of ACE - Net of Dividends Received	(48.0)	34.5	(14.1)
Depreciation and Amortization	86.7	76.9	75.0
Deferred Income Taxes	(6.6)	(12.8)	1.1
Changes in Operating Assets and Liabilities - Net of the Effects of Acquisitions			
Trading Securities	88.9	16.1	(46.4)
Accounts Receivable	(29.1)	(20.3)	(9.7)
Inventories	(2.2)	(0.2)	1.0
Accounts Payable	92.7	1.4	26.4
Other Current Assets and Liabilities	(75.1)	0.3	5.1
Other - Net	19.6	9.9	19.4
Cash from Operating Activities	275.5	173.8	146.3
Investing Activities			
Proceeds from Sale of Investments	146.0	67.6	35.2
Additions to Investments	(42.5)	(27.5)	(33.1)
Additions to Property, Plant and Equipment	(168.7)	(99.7)	(80.8)
Acquisitions - Net of Cash Acquired	(453.0)	(93.6)	(23.8)
Other - Net	24.4	(16.9)	3.7
Cash for Investing Activities	(493.8)	(170.1)	(98.8)
Financing Activities			
Issuance of Long-Term Debt	306.3	51.5	2.0
Issuance of Common Stock	23.6	21.8	111.0
Changes in Notes Payable - Net	177.8	15.5	(48.1)
Reductions of Long-Term Debt	(58.8)	(9.9)	(10.0)
Redemption of Preferred Stock	(31.5)	-	-
Dividends on Preferred and Common Stock	(75.4)	(75.0)	(67.0)
Cash from (for) Financing Activities	342.0	3.9	(12.1)
Effect of Exchange Rate Changes on Cash	(5.9)	4.5	(3.9)
Change in Cash and Cash Equivalents	117.8	12.1	31.5
Cash and Cash Equivalents at Beginning of Period	101.5	89.4	57.9
Cash and Cash Equivalents at End of Period	$ 219.3	$101.5	$ 89.4
Supplemental Cash Flow Information			
Cash Paid During the Period for			
Interest - Net of Capitalized	$66.3	$61.3	$63.0
Income Taxes	$107.1	$60.3	$54.4

The accompanying notes are an integral part of these statements.

ALLETE Consolidated Statement of Stockholders' Equity

Millions	Total Stockholders' Equity	Retained Earnings	Accumulated Other Comprehensive Income	Unearned ESOP Shares	Common Stock	Cumulative Preferred Stock
Balance at December 31, 1997	$661.5	$296.1	$ 3.8	$(65.9)	$416.0	$11.5
Comprehensive Income						
Net Income	88.5	88.5				
Other Comprehensive Income - Net of Tax						
Unrealized Gains on Securities - Net	1.6		1.6			
Foreign Currency Translation Adjustments	(3.9)		(3.9)			
Total Comprehensive Income	86.2					
Common Stock Issued - Net	113.0				113.0	
Dividends Declared	(67.0)	(67.0)				
ESOP Shares Earned	3.4			3.4		
Balance at December 31, 1998	797.1	317.6	1.5	(62.5)	529.0	11.5
Comprehensive Income						
Net Income	68.0	68.0				
Other Comprehensive Income - Net of Tax						
Unrealized Losses on Securities - Net	(3.6)		(3.6)			
Foreign Currency Translation Adjustments	4.5		4.5			
Total Comprehensive Income	68.9					
Common Stock Issued - Net	23.0				23.0	
Dividends Declared	(75.0)	(75.0)				
ESOP Shares Earned	3.3			3.3		
Balance at December 31, 1999	817.3	310.6	2.4	(59.2)	552.0	11.5
Comprehensive Income						
Net Income	148.6	148.6				
Other Comprehensive Income - Net of Tax						
Unrealized Losses on Securities - Net	(0.7)		(0.7)			
Foreign Currency Translation Adjustments	(5.9)		(5.9)			
Total Comprehensive Income	142.0					
Common Stock Issued - Net	24.9				24.9	
Redemption of Cumulative Preferred Stock	(11.5)					(11.5)
Dividends Declared	(75.4)	(75.4)				
ESOP Shares Earned	3.5			3.5		
Balance at December 31, 2000	$900.8	$383.8	$(4.2)	$(55.7)	$576.9	-

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

1 BUSINESS SEGMENTS

Millions

For the Year Ended December 31	Consolidated	Energy Services	Automotive Services	Water Services	Investments	Corporate Charges
2000						
Operating Revenue	$1,331.9	$589.5	$546.4	$118.6	$77.4	-
Operation and Other Expense	957.9	445.8	392.4	70.8	32.4	$16.5
Depreciation and Amortization Expense	86.7	46.3	26.4	13.5	0.2	0.3
Lease Expense	27.0	2.8	22.2	2.0	-	-
Interest Expense	69.2	21.1	23.3	10.4	0.1	14.3
Operating Income (Loss) Before ACE	191.1	73.5	82.1	21.9	44.7	(31.1)
Income from Disposition of ACE	48.0	-	-	-	48.0	-
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	2.0	-	-	-	4.0
Income Tax Expense (Benefit)	84.5	28.4	33.6	8.8	33.0	(19.3)
Net Income (Loss)	$ 148.6	$ 43.1	$ 48.5	$ 13.1	$59.7	$(15.8)
EBITDAL	$374.0	$143.7	$154.0	$47.8	$45.0	$(16.5)
Total Assets	$2,914.0	$950.7	$1,343.8	$337.7	$281.5	$0.3
Property, Plant and Equipment	$1,479.7	$792.5	$409.9	$277.3	-	-
Accumulated Depreciation and Amortization	$957.7	$661.9	$82.3	$211.3	$2.2	-
Capital Expenditures	$168.7	$64.7	$74.2	$29.6	$0.2	-
1999						
Operating Revenue	$1,131.8	$554.5	$406.6	$112.9	$ 57.8	-
Operation and Other Expense	807.7	409.4	292.0	68.2	23.3 (c)	$ 14.8
Depreciation and Amortization Expense	76.9	45.2	17.7	13.5	0.2	0.3
Lease Expense	21.5	3.2	16.7	1.6	-	-
Interest Expense	59.5	21.2	10.9	10.0	0.4	17.0
Operating Income (Loss) Before Capital Re	166.2	75.5	69.3	19.6	33.9	(32.1)
Loss from Investment in Capital Re	(34.5)	-	-	-	(34.5)	-
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	1.7	-	-	-	4.3
Income Tax Expense (Benefit)	57.7	28.8	29.4	7.4	8.8	(16.7)
Net Income (Loss)	$ 68.0	$ 45.0	$ 39.9	$ 12.2	$ (9.4)	$(19.7)
EBITDAL	$324.1	$145.1	$114.6	$44.7	$34.5	$(14.8)
Total Assets	$2,312.6	$995.7	$664.8	$314.8	$336.9	$0.4
Property, Plant and Equipment	$1,258.8	$770.0	$234.0	$254.8	-	-
Accumulated Depreciation and Amortization	$879.7	$629.7	$57.4	$190.7	$1.9	-
Capital Expenditures	$99.7	$47.7	$23.8	$26.9	$0.9	$0.4
1998						
Operating Revenue	$1,039.3	$559.8	$328.4	$95.6	$55.5	-
Operation and Other Expense	749.4	409.3	241.5	60.9	22.2	$ 15.5
Depreciation and Amortization Expense	75.0	47.1	15.7	11.8	0.1	0.3
Lease Expense	16.7	2.0	14.6	0.1	-	-
Interest Expense	64.9	22.1	9.7	10.3	-	22.8
Operating Income (Loss) Before Capital Re	133.3	79.3	46.9	12.5	33.2	(38.6)
Income from Investment in Capital Re	15.2	-	-	-	15.2	-
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	1.7	-	-	-	4.3
Income Tax Expense (Benefit)	54.0	30.2	21.4	5.0	18.8	(21.4)
Net Income (Loss)	$ 88.5	$ 47.4	$ 25.5	$ 7.5	$ 29.6	$(21.5)
EBITDAL	$289.9	$150.5	$86.9	$34.7	$33.3	$(15.5)
Total Assets	$2,208.9	$998.6	$529.3	$269.1	$411.6	$0.3
Property, Plant and Equipment	$1,178.9	$770.2	$186.2	$222.5	-	-
Accumulated Depreciation and Amortization	$775.6	$596.1	$42.7	$135.2	$1.6	-
Capital Expenditures	$80.8	$36.1	$22.0	$21.8	$0.1	$0.8

Included $107.4 million of Canadian operating revenue in 2000 ($56.8 million in 1999; $36.2 million in 1998).
Included $215.6 million of Canadian assets in 2000 ($119.3 million in 1999; $60.9 million in 1998).
Included $0.5 million of minority interest in 2000 ($1.8 million in 1999; $2.0 million in 1998).

2 OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL STATEMENT PREPARATION. References in this report to "we" and "our" are to ALLETE and its subsidiaries, collectively. We prepare our financial statements in conformity with generally accepted accounting principles. These principles require management to make informed judgments, best estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION. Our consolidated financial statements include the accounts of ALLETE and all of our majority owned subsidiary companies. All material intercompany balances and transactions have been eliminated in consolidation. Information for prior periods has been reclassified to present comparable information for all periods.

BUSINESS SEGMENTS. We are a multi-services company that has operations in four principal business segments. Energy Services, Automotive Services and Water Services segments were determined based on products and services provided. The Investment segment was determined based on short-term corporate liquidity needs and the need to provide financial flexibility to pursue strategic initiatives in the other business segments. We measure performance of our operations through careful budgeting and monitoring of contributions to consolidated net income by business segment. Corporate charges consist of expenses incurred by our corporate headquarters and interest and preferred stock expense not specifically identifiable to a business segment. Our policy is to not allocate these expenses to business segments.

ENERGY SERVICES. Energy Services generate, transmit, distribute, market and trade electricity. Native load electric service is provided to 144,000 customers in northeastern Minnesota and northwestern Wisconsin. Large Power Customers, which include five taconite producers, four paper and pulp mills, two pipeline companies and one manufacturer, purchase about half of the electricity Minnesota Power sells under all-requirements contracts with expiration dates extending from May 2001 through December 2008. (See Item 1. - Energy Services - Large Power Customers in this Form 10-K.) MPEX, a division of Minnesota Power, markets power across the Midwest and Canada. Split Rock Energy LLC, formed as an alliance 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. Split Rock contracts for exclusive services from MPEX. BNI Coal, a wholly owned subsidiary, mines and sells lignite coal to two North Dakota mine-mouth generating units, one of which is Square Butte. Square Butte supplies approximately 71% (322 MW) of its output to Minnesota Power under a long-term contract. (See Note 14.)

Electric rates are under the jurisdiction of various state and federal regulatory authorities. Billings are rendered on a cycle basis. Revenue is accrued for service provided but not billed. Electric rates include adjustment clauses that bill or credit customers for fuel and purchased energy costs above or below the base levels in rate schedules and bill retail customers for the recovery of CIP expenditures not collected in base rates.

AUTOMOTIVE SERVICES. Automotive Services include several wholly owned subsidiaries operating as integral parts of the vehicle redistribution business.

ADESA is the second largest vehicle auction network in North America. ADESA owns or leases, and operates 54 vehicle auctions in the United States and Canada through which used cars and other vehicles are purchased and sold by franchised automobile dealers and licensed used car dealers. Sellers at ADESA's auctions include domestic and foreign auto manufacturers, car dealers, automotive fleet/lease companies, banks and finance companies. ADESA also has 19 auction facilities in the United States and Canada that provide "total loss" vehicle recovery services to insurance companies. AFC provides inventory financing for wholesale and retail automobile dealers who purchase vehicles at ADESA auctions, independent auctions and other auction chains. AFC has 86 loan production offices located across the United States and Canada. These offices provide qualified dealers credit to purchase vehicles at any of the 400 plus auctions approved by AFC. Great Rigs is one of the nation's largest independent used automobile transport companies with more than 140 automotive carriers. It offers customers pick up and delivery service through 11 strategically located transportation hubs in the United States. PAR provides customized remarketing services, including transporting and liquidating off-lease vehicles, to various businesses with fleet operations. AutoVIN, a 90% owned subsidiary, provides professional field information services to the automotive industry, including vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspection. ADESA, Great Rigs, PAR and AutoVIN recognize revenue when services are performed. AFC revenue is comprised of gains on sales of receivables, and interest, fee and servicer income. As is customary for finance companies, AFC revenue is reported net of interest expense of $2.7 million in 2000 ($2.0 million in 1999; $1.8 million in 1998). AFC generally sells its United States dollar denominated finance receivables through a private securitization structure. Gains and losses on such sales are generally recognized at the time of settlement based on the difference between the sales proceeds and the allocated basis of the finance receivables sold, adjusted for transaction fees and residual interest retained. AFC also retains the right to service receivables sold through the securitization and receives a fee for doing so.

WATER SERVICES. Water Services include several wholly owned subsidiaries. Florida Water is the largest investor owned supplier of water and wastewater utility services in Florida. Heater is the largest investor owned water utility in North Carolina. Heater also provides wastewater services in North Carolina. In total, 196,000 water and 78,000 wastewater treatment customers are served by Water Services. Water and wastewater rates are under the jurisdiction of various

state and county regulatory authorities. Billings are rendered on a cycle basis. Revenue is accrued for services provided but not billed. Instrumentation Services, Inc. provides predictive and preventive maintenance services to water utility companies and other industrial operations. Americas' Water offers contract management, operations and maintenance services to governments and industries.

INVESTMENTS. Investments include real estate operations, investments in emerging technologies funds related to the electric utility industry and a securities portfolio. Our real estate operations include Cape Coral Holdings and an 80% ownership in Lehigh. Both are Florida companies which through their subsidiaries own real estate in Florida. Real estate revenue is recognized on the accrual basis. Our emerging technology investments provide us with access to developing technologies before their commercial debut, as well as 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. Our securities portfolio is intended to provide stable earnings and liquidity. Proceeds from the securities portfolio are available for reinvestment in existing businesses, to fund strategic initiatives and for other corporate purposes.

DEPRECIATION. Property, plant and equipment are recorded at original cost, and are reported on the balance sheet net of accumulated depreciation and contributions in aid of construction. Expenditures for additions and significant replacements and improvements are capitalized; maintenance and repair costs are expensed as incurred. Expenditures for major plant overhauls are also accounted for using this same policy. When property, plant and equipment are retired or otherwise disposed of, gains or losses are recognized in revenue. When utility property, plant and equipment are retired or otherwise disposed of, no gain or loss is recognized. Contributions in aid of construction relate to utility assets, and are amortized over the estimated life of the associated asset. This amortization reduces depreciation expense. Contributions in aid of construction relate to water assets and amounted to $203.9 million in 2000 ($189.6 million in 1999).

Depreciation is computed using the estimated useful lives of the various classes of plant. In 2000 average depreciation rates for the energy, automotive and water services segments were 3.3%, 3.7% and 2.0%, respectively (3.3%, 3.9% and 2.2%, respectively, in 1999; 3.5%, 4.1% and 2.6%, respectively, in 1998).

ACCOUNTS RECEIVABLE. Accounts receivable is reported on the balance sheet net of an allowance for doubtful accounts. The allowance is based on our evaluation of the receivable portfolio under current conditions, the size of the portfolio, overall portfolio quality, review of specific problems and such other factors that in our judgment deserve recognition in estimating losses.

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 December 31, 2000 AFC had sold $335.7 million of finance receivables to the special purpose subsidiary ($296.8 million at December 31, 1999). Third party purchasers had purchased an undivided interest in finance receivables of $239 million from this subsidiary at December 31, 2000 ($225 million at December 31, 1999). AFC has also entered into an arrangement in December 2000 with a manufacturer to floorplan certain vehicles located at auctions awaiting resale for a security interest in those vehicles. AFC sells these finance receivables, on a revolving basis, to another wholly owned, unconsolidated, qualified special purpose subsidiary. This subsidiary borrows money from a third party under an agreement that expires June 15, 2001. At December 31, 2000 AFC had sold $53.5 million of these finance receivables to the special purpose subsidiary. The third party lender had advanced $43 million against these receivables. Unsold finance receivables and unfinanced receivables held by the special purpose subsidiaries 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 $106.2 million at December 31, 2000 ($57.6 million at December 31, 1999). Proceeds from the sale of the receivables were used to repay borrowings from ALLETE and fund vehicle inventory purchases for AFC's customers.

Accounts Receivable

December 31	2000	1999
Millions		
Trade Accounts Receivable	$208.6	$120.6
Less: Allowance for Doubtful Accounts	5.2	7.6
	203.4	113.0
Finance Receivables	458.0	366.5
Less: Amount Sold	389.2	296.8
Allowance for Doubtful Accounts	6.5	6.3
	62.3	63.4
Total Accounts Receivable	$265.7	$176.4

INVENTORIES. Inventories, which include fuel, material and supplies, are stated at the lower of cost or market. Cost is determined by the average cost method.

GOODWILL. Goodwill primarily relates to the Automotive Services segment and represents the excess of cost over identifiable net assets of businesses acquired. Amortization is computed on a straight-line basis over a 40 year period. Operating expenses in 2000 included $8.2 million of goodwill amortization ($5.1 million in 1999; $4.9 million in 1998).

UNAMORTIZED EXPENSE, DISCOUNT AND PREMIUM ON DEBT. Expense, discount and premium on debt are deferred and amortized over the lives of the related issues.

CASH AND CASH EQUIVALENTS. We consider all investments purchased with maturities of three months or less to be cash equivalents.

FOREIGN CURRENCY TRANSLATION. Results of operations for our Canadian subsidiaries are translated into United States dollars using the average exchange rates during the period. Assets and liabilities are translated into United States dollars using the exchange rate on the balance sheet date, except for intangibles and fixed assets, which are translated at historical rates.
[GRAPHIC OMITTED - SQUARE]

3 ACQUISITIONS AND DIVESTITURES

ADESA AUCTION FACILITIES. In February 2000 ADESA purchased the Mission City Auto Auction in San Diego, California.

In May 2000 ADESA Canada purchased the remaining 27% of Impact Auto. ADESA Canada acquired 20% of Impact Auto on October 1, 1995, 27% in March 1999 and another 26% in January 2000. Impact Auto is Canada's largest national provider of "total loss" vehicle recovery services to insurance companies.

In June 2000 ADESA acquired all of the outstanding common shares of Auction Finance Group, Inc. (AFG). AFG owns CAAG Auto Auction Holdings Ltd., which was doing business as Canadian Auction Group. This acquisition added 13 vehicle auction facilities and associated dealer financing business to ADESA's existing locations and established ADESA as the premier automotive services company in Canada.

In August 2000 ADESA acquired Beebe Auto Exchange, Inc. which operated two Arkansas auto auctions: Mid-Ark Auto Auction in North Little Rock and Central Arkansas Auto Auction in Beebe, Arkansas, and 51% of Interstate Auto Auction located in Ocala, Florida.

In October 2000 ADESA purchased nine auction facilities from Manheim.

The transactions described in the five preceding paragraphs had a combined purchase price of approximately $438 million and resulted in goodwill of $298 million, which we are amortizing over a 40-year useful life. We used the purchase method of accounting for these transactions and included an estimated allocation of the purchase price for the Manheim transaction. Final purchase accounting adjustments are not expected to be material for this transaction. Financial results have been included in our consolidated financial statements since the date of each purchase. Pro forma financial results have not been presented due to immateriality.

In April 1999 ADESA acquired Des Moines Auto Auction located in Des Moines, Iowa and in July 1999 ADESA Canada, Inc. purchased the Vancouver Auto Auction of New Westminster, British Columbia. The two transactions had a combined purchase price of $31.3 million and were accounted for using the purchase method of accounting resulting in goodwill of $11.9 million. Financial results for each facility have been included in our consolidated financial statements since the date of purchase. Financial results prior to the acquisition were not material.

ADESA acquired the assets of Greater Lansing Auto Auction in Lansing, Michigan and I-55 Auto Auction in St. Louis, Missouri in April 1998, and Ark-La-Tex Auto Auction in Shreveport, Louisiana in May 1998 for a combined purchase price of $23.8 million. The acquisitions were accounted for using the purchase method of accounting and resulted in additional goodwill of $16.3 million. Financial results for these three auctions have been included in our consolidated financial statements since the dates of acquisition. Financial results prior to the acquisition were not material.

ACQUISITION OF SPRUCE CREEK SOUTH UTILITIES INC. In June 2000 Florida Water purchased the assets of Spruce Creek for $5.5 million, plus a commitment to pay a fee for water connections through June 2005. The transaction was accounted for using the purchase method of accounting. 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. Spruce Creek serves 5,600 water and wastewater customers in three communities in Marion County, Florida. The systems acquired are designed to accommodate a total of 10,000 water and wastewater customers.

ACQUISITION OF DICKS CREEK. In December 2000 ALLETE Water Services, Inc. purchased, subject to certain conditions, the assets of Dicks Creek Wastewater Utility for $6.6 million plus a commitment to pay a fee for residential connections. Beginning in 2001, the commitment fee will be a minimum of $400,000 annually for four years or until the cumulative fees paid reach $2 million. We expect to complete the transaction in early 2001. The transaction will be accounted for using the purchase method of accounting. Dicks Creek is located near Atlanta in Forsyth County, Georgia.

ACQUISITION OF PALM COAST UTILITY CORPORATION. In January 1999 Florida Water purchased the assets and assumed certain liabilities of PCUC for $16.8 million plus $1,000 per new water connection for an eight-year period. We estimate the present value of these future water connections at $5.1 million. PCUC provides water and wastewater services in Flagler County, Florida. The transaction was accounted for using the purchase method of accounting. Financial results have been included in our consolidated financial statements since the date of purchase. Financial results prior to the acquisition were not material.

ACQUISITION OF CAPE CORAL. In June 1999 Cape Coral Holdings, a subsidiary of ALLETE Properties, purchased, for $45.0 million, certain real estate properties located in Cape Coral, Florida. Cape Coral, located adjacent to Fort Myers, Florida, has a population of 100,000 and is Florida's second largest municipality in land area. Properties purchased included approximately 2,500 acres of commercial and residential zoned land, including home sites, a golf resort, marina and commercial buildings. Concurrently with the purchase, Cape Coral Holdings assigned to a third party the rights to a shopping center and a portion of the vacant land for $8.8 million, which reduced the net amount paid by Cape Coral Holdings to $36.2 million. The transaction was accounted for using the purchase method of accounting. Financial results have been included in our consolidated financial statements since the date of purchase. Financial results prior to the acquisition were not material.

MID SOUTH WATER SYSTEMS, INC. In June 1999 Heater acquired the assets of Mid South Water Systems, Inc. (Mid South) located in Sherills Ford, North Carolina for $9 million. The acquisition was accounted for using the purchase method of accounting. Financial results have been included in our consolidated financial statements since the date of purchase. Financial results prior to the acquisition were not material. [GRAPHIC OMITTED - SQUARE]

4 REGULATORY MATTERS

We file for periodic rate revisions with the Minnesota Public Utilities Commission (MPUC), the Federal Energy Regulatory Commission (FERC), the Florida Public Service Commission (FPSC) and other state and county regulatory authorities. Interim rates in Minnesota and Florida are placed into effect, subject to refund with interest, pending a final decision by the appropriate commission. In 2000 43% of our consolidated operating revenue (47% in 1999; 52% in 1998) was under regulatory authority. The MPUC had regulatory authority over approximately 29% in 2000 (31% in 1999; 36% in 1998) of our consolidated operating revenue.

ELECTRIC RATES. Restructuring of the electric utility industry continues. Twenty-five states representing approximately 70% of the United States population have passed either legislation or regulation that initiates a process leading to retail customer choice. Neither Minnesota nor Wisconsin (where Minnesota Power has retail electric customers) have passed retail restructuring laws. In 2001 utility restructuring legislation will likely be debated at both the federal level and in Minnesota and Wisconsin. It is unlikely, however, that the United States Congress or the legislatures of Minnesota or Wisconsin will enact retail choice legislation into law this year. We cannot predict the timing or substance of any future legislation that might ultimately be enacted. We are taking all necessary steps to cultivate community and customer relations, and continue to maintain our competitive position as a low-cost and long-term power supplier to large industrial customers. With electric rates among the lowest in the United States, customer satisfaction high, and long-term wholesale and Large Power Customer retail contracts in place, we believe we are well positioned for the future.

WATER AND WASTEWATER RATES. In 1995 the Florida First District Court of Appeals (Court of Appeals) reversed a 1993 FPSC order establishing uniform rates for most of Florida Water's service areas. With "uniform rates" all customers in each uniform rate area pay the same rates for water and wastewater services. In response to the Court of Appeals' order, in August 1996 the FPSC ordered Florida Water to issue refunds to those customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. This order did not permit a balancing surcharge to customers who paid less under uniform rates. Florida Water appealed, and the Court of Appeals ruled in June 1997 that the FPSC could not order refunds without balancing surcharges. In response to the Court of Appeals' ruling, the FPSC issued an order in January 1998 that did not require refunds. Florida Water's potential refund liability at that time was about $12.5 million, which included interest, to customers who paid more under uniform rates.

In the same January 1998 order, the FPSC required Florida Water to refund, with interest, $2.5 million, the amount paid by customers in the Spring Hill service area from January 1996 through June 1997 under uniform rates that exceeded the amount these customers would have paid under a modified stand-alone rate structure. No balancing surcharge was permitted. The FPSC ordered this refund because Spring Hill customers continued to pay uniform rates after other customers began paying modified stand-alone rates effective January 1996 pursuant to the FPSC's interim rate order in Florida Water's 1995 Rate Case. The FPSC did not include Spring Hill in this interim rate order because Hernando County had assumed jurisdiction over Spring Hill's rates. In June 1997 Florida Water reached an agreement with Hernando County to revert prospectively to stand-alone rates for Spring Hill customers.

Customer groups that paid more under uniform rates appealed the FPSC's January 1998 order, arguing that they are entitled to a refund because the FPSC had no authority to order uniform rates. Florida Water also appealed the $2.5 million refund order. Initial briefs were filed by all parties in May 1998. In June 1998 the Court of Appeals reversed its previous ruling that the FPSC was without authority to order uniform rates at which time customer groups supporting the FPSC's January 1998 order filed a motion with the Court of Appeals seeking dismissal of the appeal by customer groups seeking refunds. Customers seeking refunds filed amended briefs in September 1998. A provision for refund related to the $2.5 million refund order was recorded in 1999.

In December 2000 Hernando County approved a settlement agreement relating to the Spring Hill refund issue that was before the Court of Appeals. Under the settlement agreement, Spring Hill customers would receive a prospective rate reduction over three years totaling $1.8 million with no refunds. Florida Water also agreed it would not file a rate case to increase rates to Spring Hill customers for a period of three years. In December 2000 the Court of Appeals remanded the issue back to the FPSC for settlement consideration. We are unable to predict the timing or outcome of the appeal and settlement process.

DEFERRED REGULATORY CHARGES AND CREDITS. Deferred regulatory charges and credits are included in other assets and other liabilities on our consolidated balance sheet. Our utility operations are subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." We capitalize as deferred regulatory charges incurred costs which are probable of recovery in future utility rates. Deferred regulatory credits represent amounts expected to be credited to customers in rates. Based on current rate treatment, we believe all deferred regulatory charges are probable of recovery. [GRAPHIC OMITTED - SQUARE]

Deferred Regulatory Charges and Credits

December 31	2000	1999
Millions		

Deferred Charges		
Income Taxes	$ 15.5	$17.0
Conservation Improvement Programs	1.1	13.5
Premium on Reacquired Debt	5.0	5.6
Other	19.1	21.5
	40.7	57.6
Deferred Credits		
Income Taxes	55.0	55.1
Net Deferred Regulatory Charges (Credits)	$(14.3)	$ 2.5

5 FINANCIAL INSTRUMENTS

SECURITIES INVESTMENTS. Our securities portfolio is managed internally and by selected outside managers. Securities held principally for near-term sale are classified as trading securities and included in current assets at fair value. Changes in the fair value of trading securities are recognized in earnings. Trading securities consist primarily of the common stock of publicly traded companies. Securities held for an indefinite period of time are classified as available-for-sale securities and included in investments at fair value. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income, net of tax. Unrealized losses on available-for-sale securities that are other than temporary are recognized in earnings. Realized gains and losses are computed on each specific investment sold. At December 31, 2000 available-for-sale securities consisted of equity securities in a grantor trust established to fund certain employee benefits. At December 31, 1999 available-for-sale securities also included 4.7 million shares of ACE Limited (which were sold in 2000). Before 1999, available-for-sale securities consisted primarily of the preferred stock of utilities and financial institutions with investment grade debt ratings. During 1999, we changed our strategy for this preferred stock which resulted in a reclassification to trading and we recognized an unrealized loss of $2.6 million.

Available-For-Sale Securities

Millions

At December 31	Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
2000	$7.6	$4.7	-	$12.3
1999	$87.8	$6.3	$(0.3)	$93.8
1998	$70.9	$7.7	$(5.1)	$73.5

At December 31	Sales Proceeds	Gross Realized Gain	Gross Realized (Loss)	Net Unrealized Gain (Loss) in Other Comprehensive Income
2000	$129.9	$49.1	-	$(0.5)
1999	$0.2	-	-	$1.6
1998	$35.7	$1.7	$(2.3)	$1.3

Before discontinuance of the equity method of accounting in 1999, we also recorded our share of unrealized gains and losses from available-for-sale securities held by Capital Re, a $5.5 million gain in 1998.

The net unrealized loss included in earnings for trading securities in 2000 was $2.3 million ($1.6 million loss in 1999; $0.7 million gain in 1998).

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS AND RISKS. In portfolio strategies designed to reduce market risks, we sell common stock securities short. Unrealized gains and losses on short sales are recognized in earnings. Previously, treasury futures were used as a hedge to reduce interest rate risks associated with holding fixed dividend preferred stocks. We no longer utilize treasury futures as most of the fixed dividend preferred stocks were sold in 2000.

In October 2000 we entered into an interest rate swap agreement with a notional amount of $250 million to hedge $250 million of floating rate debt also issued in October 2000. Under the one-year swap agreement, we make fixed quarterly payments based on a fixed rate of 6.5% and receive payments at a floating rate based on LIBOR (6.8% at December 31, 2000). The agreement is subject to market risk due to interest rate fluctuation.

In March 2000 Florida Water entered into an interest rate swap agreement with a notional amount of $35.1 million to hedge fixed rate long-term debt. The swap agreement superseded a previous swap agreement entered into in 1998. Under the 25 year agreement, Florida Water makes quarterly payments at a variable rate based upon The Bond Market Association Municipal Swap Index plus 174 basis points (4.8% at December 31, 2000) and receives payments based on a fixed rate of 6.5%. The swap agreement is subject to market risk due to interest rate fluctuation.

Effective with the January 1, 2001 adoption of SFAS 133, Accounting for Derivative Instruments and Hedging Activities, both interest rate swaps will be recorded on the balance sheet at fair value.

The fair value of off-balance sheet financial instruments reflected the estimated amounts that we would receive or pay if the contracts were terminated at December 31. This fair value represents the difference between the estimated future receipts and payments under the terms of each instrument, and is estimated by obtaining quoted market prices or by using common pricing models. These fair values should not be viewed in isolation, but rather in relation to

the fair value of the underlying hedged transaction.

Off-Balance-Sheet Financial Instruments

Millions

December 31	Contract Amount	Fair Value Receivable (Payable)
2000		
Short Stock Sales Outstanding	$5.3	$(0.5)
Interest Rate Swaps	$285.1	$(3.2)
1999		
Short Stock Sales Outstanding	$58.5	$(2.1)
Treasury Futures	$8.6	$0.2
Interest Rate Swap	$35.1	$(2.3)

FAIR VALUE OF FINANCIAL INSTRUMENTS. With the exception of the items listed below, the estimated fair values of all financial instruments approximate the carrying amount. The fair values for the items below were based on quoted market prices for the same or similar instruments.

Financial Instruments December 31	Carrying Amount	Fair Value
Millions		
Long-Term Debt		
2000	$952.3	$961.2
1999	$712.8	$694.5
Redeemable Serial Preferred Stock		
2000	-	-
1999	$20.0	$20.0
Quarterly Income Preferred Securities		
2000	$75.0	$72.8
1999	$75.0	$65.3

CONCENTRATION OF CREDIT RISK. Financial instruments that subject us to concentrations of credit risk consist primarily of accounts receivable. Minnesota Power sells electricity to about 15 customers in northern Minnesota's taconite, pipeline, paper and wood products industries. Receivables from these customers totaled approximately $12 million at December 31, 2000 ($8.2 million at December 31, 1999). Minnesota Power does not obtain collateral to support utility receivables, but monitors the credit standing of major customers. [GRAPHIC OMITTED - SQUARE]

6 INVESTMENTS IN CAPITAL RE AND ACE

In May 2000 we recorded a $30.4 million, or $0.44 per share, after-tax gain on the sale of 4.7 million shares of ACE Limited. We received 4.7 million shares of ACE plus $25.1 million in December 1999 when Capital Re merged with ACE. At the time of the merger we owned 7.3 million shares or 20% of Capital Re.

As a result of the merger, in 1999 we recorded a $36.2 million, or $0.52 per share, after-tax non-cash charge as follows: a $24.1 million, or $0.35 per share, charge in the second quarter following the merger agreement and discontinuance of our equity accounting for Capital Re and a $12.1 million, or $0.17 per share, charge in the fourth quarter upon completion of the merger.

In 1998 we used the equity method to account for our investment in Capital Re. As a result of the pending merger with ACE, in 1999 we discontinued the equity method of accounting for our investment in Capital Re and accounted for our investment in Capital Re as an available-for-sale security. [GRAPHIC OMITTED - SQUARE]

7 LEASING AGREEMENTS

In April 2000 leases for three ADESA auction facilities (Boston, Charlotte and Knoxville) were refinanced in a $28.4 million leveraged lease transaction. The new lease is treated as an operating lease for financial reporting purposes and expires in April 2010. The lease may be terminated after 2005 under certain conditions. We have guaranteed ADESA's obligations under the lease.

We lease other properties and equipment in addition to those listed above under operating and capital lease agreements with terms expiring through 2010. The aggregate amount of future minimum lease payments for capital and operating leases during 2001 is $15.2 million ($11.7 million in 2002; $7.5 million in 2003; $6.0 million in 2004; and $5.2 million in 2005). Total rent expense was $27.0 million in 2000 ($21.5 million in 1999; $16.7 million in 1998). [GRAPHIC OMITTED - SQUARE]

8 JOINTLY OWNED ELECTRIC FACILITY

We own 80% of the 534 megawatt Boswell Energy Center Unit 4 (Boswell Unit 4). While we operate the plant, certain decisions about the operations of Boswell Unit 4 are subject to the oversight of a committee on which we and Wisconsin Public Power, Inc. (WPPI), the owner of the other 20% of Boswell Unit 4, have equal representation and voting rights. Each of us must provide our own financing and is obligated to pay our ownership share of operating costs. Our share of direct operating expenses of Boswell Unit 4 is included in operating expense on our consolidated statement of income. Our 80% share of the original cost included in electric plant at December 31, 2000 was $309 million ($310 million at December 31, 1999). The corresponding provision for accumulated depreciation was $157 million at December 31, 2000 ($150 million at December 31, 1999). [GRAPHIC OMITTED - SQUARE]

9 LONG-TERM DEBT

Long-Term Debt December 31	2000	1999
Millions		
First Mortgage Bonds		
Floating Rate Due 2003	$250.0	
6 1/4% Series Due 2003	25.0	$ 25.0
7.70% Senior Notes, Series A Due 2006	90.0	90.0
6.68% Series Due 2007	20.0	20.0
7% Series Due 2007	60.0	60.0
7 1/2% Series Due 2007	35.0	35.0
7 3/4% Series Due 2007	55.0	55.0
7% Series Due 2008	50.0	50.0
8.10% Senior Notes, Series B Due 2010	35.0	-
8.46% Due 2013	51.2	54.7
8.01% Due 2017	28.0	28.0
6% Pollution Control Series E Due 2022	111.0	111.0
Variable Demand Revenue Refunding Bonds Series 1997 A, B, C and D Due 2007 - 2020	39.0	39.0
Industrial Development Revenue Bonds, 6.50% Due 2025	35.1	35.1
Other Long-Term Debt, 5.6-9.0% Due 2001 - 2026	83.8	119.1
Less Due Within One Year	(15.8)	(9.1)
Total Long-Term Debt	$952.3	$712.8

The aggregate amount of long-term debt maturing during 2001 is $15.8 million ($10.9 million in 2002; $286.9 million in 2003, $15.6 million in 2004; and $3.5 million in 2005). Substantially all of our electric and water plant is subject to the lien of the mortgages securing various first mortgage bonds.

At December 31, 2000 we had long-term bank lines of credit aggregating $28.1 million ($58.8 million at December 31, 1999). Drawn portions on these lines of credit aggregated $14.1 million at December 31, 2000 ($43.5 at December 31, 1999) and are included in other long-term debt.

In March 2000 ADESA issued $35 million of 8.10% Senior Notes, Series B, due March 2010. Proceeds were used to refinance short-term bank indebtedness incurred for the acquisition of vehicle auction facilities purchased in 1999 and for general corporate purposes.

In June 2000 we refinanced $4.6 million of 6.875% Pollution Control Revenue Refunding Bonds, Series 1991-A with $4.6 million of Adjustable Rate Pollution Control Revenue Refunding Bonds Series 2000 due December 2015. The new bonds had an initial interest rate of 4.75%.

Also in June 2000 Heater issued an $8 million, 8.24%, note to CoBank, ACB, due June 2025. Proceeds were used to refinance short-term indebtedness incurred for the 1999 acquisition of Mid South and capital improvements in 1999 and 2000.

In October 2000 we issued $250 million of Floating Rate First Mortgage Bonds due October 2003. We have the option to redeem these bonds on or after October 20, 2001, in whole or in part from time to time, on any interest payment date prior to their maturity. Proceeds were used to refinance short-term debt incurred in connection with the October 2000 acquisition of nine vehicle auction facilities from Manheim. The new bonds had an initial interest rate of 7.61%. [GRAPHIC OMITTED - SQUARE]

10 SHORT-TERM BORROWINGS AND COMPENSATING BALANCES

We have bank lines of credit aggregating $214.5 million ($75 million at December 31, 1999), which make financing available through short-term bank loans and provide credit support for commercial paper. At December 31, 2000, $211.0 million was available for use ($74 million at December 31, 1999). At December 31, 2000 we had issued commercial paper with a face value of $260.6 million ($96.9 million in 1999), with support provided by bank lines of credit and our securities portfolio.

Certain lines of credit require a commitment fee of 0.0125%. Interest rates on commercial paper and borrowings under the lines of credit ranged from 7.28% to 7.90% at December 31, 2000 (6.42% to 6.70% at December 31, 1999). The weighted average interest rate on short-term borrowings at December 31, 2000 was 7.57% (6.59% at December 31, 1999). The total amount of compensating balances at December 31, 2000 and 1999, was immaterial. [GRAPHIC OMITTED - SQUARE]

11 COMMON STOCK AND EARNINGS PER SHARE

Our Articles of Incorporation and mortgages contain provisions that, under certain circumstances, would restrict the payment of common stock dividends. As of December 31, 2000 no retained earnings were restricted as a result of these provisions.

COMMON STOCK SPLIT. On March 2, 1999 our common stock was split two-for-one. All common share and per share amounts in our financial statements and notes to the financial statements have been adjusted for all periods to reflect the two-for-one stock split.

Summary of Common Stock		Shares	Equity
Millions			
Balance at December 31, 1997		67.1	$416.0
1998	Public Offering	4.2	89.9
	Employee Stock Purchase Plan	-	0.9
	Invest Direct	0.8	17.1
	Other	0.2	5.1
Balance at December 31, 1998		72.3	529.0
1999	Employee Stock Purchase Plan	0.1	1.3
	Invest Direct	0.9	17.4
	Other	0.2	4.3
Balance at December 31, 1999		73.5	552.0
2000	Employee Stock Purchase Plan	0.1	1.1
	Invest Direct	1.0	18.8
	Other	0.1	5.0
Balance at December 31, 2000		74.7	$576.9

Invest Direct is ALLETE's direct stock purchase and dividend reinvestment plan.

COMMON STOCK ISSUANCE. In September 1998 4.2 million shares of our common stock were sold in a public offering at $21.875 per share. Total net proceeds of approximately $89 million were used to repay outstanding commercial paper, to fund strategic initiatives and for capital expenditures. Net proceeds not immediately used for the above purposes were invested in our securities portfolio.

SHAREHOLDER RIGHTS PLAN. In 1996 we adopted a rights plan that provides for a dividend distribution of one preferred share purchase right (Right) to be attached to each share of common stock.

The Rights, which are currently not exercisable or transferable apart from our common stock, entitle the holder to purchase one two-hundredth of a share of ALLETE's Junior Serial Preferred Stock A, without par value, at an exercise price of $45. These Rights would become exercisable if a person or group acquires beneficial ownership of 15% or more of our common stock or announces a tender offer which would increase the person's or group's beneficial ownership interest to 15% or more of our common stock, subject to certain exceptions. If the 15% threshold is met, each Right entitles the holder (other than the acquiring person or group) to purchase common stock (or, in certain circumstances, cash, property or other securities of ours) having a market price equal to twice the exercise price of the Right. If we are acquired in a merger or business combination, or 50% or more of our assets or earning power are sold, each exercisable Right entitles the holder to purchase common stock of the acquiring or surviving company having a value equal to twice the exercise price of the Right. Certain stock acquisitions will also trigger a provision permitting the Board of Directors to exchange each Right for one share of our common stock.

The Rights which expire on July 23, 2006, are nonvoting and may be redeemed by us at a price of $.005 per Right at any time they are not exercisable. One million shares of Junior Serial Preferred Stock A have been authorized and are reserved for issuance under the plan.

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	Basic EPS	Dilutive Securities	Diluted EPS
Millions Except Per Share Amounts			
2000			
Net Income	$148.6	-	$148.6
Less: Dividends on Preferred Stock	0.9	-	0.9
Earnings Available for Common Stock	$147.7	-	$147.7

Common Shares	69.8	0.3	70.1
Per Share	$2.12	-	$2.11

There was no difference between basic and diluted earnings per share for 1999 and 1998.

We paid dividends on preferred stock of $0.9 million in 2000 ($2.0 million in both 1999 and 1998). [GRAPHIC OMITTED - SQUARE]

12 PREFERRED STOCK

In 2000 we redeemed all of our outstanding Preferred Stock and Preferred Stock A with proceeds from the sale of a portion of our securities portfolio and internally generated funds.

All 100,000 shares of Serial Preferred Stock A, $7.125 Series outstanding at December 31, 1999 were redeemed in April 2000 for an aggregate of $10 million.

All 100,000 shares of Serial Preferred Stock A, $6.70 Series outstanding at December 31, 1999 were redeemed in July 2000 for an aggregate of $10 million.

All 113,358 shares of 5% Preferred Stock outstanding at December 31, 1999 were redeemed in August 2000 at $102.50 per share plus accrued and unpaid dividends of $0.75 per share for an aggregate of $11.7 million. [GRAPHIC OMITTED - SQUARE]

13 MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY

ALLETE Capital I (Trust) was established as a wholly owned business trust of the Company for the purpose of issuing common and preferred securities (Trust Securities). In March 1996 the Trust publicly issued three million 8.05% Cumulative Quarterly Income Preferred Securities (QUIPS), representing preferred beneficial interests in the assets held by the Trust. The proceeds from the sale of the QUIPS, and from common securities of the Trust issued to us, were used by the Trust to purchase from us $77.5 million of 8.05% Junior Subordinated Debentures, Series A, Due 2015 (Subordinated Debentures), resulting in net proceeds to us of $72.3 million. Holders of the QUIPS are entitled to receive quarterly distributions at an annual rate of 8.05% of the liquidation preference value of $25 per security. We have the right to defer interest payments on the Subordinated Debentures which would result in the similar deferral of distributions on the QUIPS during extension periods up to 20 consecutive quarters. We are the owner of all the common trust securities, which constitute approximately 3% of the aggregate liquidation amount of all the Trust Securities. The sole asset of the Trust is Subordinated Debentures, interest on which is deductible by us for income tax purposes. The Trust will use interest payments received on the Subordinated Debentures it holds to make the quarterly cash distributions on the QUIPS.

The QUIPS are subject to mandatory redemption upon repayment of the Subordinated Debentures at maturity or upon redemption. We have the option to redeem the Subordinated Debentures upon the occurrence of certain events and, in any event, may do so at any time on or after March 20, 2001.

We have guaranteed, on a subordinated basis, payment of the Trust's obligations. [GRAPHIC OMITTED - SQUARE]

14 SQUARE BUTTE POWER PURCHASE AGREEMENT

Minnesota Power 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% 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% annually, to a minimum of 50%. 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 December 31, 2000 Square Butte had total debt outstanding of $314.6 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, our subsidiary, under a long-term contract.

Minnesota Power's cost of power purchased from Square Butte during 2000 was $58.7 million ($58.7 million in 1999; $58.2 million in 1998). This reflects Minnesota Power's pro rata share of total Square Butte costs based on the 71% output entitlement in 2000, 1999 and 1998. Included in this amount was Minnesota Power's pro rata share of interest expense of $14.8 million in 2000 ($15.5 million in 1999; $14.6 million in 1998). Minnesota Power's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and FERC. [GRAPHIC OMITTED - SQUARE]

15 INCOME TAX EXPENSE

Income Tax Expense Year Ended December 31	2000	1999	1998
Millions			
Current Tax Expense			
Federal	$75.6	$57.6	$38.5
Foreign	8.0	6.9	4.9
State	7.5	6.0	9.8
	91.1	70.5	53.2
Deferred Tax Expense (Benefit)			
Federal	(4.9)	(6.4)	0.9
Foreign	0.9	(0.4)	(0.4)
State	(2.6)	(5.2)	(0.4)
	(6.6)	(12.0)	0.1
Change in Valuation Allowance	1.8	0.7	2.3
Deferred Tax Credits	(1.8)	(1.5)	(1.6)
Total Income Tax Expense	$84.5	$57.7	$54.0

Reconciliation of Taxes from Federal Statutory Rate to Total Income Tax Expense Year Ended December 31	2000	1999	1998
Millions			
Tax Computed at Federal Statutory Rate	$81.6	$44.0	$49.8
Increase (Decrease) in Tax			
State Income Taxes -- Net of Federal Income Tax Benefit	4.4	6.5	6.6
Capital Re Transaction	-	10.8	-
Dividend Received Deduction	(0.6)	(1.4)	(2.7)
Foreign Taxes	1.2	2.3	2.0
Tax Credits	(1.4)	(3.3)	(2.4)
Other	(0.7)	(1.2)	0.7
Total Income Tax Expense	$84.5	$57.7	$54.0

Deferred Tax Assets and Liabilities December 31	2000	1999
Millions		
Deferred Tax Assets		
Allowance for Bad Debts	$ 9.3	$ 10.1
Contributions in Aid of Construction	14.8	16.3
Lehigh Basis Difference	7.9	7.8
Deferred Compensation Plans	15.1	13.4
Depreciation	13.9	13.4
Employee Stock Ownership Plan	9.4	8.6
Investment Tax Credits	18.7	19.7
Postemployment Benefits	9.2	8.8
Other	33.1	39.3
Gross Deferred Tax Assets	131.4	137.4
Deferred Tax Asset Valuation Allowance	(5.1)	(3.3)
Total Deferred Tax Assets	126.3	134.1
Deferred Tax Liabilities		
Depreciation	195.2	196.7
Allowance for Funds Used During Construction	16.3	16.9
Investment Tax Credits	26.2	28.0
Unrealized Portfolio Gains	0.2	7.9
Other	13.5	24.5
Total Deferred Tax Liabilities	251.4	274.0
Accumulated Deferred Income Taxes	$125.1	$139.9

UNDISTRIBUTED EARNINGS. Undistributed earnings of our foreign subsidiaries were approximately $27.9 million at December 31, 2000 ($19.3 million at December 31, 1999). Foreign undistributed earnings are considered to be indefinitely

reinvested and, accordingly, we have no provision for United States federal and state income taxes on these earnings. Upon distribution of foreign undistributed earnings in the form of dividends or otherwise, we would be subject to both United States income tax (subject to an adjustment for foreign tax credits) and withholding taxes payable to Canada. Determination of the amount of unrecognized deferred United States income tax liability is not practical due to the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credit carryforwards would be available to reduce some portion of the United States liability. Withholding taxes of approximately $1.4 million would be payable upon remittance of all previously unremitted earnings at December 31, 2000 ($1.0 million at December 31, 1999). [GRAPHIC OMITTED - SQUARE]

16 OTHER COMPREHENSIVE INCOME

Other Comprehensive Income Year Ended December 31	Pre-Tax Amount	Tax Expense (Benefit)	Net-of-Tax Amount
Millions			
2000			
Unrealized Gain (Loss) on Securities			
Gain During the Year	$47.8	$17.4	$30.4
Less: Gain Included in Net Income	49.1	18.0	31.1
Net Unrealized Loss on Securities	(1.3)	(0.6)	(0.7)
Foreign Currency Translation Adjustments	(5.9)	-	(5.9)
Other Comprehensive Loss	$(7.2)	$(0.6)	$(6.6)
1999			
Unrealized Gain (Loss) on Securities			
Gain During the Year	$ 1.6	$ 0.7	$ 0.9
Add: Loss Included in Net Income	1.7	0.7	1.0
Less: Unrealized Gains of Disposed Equity Investee	6.7	1.2	5.5
Net Unrealized Loss on Securities	(3.4)	0.2	(3.6)
Foreign Currency Translation Adjustments	4.5	-	4.5
Other Comprehensive Income	$ 1.1	$ 0.2	$ 0.9
1998			
Unrealized Gain on Securities			
Gain During the Year	$ 1.9	$ 0.7	$ 1.2
Add: Loss Included in Net Income	0.6	0.2	0.4
Net Unrealized Gain on Securities	2.5	0.9	1.6
Foreign Currency Translation Adjustments	(3.9)	-	(3.9)
Other Comprehensive Loss	$(1.4)	$ 0.9	$(2.3)

The gain included in net income for the year 2000 included the gain from our sale of ACE shares. Accumulated other comprehensive income at December 31, 2000 consisted of $2.8 million ($3.5 million at December 31, 1999) in net unrealized gains on securities and $(7.0) million ($(1.1) million at December 31, 1999) in foreign currency translation adjustments. [GRAPHIC OMITTED - SQUARE]

17 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Certain eligible employees of ALLETE are covered by noncontributory defined benefit pension plans. A defined benefit plan covering Florida Water employees was terminated in 2000 and a $0.3 million credit was recognized upon settlement (curtailment expense of $0.6 million was accrued in 1999). At December 31, 2000 approximately 10% of the defined benefit pension plan assets were invested in our common stock. We have defined contribution pension plans covering eligible employees, for which the aggregate annual cost was $6.0 million in 2000 ($4.7 million in 1999; $4.0 million in 1998). We provide certain health care and life insurance benefits for eligible retired employees. The deferred regulatory charge for postretirement health and life benefits was fully amortized in 1999.

The assumed health care cost trend rate declines gradually to an ultimate rate of 6.0% by 2002. For postretirement health and life benefits, a 1% increase in the assumed health care cost trend rate would result in a $8.4 million and a $1.1 million increase in the benefit obligation and total service and interest costs, respectively; a 1% decrease would result in a $6.9 million and $0.9 million decrease in the benefit obligation and total service and interest costs, respectively. [GRAPHIC OMITTED - SQUARE]

Pension

Millions

Plan Status

At September 30	2000	1999
Change in Benefit Obligation		
Obligation, Beginning of Year	$224.1	$244.6
Service Cost	4.1	4.7
Interest Cost	16.5	16.0
Actuarial (Gain) Loss	2.4	(26.6)
Benefits Paid	(18.6)	(14.6)
Obligation, End of Year	228.5	224.1
Change in Plan Assets		
Fair Value, Beginning of Year	286.7	267.5
Actual Return on Assets	40.3	31.6
Benefits Paid	(18.6)	(14.6)
Other	1.4	2.2
Fair Value, End of Year	309.8	286.7
Funded Status	81.3	62.6
Unrecognized Amounts		
Net Gain	(76.4)	(66.5)
Prior Service Cost	3.8	4.2
Transition Obligation	0.8	1.0
Prepaid Pension Cost	$ 9.5	$ 1.3

Benefit Expense

Year Ended December 31	2000	1999	1998
Service Cost	$ 4.1	$ 4.7	$ 4.1
Interest Cost	16.5	16.0	16.3
Expected Return on Assets	(27.5)	(24.9)	(23.2)
Amortized Amounts			
Unrecognized Gain	(2.3)	(0.4)	(1.1)
Prior Service Cost	0.5	0.5	0.5
Transition Obligation	0.2	0.2	0.2
	(8.5)	(3.9)	(3.2)
Early Retirement Expense	-	-	2.8
Net Pension Credit	$ (8.5)	$ (3.9)	$ (0.4)

Actuarial Assumptions

	2000	1999
Discount Rate	8.00%	7.75%
Expected Return on Plan Assets	10.25%	10.0%
Rate of Compensation Increase	3.5 - 4.5%	3.5 - 4.5%

Health and Life

Millions

Plan Status At September 30	2000	1999
Change in Benefit Obligation		
Obligation, Beginning of Year	$ 62.6	$58.6
Service Cost	2.8	2.7
Interest Cost	4.8	3.8
Actuarial (Gain) Loss	(0.2)	(0.2)
Participant Contributions	0.7	0.7
Benefits Paid	(3.1)	(3.0)
Obligation, End of Year	67.6	62.6
Change in Plan Assets		
Fair Value, Beginning of Year	31.6	27.6
Actual Return on Assets	3.1	3.1
Employer Contribution	9.4	3.2
Participant Contributions	0.7	0.7
Benefits Paid	(3.1)	(3.0)
Fair Value, End of Year	41.7	31.6
Funded Status	(25.9)	(31.0)
Unrecognized Amounts		
Net Gain	(18.2)	(18.7)
Prior Service Cost	(3.4)	(3.6)
Transition Obligation	32.0	34.6
Accrued Cost	$(15.5)	$(18.7)

Benefit Expense Year Ended December 31	2000	1999	1998
Service Cost	$ 2.7	$ 2.7	$ 2.3
Interest Cost	4.8	3.8	3.8
Expected Return on Assets	(2.8)	(2.4)	(1.7)
Amortized Amounts			
Unrecognized Gain	(0.9)	(0.9)	(1.3)
Prior Service Cost	(0.2)	(0.2)	-
Transition Obligation	2.6	2.6	2.3
	6.2	5.6	5.4
Amortization of Deferred Charge	-	2.8	2.7
Net Expense	$ 6.2	$ 8.4	$ 8.1

Actuarial Assumptions	2000	1999
Discount Rate	8.0%	7.75%
Expected Return on Plan Assets	6.0 - 10.0%	6.0 - 10.0%
Rate of Compensation Increase	3.5 - 4.5%	3.5 - 4.5%
Health Care Cost Trend Rate	6.9%	7.8%

18 EMPLOYEE STOCK AND INCENTIVE PLANS

EMPLOYEE STOCK OWNERSHIP PLAN. We sponsor an Employee Stock Ownership Plan (ESOP) with two leveraged accounts.

A 1989 leveraged ESOP account covers certain eligible nonunion ALLETE employees. The ESOP used the proceeds from a $16.5 million loan (15 year term at 9.125%), guaranteed by us, to purchase 1.2 million shares of our common stock on the open market. These shares fund an annual benefit of not less than 2% of participants' salaries.

A 1990 leveraged ESOP account covers certain eligible ALLETE employees who participated in the non-leveraged ESOP plan prior to August 1989. In 1990 the ESOP issued a $75 million note (term not to exceed 25 years at 10.25%) to us as consideration for 5.6 million shares of our newly issued common stock. These shares are used to fund an annual benefit at least equal to the value of (a) dividends on shares held in the 1990 leveraged ESOP which are used to make loan payments, and (b) tax benefits obtained from deducting eligible dividends.

The loans will be repaid with dividends received by the ESOP and with employer contributions. ESOP shares acquired with the loans were initially pledged as collateral for the loans. The ESOP shares are released from collateral and allocated to participants based on the portion of total debt service paid in the year. The ESOP shares that collateralize the loans are not included in the number of average shares used to calculate basic and diluted earnings per share.

Year Ended December 31	2000	1999	1998
Millions			
Expense			
Interest Expense	$0.8	$0.9	$1.0
Compensation Expense	2.3	2.2	2.8
Total Expense	$3.1	$3.1	$3.8
Shares			
Allocated Shares	3.9	3.8	3.6
Unreleased Shares	4.2	4.4	4.8
Total ESOP Shares	8.1	8.2	8.4
Fair Value of Unreleased Shares	$104.6	$75.8	$104.0

EMPLOYEE STOCK PURCHASE PLAN. We have an Employee Stock Purchase Plan that permits eligible employees to buy up to $23,750 per year of our common stock at 95% of the market price. At December 31, 2000, 1.1 million shares had been issued under the plan and 156,919 shares were held in reserve for future issuance.

STOCK OPTION AND AWARD PLANS. We have an Executive Long-Term Incentive Compensation Plan (Executive Plan) and a Director Long-Term Stock Incentive Plan (Director Plan). The Executive Plan allows for the grant of up to 6.7 million shares of our common stock to key employees. To date, these grants have taken the form of stock options, performance share awards and restricted stock awards. The Director Plan allows for the grant of up to 0.3 million shares of our common stock to nonemployee directors. Each nonemployee director receives an annual grant of 1,500 stock options and a biennial grant of performance shares equal to $10,000 in value of common stock at the date of grant. Stock options are exercisable at the market price of common shares on the date the options are granted, and vest in equal annual installments over two years with expiration ten years from the date of grant. Performance shares are earned over multi-year time periods and are contingent upon the attainment of certain performance goals of ALLETE. Restricted stock vests once certain periods of time have elapsed.

We have elected to account for our stock-based compensation plans in accordance with the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," and accordingly, compensation expense has not been recognized for stock options granted. Compensation expense is recognized over the vesting periods for performance and restricted share awards based on the market value of our common stock, and was approximately $5 million in 2000 ($3 million in 1999 and in 1998). Pro forma net income and earnings per share under SFAS 123 "Accounting for Stock-Based Compensation" have not been presented because such amounts are not materially different from actual amounts reported. This may not be representative of the pro forma effects for future years if additional awards are granted.

Stock Option Activity	Options	Average Exercise Price
2000		
Outstanding, Beginning of Year	1,603,900	$19.77
Granted	1,022,500	$16.33
Exercised	(60,700)	$14.91
Canceled	(135,800)	$18.85

Outstanding, End of Year	2,429,900	$18.50
Exercisable, End of Year	1,091,200	$19.42
Fair Value of Options Granted During the Year	$3.20	
1999		
Outstanding, Beginning of Year	963,500	$17.31
Granted	889,200	$21.77
Exercised	(131,100)	$13.91
Canceled	(117,700)	$21.25
Outstanding, End of Year	1,603,900	$19.77
Exercisable, End of Year	586,500	$16.38
Fair Value of Options Granted During the Year	$3.38	
1998		
Outstanding, Beginning of Year	667,400	$13.89
Granted	419,800	$21.63
Exercised	(112,600)	$13.95
Canceled	(11,100)	$16.73
Outstanding, End of Year	963,500	$17.31
Exercisable, End of Year	361,000	$13.99
Fair Value of Options Granted During the Year	$3.11	

At December 31, 2000 options outstanding consisted of 1,290,966 with an exercise price of $13.69 to $16.25, and 1,138,922 with an exercise price of $21.63 to $21.94. The options with an exercise price of $13.69 to $16.25 have an average remaining contractual life of 8.2 years with 328,062 exercisable on December 31, 2000 at an average price of $13.88. The options with an exercise price of $21.63 to $21.94 have an average remaining contractual life of 7.7 years with 763,146 exercisable on December 31, 2000 at an average price of $21.80.

In 2000, 329,000 performance share grants were awarded, with the ultimate issuance contingent upon the attainment of certain future performance goals of ALLETE. The grant date fair value of the share grants was $5.3 million.

A total of 270,000 performance share grants were awarded during 1999 and 1998 for the performance period ended December 31, 1999. The grant date fair value of these share grants was $5.8 million. At December 31, 2000 50% of the shares had already been issued, with the balance to be issued in 2001 and 2002.

In January 2001 we granted stock options to purchase approximately 0.7 million shares of common stock (exercise price of $23.63 per share). [GRAPHIC OMITTED - SQUARE]

19 QUARTERLY FINANCIAL DATA (UNAUDITED)

Information for any one quarterly period is not necessarily indicative of the results which may be expected for the year. Financial results for 2000 included a $30.4 million, or $0.44 per share, after-tax gain on the sale of 4.7 million shares of ACE in the second quarter. We received the ACE shares in December 1999 when Capital Re merged with ACE. As a result of the merger, in 1999 we recorded a $36.2 million, or $0.52 per share, after-tax non-cash charge as follows: a $24.1 million, or $0.35 per share, charge in the second quarter following the merger agreement and discontinuance of our equity accounting for Capital Re; and a $12.1 million, or $0.17 per share, charge in the fourth quarter upon completion of the merger. (See Note 6.) [GRAPHIC OMITTED - SQUARE]

Quarter Ended	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Millions Except Earnings Per Share				
2000				
Operating Revenue	$322.6	$327.0	$323.5	$358.8
Operating Income	$52.0	$105.1	$49.4	$32.6
Net Income	$30.4	$64.2	$35.0	$19.0
Earnings Available for Common Stock	$29.9	$63.9	$34.9	$19.0
Earnings Per Share of Common Stock				
Basic	$0.43	$0.92	$0.50	$0.27
Diluted	$0.43	$0.92	$0.50	$0.27
1999				
Operating Revenue	$257.7	$279.2	$308.0	$286.9
Operating Income	$29.5	$28.2	$57.9	$16.1
Net Income	$20.9	$1.9	$34.5	$10.7
Earnings Available for Common Stock	$20.4	$1.4	$34.0	$10.2
Earnings Per Share of Common Stock				
Basic	$0.30	$0.02	$0.50	$0.15
Diluted	$0.30	$0.02	$0.50	$0.15

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

[PRICEWATERHOUSECOOPERS LOGO]

To the Board of Directors
of ALLETE

Our audits of the consolidated financial statements referred to in our report dated January 17, 2001 appearing on page 54 of this Form 10-K also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, the Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. [GRAPHIC OMITTED - SQUARE]

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
January 17, 2001

SCHEDULE II

ALLETE
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Year Ended December 31		Balance at Beginning of Year	Additions: Charged to Income	Additions: Other Changes	Deductions from Reserves	Balance at End of Period
Millions						
Reserve Deducted from Related Assets						
Reserve For Uncollectible Accounts						
2000	Trade Accounts Receivable	$7.6	$2.9	-	$5.3	$5.2
	Finance Receivables	6.3	0.8	-	0.6	6.5
1999	Trade Accounts Receivable	6.0	3.9	-	2.3	7.6
	Finance Receivables	3.6	3.8	-	1.1	6.3
1998	Trade Accounts Receivable	5.1	5.4	-	4.5	6.0
	Finance Receivables	2.8	2.8	-	2.0	3.6
Deferred Asset Valuation Allowance						
2000	Deferred Tax Assets	3.3	1.8	-	-	5.1
1999	Deferred Tax Assets	2.6	0.7	-	-	3.3
1998	Deferred Tax Assets	0.3	2.3	-	-	2.6

Reserve for uncollectible accounts includes bad debts written off.

Exhibit Index

Exhibit Number		
10(l)	-	Loan and Servicing Agreement dated as of December 22, 2000 among AFC AIM Corporation, as Borrower, Automotive Finance Corporation, as Servicer, and Bank of Montreal, as Lender.
10(m)	-	Purchase and Sale Agreement dated as of December 22, 2000 between AFC AIM Corporation and Automotive Finance Corporation.
12	-	Computation of Ratios of Earnings to Fixed Charges and Supplemental Ratios of Earnings to Fixed Charges.
23(a)	-	Consent of Independent Accountants.
23(b)	-	Consent of General Counsel.

Exhibit 10(l)

LOAN AND SERVICING AGREEMENT

dated as of December 22, 2000

among

AFC AIM CORPORATION,

as Borrower,

AUTOMOTIVE FINANCE CORPORATION,

as Servicer,

and

BANK OF MONTREAL,

as Lender

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LOAN AND SERVICING AGREEMENT

This LOAN AND SERVICING AGREEMENT, dated as of December 22, 2000 (as amended, supplemented or otherwise modified from time to time, the "AGREEMENT") among AFC AIM CORPORATION, an Indiana corporation, as borrower (the "BORROWER"), AUTOMOTIVE FINANCE CORPORATION, an Indiana corporation ("AFC"), as initial servicer (in such capacity, together with its successors and permitted assigns in such capacity, the "SERVICER") and BANK OF MONTREAL, CHICAGO BRANCH, as lender (together with its successors and permitted assigns, the "LENDER").

PRELIMINARY STATEMENTS

Certain terms that are capitalized and used throughout this Agreement are defined in EXHIBIT I to this Agreement. References in the Exhibits hereto to "the Agreement" refer to this Agreement, as amended, modified or supplemented from time to time.

1. Borrower has purchased and will purchase from time to time Receivables and certain related assets.

2. Borrower intends to finance the Receivables by borrowing Loans from the Lender. Borrower has requested Lender, and Lender has agreed, subject to the terms and conditions contained in this Agreement, to make Loans to Borrower from time to time during the term of this Agreement, which Loans will be secured by such Receivables and other Collateral.

3. AFC has been requested, and is willing, to act as the Servicer with respect to the Receivables.

In consideration of the mutual agreements, provisions and covenants contained herein, the parties hereto agree as follows:

ARTICLE I.

LOANS

Section 1.1. COMMITMENTS TO LEND; LIMITS ON LENDER'S OBLIGATIONS. Upon the terms and subject to the conditions of this Agreement, from time to time prior to the Termination Date, Borrower may request that Lender make loans to Borrower secured by the Collateral (each, a "LOAN") and Lender shall make such Loans; PROVIDED that no Loan shall be made by Lender if, after giving effect thereto, the then Total Outstanding Principal would exceed the Facility Limit.

Section 1.2. MAKING LOANS; BORROWING PROCEDURES.

(a) NOTICE OF BORROWING. Each Loan hereunder shall be made upon the Borrower's irrevocable written notice, substantially in the form of ANNEX A (a "BORROWING NOTICE"), delivered to the Lender in accordance with SECTION 6.2 (which notice must be received by the Lender prior to 12:00 a.m., Chicago time) on or before the requested Financing Date, which notice shall specify (A) the amount requested to be borrowed by the Borrower (which amount shall be $1,000,000 or in integral $100,000 multiples thereof), and (B) the date of such Loan (which shall be a Business Day).

(b) FUNDING OF LOAN. On the date of each Loan, upon satisfaction of the applicable conditions set forth in ARTICLE II, Lender shall make available to Borrower in same day funds by depositing such funds into the Borrower's Account. No Loan shall be made in an amount to exceed the Borrowing Base on such Financing Date.

The "BORROWING BASE" means, as of any Financing Date, with respect to the Financed Vehicle Pool to be financed by a Loan on such date, the sum of (i) 60% of the aggregate Black Book Value of such Financed Vehicle Pool as of such date, MINUS the Adjustment Amount, and (ii) the Credit Account Adjustment Amount.

The "ADJUSTMENT AMOUNT" means, as of any Financing Date, with respect to the Financed Vehicle Pool to be financed by a Loan on such date, (i) so long as no Trigger Event has occurred, zero, and (ii) following the occurrence of a Trigger Event, an amount equal to the product of (x) aggregate Black Book Value of such Financed Vehicle Pool as of such date, and (y) the largest percentage by which the Black Book Value of any Eligible Vehicle Model as of such date is less than the Maximum Black Book Value for such Eligible Vehicle Model.

"TRIGGER EVENT" means, at any time, that the Black Book Value of any Eligible Vehicle Model as of such date is less than the Maximum Black Book Value of such Eligible Vehicle Model by more than 12.5%.

"CREDIT ACCOUNT ADJUSTMENT AMOUNT" means, as of any Financing Date, an amount which is equal to the lesser of (i) 15% of the aggregate Black Book Value of such Financed Vehicle Pool as of such date and (ii) the Credit Account Balance as of such Financing Date.

Section 1.3. GRANT OF SECURITY INTEREST. Borrower hereby grants to Lender a first priority, continuing lien and security interest in all right, title and interest of Borrower in, to and under the Collateral, whether now owned or hereafter acquired or existing. Such lien and security interest shall secure all of Borrower's obligations (monetary or otherwise) hereunder and under the other Transaction Documents, including, without limitation, the payments on the Note, the payment of Fees and all Indemnified Amounts and the obligation to turn over all Collections to the Servicer or the Lender for deposit into the Collection Account. The Lender hereby accepts the foregoing grant of a security interest in the Collateral.

Section 1.4. SETTLEMENT PROCEDURES. (a) Collection of the Receivables shall be administered by the Servicer in accordance with the terms of this Agreement, the Isuzu Loan Documents and the other Transaction Documents. The Borrower shall provide to the Servicer (if other than the Borrower) on a timely basis all information needed for such administration.

(b) DEPOSIT OF COLLECTIONS. The Servicer shall segregate and hold all Collections in trust for the benefit of the Borrower and the Lender and, within one Business Day of the receipt (or deemed receipt) of Collections of Receivables by the Borrower or Servicer, deposit such Collections into the Collection Account.

(c) EXCESS SALES PROCEEDS.

(i) So long as no Isuzu Event of Default shall have occurred and be continuing, the Servicer shall forward all Excess Sales Proceeds received in the Collection Account to the Obligor in accordance with Section 2.5 of the Promissory Note and Security Agreement.

(ii) In the event that an Isuzu Event of Default shall have occurred and be continuing, the Servicer shall retain any Excess Sales Proceeds received in the Collection Account to the extent permitted under the Isuzu Loan Document and shall apply such Excess Sales Proceeds in accordance with the priority of payments set forth in SUBSECTION (d) below.

(iii) "EXCESS SALES PROCEEDS" means the excess, if any, of (i) the amount of the aggregate net sales proceeds from the sale or other disposition of a Batch of Financed Vehicles, over (ii) the aggregate amount of the Advances related to such Financed Vehicles (to the extent not prepaid under Section 2.5 of the Promissory Note and Security Agreement or otherwise). For purposes hereof, a "BATCH" of Financed Vehicles is a group of Financed Vehicles sold or otherwise disposed of at a single auction site (or other sale site) on a single day, the individual net sales proceeds with respect to which are permitted to be netted in accordance with the agreement of AFC and the Obligor.

(d) PAYMENT DATE PROCEDURES. Amounts on deposit on any Payment Date in the Collection Account representing Collections received during or with respect to the related Collection Period shall be withdrawn from the Collection Account on such Payment Date, in the amounts required, and applied in the following order of priority:

FIRST, to the Obligor, any Excess Sales Proceeds received in the Collection Account which the Obligor is entitled to receive pursuant to SUBSECTION (c)(i) above, but which have not yet been distributed to the Obligor;

SECOND, to the Servicer, to the extent of available funds, the amount of the accrued and unpaid Servicing Fee, including any past due Servicing Fee;

THIRD, to the Collection Account Bank, to the extent of available funds, any fees, charges or other expenses incurred by the Borrower in connection with the establishment or maintenance of the Collection Account;

FOURTH, to the Lender, to the extent of available funds, all accrued and unpaid interest on all outstanding Loans,including any past due interest;

FIFTH, to the Lender, to the extent of available funds, as a repayment of principal on the Loans, the sum of:

(i) the Mandatory Principal Repayment Amount, and

(ii) the amount of any prepayment of principal on the Loans that the Borrower has elected to make on such Payment Date in accordance with SECTION 2.3(a) below.

"MANDATORY PRINCIPAL REPAYMENT AMOUNT" means

(a) on any Payment Date prior to the occurrence of an Event of Default, the sum of:

(x) the aggregate Lender Financed Amount of all Financed Vehicles (A) which were sold or otherwise disposed of, or which suffered a Casualty, during the related Collection Period or (B) as to which a prepayment of principal was made by the Obligor under Section 2.5 of the Promissory Note and Security Agreement during such Collection Period,

(y) the aggregate AFC Financed Amount of all Financed Vehicles (A) which were sold or otherwise disposed of, or which suffered a Casualty, during the related Collection Period or (B) as to which a prepayment of principal was made by the Obligor under Section 2.5 of the Promissory Note and Security Agreement during such Collection Period, and

(z) the amount of any prepayment of principal required under SECTION 2.3(b) following a reduction in the Facility Limit pursuant to SECTION 2.5 during such Collection Period (after giving effect to any other distributions of principal to occur on such Payment Date),

PROVIDED, HOWEVER, that the Mandatory Principal Repayment Amount distributed on any Payment Date pursuant to this CLAUSE (a) shall not exceed the Total Outstanding Principal on such Payment Date (after giving effect to any other distributions of principal to occur on such Payment Date);

and

(b) on any Payment Date following the occurrence of an Event of Default, an amount which is equal to the Total Outstanding Principal on such Payment Date (after giving effect to any other distributions of principal to occur on such Payment Date);

SIXTH, to the Lender or any Affected Person, Indemnified Party or other Person to whom any other amount is due hereunder, to the extent of available funds, the amount due to such party or parties on a pro rata basis.

(e) PAYMENT OF UNCOLLECTED AMOUNTS. To the extent that Collections applied pursuant to SUBSECTION (d) above on any Payment Date are insufficient to pay any amount due to the Lender, the Servicer or any other Person hereunder, the Borrower shall pay the amount of any such shortfall to the Person or Persons to whom it is due on such Payment Date.

(f) FINAL PAYOUT DATE. Any funds remaining in the Collection Account after the Final Payout Date shall be paid to the Borrower.

(g) DEEMED COLLECTIONS. For the purposes of this SECTION 1.4,

(i) if on any day the outstanding balance of any Receivable is reduced or adjusted as a result of any adjustment made by AFC, the Borrower or the Servicer, or any setoff or dispute between the Borrower, AFC, the Servicer and the Obligor, the Borrower shall be deemed to have received on such day a Collection of such Receivable in the amount of such reduction or adjustment;

(ii) if on any day any of the representations or warranties in PARAGRAPHS A.(h) or A.(o) of EXHIBIT III is not true with respect to any Receivable, the Seller shall be deemed to have received on such day a Collection of such Receivable in full;

(iii) if and to the extent the Lender shall be required for any reason to pay over to the Obligor (or any trustee, receiver, custodian or similar official in any Insolvency Proceeding) any amount received by it hereunder, such amount shall be deemed not to have been so received but rather to have been retained by the Borrower and, accordingly, the Lender, as the case may be, shall have a claim against the Borrower for such amount, payable when and to the extent that any distribution from or on behalf of such Obligor is made in respect thereof.

(h) CREDIT ACCOUNT. Until the distribution of all remaining amounts in the Collection Account pursuant to SECTION 1.4(f), the Borrower (subject to the Lender's audit and approval) shall maintain a book entry account (the "CREDIT ACCOUNT") for the purpose of recording the amount of Collections which represents a credit to the Borrower against which the Borrower can borrow additional amounts hereunder. On any day the balance of the Credit Account (the "CREDIT ACCOUNT BALANCE") shall equal (i) the aggregate amount of all Collections applied to reduce the principal balance of the Loans pursuant to CLAUSE (a)(y) of the definition of "Mandatory Principal Repayment

Amount," MINUS (ii) the amount, determined for each Loan, equal to the amount advanced with respect to such Loan over the amount permitted to be advanced with respect to such Loan without giving effect to CLAUSE (ii) of the definition of "Borrowing Base."

Section 1.5. FEES. The Borrower shall pay to the Lender certain fees in the amounts and on the dates set forth in a letter dated December 22, 2000 between the Borrower and the Lender (as the same may be amended, amended and restated, supplemented or modified, the "FEE LETTER") delivered pursuant to SECTION 1 of EXHIBIT II, as such letter agreement may be amended, supplemented or otherwise modified from time to time in accordance with the terms thereof.

Section 1.6. PAYMENTS AND COMPUTATIONS, ETC. (a) All amounts to be paid or deposited by the Borrower or the Servicer hereunder shall be paid or deposited in accordance with the terms hereof no later than noon (Chicago time) on the day when due in lawful money of the United States of America in same day funds to the Lender's Account. All amounts received after noon (Chicago time) will be deemed to have been received on the immediately succeeding Business Day.

(b) The Borrower shall, to the extent permitted by law, pay interest on any amount not paid or deposited by the Borrower or Servicer to the Lender's Account when due hereunder, at an interest rate equal to 2.0% PER ANNUM above the Base Rate, payable on demand.

(c) All computations of interest under SUBSECTION (b) above and all computations of fees and other amounts hereunder shall be made on the basis of a year of 360 days for the actual number of days elapsed. Whenever any payment or deposit to be made hereunder shall be due on a day other than a Business Day, such payment or deposit shall be made no later than the next succeeding Business Day and such extension of time shall be included in the computation of such payment or deposit.

Section 1.7. INCREASED COSTS. (a) If the Lender, any Participant or any of their respective Affiliates (each an "AFFECTED PERSON") determines that the existence of or compliance with (i) any law or regulation or any change therein or in the interpretation or application thereof, in each case adopted, issued or occurring after the date hereof or (ii) any request, guideline or directive from any central bank or other Governmental Authority (whether or not having the force of law) issued or occurring after the date of this Agreement affects or would affect the amount of capital required or expected to be maintained by such Affected Person and such Affected Person determines that the amount of such capital is increased by or based upon the existence of any commitment to make a Loan hereunder then, upon demand by such Affected Person (with a copy to the Lender if such Affected Person is not the Lender), the Borrower shall immediately pay to the Lender, for the account of such Affected Person, from time to time as specified by such Affected Person, additional amounts sufficient to compensate such Affected Person in the light of such circumstances, to the extent that such Affected Person reasonably determines such increase in capital to be allocable to the existence of any of such commitments; PROVIDED that within 30 days of an Affected Party's knowledge of any such circumstance such Affected Party shall notify the Borrower of the same and whether such Affected Party will request that the Borrower indemnify it for such circumstance. A

certificate as to such amounts submitted to the Borrower and the Lender by such Affected Person shall be conclusive and binding for all purposes, absent manifest error.

(b) If, due to either (i) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements referred to in SECTION 1.9) in or in the interpretation of any law or regulation or (ii) compliance with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to any Affected Person of funding or maintaining a Loan or portion of a Loan in respect of which interest is computed by reference to the Cost of Funds, then, upon demand by such Affected Person, the Borrower shall immediately pay to such Affected Person, from time to time as specified, additional amounts sufficient to compensate such Affected Person for such increased costs; PROVIDED that within 30 days of an Affected Party's knowledge of any such circumstance such Affected Party shall notify the Borrower of the same and whether such Affected Party will request that the Borrower indemnify it for such circumstance. A certificate as to such amounts submitted to the Borrower by such Affected Person shall be conclusive and binding for all purposes, absent manifest error.

Section 1.8. ADDITIONAL INTEREST ON LOANS BEARING INTEREST BASED ON COST OF FUNDS. The Borrower shall pay to any Affected Person, so long as such Affected Person shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including "Eurocurrency Liabilities", additional interest on the Loan during each Interest Period in respect of which interest is computed by reference to the Cost of Funds, for such Interest Period, at a rate per annum equal at all times during such Interest Period to the remainder obtained by subtracting (i) the Cost of Funds for such Interest Period from (ii) the rate obtained by dividing such Cost of Funds referred to in CLAUSE (i) above by that percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period, payable on each date on which interest is payable on the applicable Portion of Investment; PROVIDED that within 30 days of an Affected Party's knowledge of any such circumstance such Affected Party shall notify the Borrower of the same and whether such Affected Party will request that the Borrower indemnify it for such circumstance. Such additional interest shall be determined by the Affected Person and notified to the Borrower through the Lender. A certificate as to such additional interest submitted to the Borrower by the Affected Person shall be conclusive and binding for all purposes, absent manifest error.

Section 1.9. REQUIREMENTS OF LAW. In the event that any Affected Person determines that the existence of or compliance with (i) any law or regulation or any change therein or in the interpretation or application thereof, in each case adopted, issued or occurring after the date hereof or (ii) any request, guideline or directive from any central bank or other Governmental Authority (whether or not having the force of law) issued or occurring after the date of this Agreement:

(i) does or shall subject such Affected Person to any tax of any kind whatsoever with respect to this Agreement, any increase in the Total Outstanding Principal relating thereto, or does or shall change the basis of taxation of payments to such Affected Person on account of Collections, interest or any other amounts payable hereunder (excluding taxes

imposed on the overall net income of such Affected Person, and franchise taxes imposed on such Affected Person, by the jurisdiction under the laws of which such Affected Person is organized or a political subdivision thereof);

(ii) does or shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, or deposits or other liabilities in or for the account of advances or loans by, or other credit extended by, or any other acquisition of funds by, any office of such Affected Person which are not otherwise included in the determination of the Cost of Funds or the Base Rate hereunder; or

(iii) does or shall impose on such Affected Person any other condition;

and the result of any of the foregoing is (x) to increase the cost to such Affected Person of making a Loan, or of agreeing to fund or maintain any Loan or (y) to reduce any amount receivable hereunder (whether directly or indirectly), then, in any such case, upon demand by such Affected Person the Borrower shall pay such Affected Person any additional amounts necessary to compensate such Affected Person for such additional cost or reduced amount receivable. All such amounts shall be payable as incurred. A certificate from such Affected Person to the Borrower certifying, in reasonably specific detail, the basis for, calculation of, and amount of such additional costs or reduced amount receivable shall be conclusive in the absence of manifest error; PROVIDED, however, that no Affected Person shall be required to disclose any confidential or tax planning information in any such certificate.

Section 1.10. INABILITY TO DETERMINE COST OF FUNDS. In the event that the Lender shall have determined prior to the first day of any Interest Period (which determination shall be conclusive and binding upon the parties hereto) by reason of circumstances affecting the interbank Eurodollar market, either (a) dollar deposits in the relevant amounts and for the relevant Interest Period are not available, (b) adequate and reasonable means do not exist for ascertaining the Cost of Funds for such Interest Period or (c) the Cost of Funds determined pursuant hereto does not accurately reflect the cost to the Lender (as conclusively determined by the Lender) of maintaining any Loan during such Interest Period, the Lender shall promptly give telephonic notice of such determination, confirmed in writing, to the Borrower prior to the first day of such Interest Period. Upon delivery of such notice (a) no Loan or portion of a Loan shall be funded thereafter at the Bank Rate determined by reference to the Cost of Funds, unless and until the Lender shall have given notice to the Borrower that the circumstances giving rise to such determination no longer exist, and (b) with respect to any outstanding Loans or portions of a Loan then funded at the Bank Rate determined by reference to the Cost of Funds, such Bank Rate shall automatically be converted to the Bank Rate determined by reference to the Base Rate at the respective last days of the then-current Interest Periods relating to such Loans or portions of a Loan.

Section 1.11. FUNDING LOSSES. In the event that any Affected Person shall incur any loss or expense (including, without limitation, any loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Affected Person to make or maintain any Loan) as a result of (i) any settlement with respect to any Loan being made on any day other than

the applicable Payment Date with respect thereto, or (ii) any Loan not being made in accordance with a request therefor under SECTION 1.2(a), then, within 30 days of written notice from such Affected Person to Borrower, Borrower shall pay to such Affected Person the amount of such loss or expense. Such written notice (which shall include calculations in reasonable detail) shall, in the absence of manifest error, be conclusive and binding upon the Borrower.

ARTICLE II.

THE NOTE

Section 2.1. NOTE. The Loans shall be evidenced by a promissory note (as from time to time supplemented, extended, amended or replaced, the "NOTE") in form and substance acceptable to the Lender, dated the date hereof, payable to the order of Lender in the maximum principal amount of $60,000,000 (or, if less, in the aggregate unpaid principal amount of all of the Loans) on the Maturity Date. Principal of the Loans shall be paid from time to time as set forth in SECTION 2.3. The Lender shall record in its records the date and amount of each Loan made hereunder, the interest rate with respect thereto, each repayment thereof, and the other information provided for thereon. The aggregate unpaid principal amount so recorded shall be rebuttable presumptive evidence of the principal amount owing and unpaid on the Note. The failure so to record any such information or any error in so recording any such information shall not, however, limit or otherwise affect the actual obligations of Borrower hereunder or under the Note to repay the principal amount of all Loans, together with all interest accruing thereon, as set forth in this Agreement.

Section 2.2. INTEREST ON LOANS.

(a) INTEREST RATES. Each Loan shall accrue interest during each Collection Period at the Bank Rate.

(b) INTEREST PAYMENT DATES. Interest accrued on each Loan shall be paid, without limitation:

(i) on the Maturity Date;

(ii) on each Payment Date;

(iii) on or before the last day of each Interest Period;

(iv) on the date of any prepayment, in whole or in part, of the outstanding principal of such Loan pursuant to SECTIONS 2.3(b) to the extent of the amount being prepaid; and

(v) on the date of the Maturity Date of any Loan which is accelerated pursuant to SECTION 3.2.

(c) PAYMENT FROM COLLECTION ACCOUNT. Interest may be paid from amounts on deposit in the Collection Account.

Section 2.3. REPAYMENTS AND PREPAYMENTS. Borrower shall repay in full the unpaid principal amount of each Loan on the Maturity Date. Prior thereto, Borrower:

(a) may, from time to time on any Business Day with respect to any Loan, make a prepayment, in whole or in part, of the outstanding principal amount of any such Loan; PROVIDED, HOWEVER, that

(i) all such voluntary prepayments shall require at least one (1) but no more than ten (10) Business Days' prior written notice to the Lender; and

(ii) all such voluntary partial prepayments shall be in a minimum amount of $1,000,000 and an integral multiple of $100,000, and the Total Outstanding Principal after giving effect to such prepayment shall be not less than $2,000,000;

(b) shall, on each date when any reduction in the Facility Limit becomes effective pursuant to SECTION 2.5, make a prepayment of the Loans in an amount equal to the excess, if any, of the aggregate outstanding principal amount of the Loans over the Facility Limit as so reduced; and

(c) shall, immediately upon any acceleration of the Maturity Date of any Loans pursuant to SECTION 3.2, repay such Loans.

Each such prepayment (i) shall be subject to the payment of any amounts required by Section 1.11 resulting from a prepayment or payment of a Loan prior to the Payment Date with respect thereto, and (ii) may be made from amounts on deposit in the Collection Account.

Section 2.4. GENERAL PROCEDURES. No outstanding principal shall be considered reduced by any allocation, setting aside or distribution of any portion of Collections unless such Collections shall have been actually delivered to the Lender for the purpose of paying such principal. No principal or interest shall be considered paid by any distribution of any portion of Collections if at any time such distribution is rescinded or must otherwise be returned for any reason. No provision of this Agreement shall require the payment or permit the collection of interest in excess of the maximum permitted by applicable law.

Section 2.5. REDUCTION IN FACILITY LIMIT. The unused portion of the Facility Limit may be decreased by an amount of $10,000,000 or any integral multiple of $1,000,000 in excess thereof upon 10 Business Days' prior written notice by Borrower to the Lender; PROVIDED the Facility Limit shall in no event be less than $10,000,000.

Section 2.6. CHARACTERIZATION OF NOTE. Borrower and the Lender agree to treat the Note for Federal, state and local income and franchise tax purposes, and for book purposes, as indebtedness only of Borrower.

ARTICLE III.

REPRESENTATIONS AND WARRANTIES; COVENANTS; EVENTS OF DEFAULT

Section 3.1. REPRESENTATIONS AND WARRANTIES; COVENANTS. Each of the Borrower, AFC and the Servicer hereby makes the representations and warranties, and hereby agrees to perform and observe the covenants of such Person, set forth in EXHIBITS III and IV, respectively hereto.

Section 3.2. EVENTS OF DEFAULT; REMEDIES.

(a) OPTIONAL ACCELERATION. Upon the occurrence of any Event of Default set forth in EXHIBIT V hereto (other than an Event of Default described in SUBSECTION (g) of EXHIBIT V), the Lender may declare that the Termination Date has occurred and the unpaid principal amount of the Note to be due and payable immediately, by a notice in writing to Borrower, and upon any such declaration, the Termination Date shall occur and such principal amount shall be immediately due and payable, together with all accrued and unpaid interest thereon, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by Borrower.

(b) AUTOMATIC ACCELERATION. Upon the occurrence of an Event of Default described in SUBSECTION (g) of EXHIBIT V, the Termination Date shall occur automatically and the unpaid principal amount of the Note shall automatically become due and payable, together with all accrued and unpaid interest thereon, without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Borrower.

(c) ADDITIONAL REMEDIES. Upon any acceleration of the Note pursuant to this SECTION 3.2, no Loans thereafter will be made, and the Lender shall have, in addition to all other rights and remedies under this Agreement or otherwise, all other rights and remedies provided under the UCC of each applicable jurisdiction and other applicable laws to a secured party, which rights shall be cumulative, including, without limitation, the right to foreclose upon the Collateral and sell all or any portion thereof at public or private sale (and Borrower agrees that, to the extent that notice of such sale is required, notice 10 days (or such lesser period as may be agreed to by the Lender) prior to such sale shall be adequate and reasonable notice for all purposes).

ARTICLE IV.

INDEMNIFICATION

Section 4.1. INDEMNITIES BY THE BORROWER. Without limiting any other rights that the Lender or any of their respective Affiliates, employees, agents, successors, transferees or assigns (each, an

"INDEMNIFIED PARTY") may have hereunder or under applicable law, the Borrower hereby agrees to indemnify each Indemnified Party from and against any and all claims, damages, expenses, losses and liabilities (including Attorney Costs) (all of the foregoing being collectively referred to as "INDEMNIFIED AMOUNTS") arising out of or resulting from this Agreement or other Transaction Documents (whether directly or indirectly) or the funding of the Loans or in respect of any Receivable regardless of whether any such Indemnified Amounts result from an Indemnified Party's negligence or strict liability or other acts or omissions of an Indemnified Party, excluding, however, (a) Indemnified Amounts to the extent resulting from gross negligence or willful misconduct on the part of such Indemnified Party, or (b) any overall net income taxes or franchise taxes imposed on such Indemnified Party by the jurisdiction under the laws of which such Indemnified Party is organized or any political subdivision thereof. Without limiting or being limited by the foregoing, and subject to the exclusions set forth in the preceding sentence, the Borrower shall pay on demand to each Indemnified Party any and all amounts necessary to indemnify such Indemnified Party from and against any and all Indemnified Amounts relating to or resulting from any of the following:

(i) the failure of any Financed Vehicle to be an Eligible Vehicle on the related Financing Date, the failure of any information contained in a Portfolio Certificate to be true and correct, or the failure of any other information provided to the Lender with respect to Receivables or this Agreement to be true and correct;

(ii) the failure of any representation or warranty or statement made or deemed made by the Borrower (or any of its officers) under or in connection with this Agreement or any other Transaction Document to have been true and correct in all respects when made;

(iii) the failure by the Borrower to comply with any applicable law, rule or regulation with respect to any Receivable or the Isuzu Loan Documents; or the failure of any Receivable or the related Isuzu Loan Documents to conform to any such applicable law, rule or regulation;

(iv) the failure to vest and maintain vested in the Lender a first priority perfected security interest in the Collateral, free and clear of any Adverse Claim, other than an Adverse Claim arising solely as a result of an act of the Lender, whether existing at the time any Loan is made hereunder or at any time thereafter;

(v) the failure to have filed, or any delay in filing, financing statements or other similar instruments or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any item of Collateral, whether at the time of any Loan hereunder or at any subsequent time;

(vi) any dispute, claim, offset or defense (other than discharge in bankruptcy of the Obligor) of the Obligor to the payment of any Receivable (including, without limitation, a defense based on such Receivable or the Isuzu Loan Documents not being a legal, valid and binding obligation of such Obligor enforceable against it in accordance with its terms), or any other claim resulting from or relating to the transaction giving rise to such Receivable

or relating to collection activities with respect to such Receivable (if such collection activities were performed by the Borrower or any of its Affiliates acting as Servicer or by any agent or independent contractor retained by the Borrower or any of its Affiliates);

(vii) any failure of the Borrower to perform its duties or obligations in accordance with the provisions hereof;

(viii) any products liability or other claim, investigation, litigation or proceeding arising out of or in connection with the Financed Vehicles, other goods, insurance or services that are the subject of or secure any Receivable;

(ix) the commingling of Collections of Receivables at any time with other funds;

(x) any investigation, litigation or proceeding related to this Agreement or the funding of the Loans or in respect of any Receivable or other item of Collateral or the Isuzu Loan Documents;

(xi) any reduction in the Total Outstanding Principal as a result of the distribution of Collections pursuant to SECTION 1.4(d), in the event that all or a portion of such distributions shall thereafter be rescinded or otherwise must be returned for any reason; or

(xii) any tax or governmental fee or charge (other than any tax upon or measured by net income or gross receipts), all interest and penalties thereon or with respect thereto, and all reasonable out-of-pocket costs and expenses, including the reasonable fees and expenses of counsel in defending against the same, which may arise by reason of funding or maintaining the Loans.

If for any reason the indemnification provided above in this SECTION 4.1 is unavailable to an Indemnified Party or is insufficient to hold such Indemnified Party harmless, then the Borrower shall contribute to such Indemnified Party the amount otherwise payable by such Indemnified Party as a result of such loss, claim, damage or liability to the maximum extent permitted under applicable law.

Section 4.2. INDEMNITIES BY SERVICER. Without limiting any other rights which any such person may have hereunder under applicable law, Servicer hereby agrees to indemnify each Indemnified Party, forthwith on demand, from and against any and all Indemnified Amounts, regardless of whether any such Indemnified Amounts result from an Indemnified Party's negligence or strict liability or other acts or omissions of an Indemnified Party, awarded against or incurred by any of them arising out of or relating to:

(i) the failure of any Receivable to be an Eligible Receivable as of the related Financing Date, the failure of any information contained in a Portfolio Certificate to be true and correct, or the failure of any other information provided to the Lender with respect to Receivables or this Agreement to be true and correct;

(ii) any representation or warranty made by AFC under or in connection with any Transaction Document in its capacity as Servicer or any information or report delivered by or on behalf of AFC in its capacity as Servicer pursuant hereto, which shall have been false, incorrect or misleading in any material respect when made or deemed made;

(iii) the failure by AFC, in its capacity as Servicer, to comply with any applicable law, rule or regulation (including truth in lending, fair credit billing, usury, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) with respect to any Receivable or the Isuzu Loan Documents; or

(iv) any failure of Servicer to perform its duties, covenants and obligations in accordance with the applicable provisions of this Agreement.

If for any reason the indemnification provided above in this SECTION 4.2 is unavailable to an Indemnified Party or is insufficient to hold such Indemnified Party harmless, then Servicer shall contribute to such Indemnified Party the amount otherwise payable by such Indemnified Party as a result of such loss, claim, damage or liability to the maximum extent permitted under applicable law.

ARTICLE V.

ADMINISTRATION AND COLLECTIONS

Section 5.1. APPOINTMENT OF SERVICER. (a) The servicing, administering and collection of the Receivables shall be conducted by the Person so designated from time to time as Servicer in accordance with this SECTION 5.1. Until the Lender gives notice to the Borrower and the Servicer (in accordance with this SECTION 5.1) of the designation of a new Servicer, AFC is hereby designated as, and hereby agrees to perform the duties and obligations of, the Servicer pursuant to the terms hereof. Upon the occurrence of an Event of Default, the Lender may designate as Servicer any Person (including itself) to succeed the Servicer or any successor Servicer, on the condition in each case that any such Person so designated shall agree to perform the duties and obligations of the Servicer pursuant to the terms hereof.

(b) Upon the designation of a successor Servicer as set forth in SECTION 5.1(a) hereof, the Servicer agrees that it will terminate its activities as Servicer hereunder in a manner which the Lender determines will facilitate the transition of the performance of such activities to the new Servicer, and the Servicer shall cooperate with and assist such new Servicer. Such cooperation shall include (without limitation) access to and transfer of records and use by the new Servicer of all licenses, hardware or software necessary or desirable to collect the Receivables and any Related Security; PROVIDED, HOWEVER, that, notwithstanding anything to the contrary herein, Servicer's grant of a license, further described below, to the Lender or any new Servicer, shall be a limited, non-exclusive, non-transferable, non-assignable, license to access and use (reproduce, transmit, display and perform) the software developed by Servicer commonly known as "COSMOS," residing on

Servicer's server computer commonly known as "AFC1," (or any successor software or hardware used by the Servicer) via either Servicer's, Lender's or such new Servicer's workstations, at the Lender's discretion (the "LICENSED SOFTWARE") solely for the limited purpose of collecting on the Receivables and any Related Security. No license or right to use, reproduce, distribute, display publicly, perform publicly, transmit or create derivative works based upon any of the Licensed Software is granted to either the Lender or any new Servicer, except as expressly provided in this paragraph. Neither Lender nor any new Servicer shall or permit any third party to, translate, reverse engineer, decompile, recompile, update or modify all or any part of the Licensed Software.

(c) The Servicer acknowledges that, in making their decision to execute and deliver this Agreement, the Lender has relied on the Servicer's agreement to act as Servicer hereunder. Accordingly, the Servicer agrees that it will not voluntarily resign as Servicer.

(d) The Servicer may delegate its duties and obligations hereunder to any subservicer (each, a "SUB-SERVICER"); provided that, in each such delegation, (i) such Sub-Servicer shall agree in writing to perform the duties and obligations of the Servicer pursuant to the terms hereof, (ii) the Servicer shall remain primarily liable to the Lender for the performance of the duties and obligations so delegated, (iii) the Borrower and the Lender shall have the right to look solely to the Servicer for such performance and (iv) the terms of any agreement with any Sub-Servicer shall provide that the Lender may terminate such agreement upon the termination of the Servicer in accordance with SECTION 5.1(a) above hereunder by giving notice of its desire to terminate such agreement to the Servicer (and the Servicer shall provide appropriate notice to such Sub-Servicer).

Section 5.2. DUTIES OF SERVICER. (a) The Servicer shall take or cause to be taken all such action as may be necessary or advisable to collect each Receivable from time to time, all in accordance with this Agreement, the other Transaction Documents (including, without limitation, the Isuzu Loan Documents) and all applicable laws, rules and regulations, with reasonable care and diligence. The Borrower shall deliver to the Servicer and the Servicer shall hold for the benefit of the Borrower and the Lender in accordance with their respective interests, all records and documents (including without limitation computer tapes or disks) with respect to each Receivable. Notwithstanding anything to the contrary contained herein, the Lender may direct the Servicer to commence or settle any legal action to enforce collection of any Receivable or to foreclose upon or repossess any Related Security; PROVIDED, HOWEVER, that no such direction may be given unless an Event of Default has occurred.

(b) The Servicer's obligations hereunder shall terminate on the Final Payout Date.

After such termination, the Servicer shall promptly deliver to the Borrower all books, records and related materials that the Borrower previously provided to the Servicer in connection with this Agreement.

Section 5.3. ESTABLISHMENT AND USE OF COLLECTION ACCOUNT.

(a) The Servicer agrees to establish the Collection Account on or before the date of the first Loan hereunder. The Collection Account shall be used to accept and hold Collections and for such other purposes described in the Transaction Documents.

(b) The Servicer agrees to transfer ownership and control of the Collection Account to the Borrower on or before the Closing Date. The Borrower agrees that if the Lender so requests it shall grant a valid perfected security interest in the Collection Account to the Lender pursuant to documentation satisfactory to the Lender.

(c) Any amounts in the Collection Account may be invested by the Collection Account Bank, at Servicer's direction, in Permitted Investments, so long as Lender's interest in such Permitted Investments is perfected in a manner satisfactory to Lender and such Permitted Investments are subject to no Adverse Claims.

(d) The Lender may following any Event of Default (or an Unmatured Event of Default of the type described in PARAGRAPH (g) of EXHIBIT V) at any time give notice to the Collection Account Bank that the Lender is exercising its rights under the Collection Account Agreement to do any or all of the following: (i) to have the exclusive ownership and control of the Collection Account transferred to the Lender and to exercise exclusive dominion and control over the funds deposited therein and (ii) to take any or all other actions permitted under the Collection Account Agreement. The Borrower hereby agrees that if the Lender at any time takes any action set forth in the preceding sentence, the Lender shall have exclusive control of the proceeds (including Collections) of all Receivables and the Borrower hereby further agrees to take any other action that the Lender may reasonably request to transfer such control. Any proceeds of Receivables received by the Borrower, as Servicer or otherwise, thereafter shall be sent immediately to the Lender. The parties hereto hereby acknowledge that if at any time the Lender takes control of the Collection Account, the Lender shall not have any rights to the funds therein in excess of the unpaid amounts due to the Lender or any other Person hereunder.

(e) Until the Final Payment Date, no funds may be withdrawn from the Collection Account except in accordance with the terms of this Agreement.

Section 5.4. ENFORCEMENT RIGHTS. (a) At any time following the occurrence of an Event of Default:

(i) the Lender may direct the Obligor that payment of all amounts payable under any Receivable be made directly to the Lender or its designee;

(ii) the Lender may instruct the Borrower or the Servicer to give notice of the Lender's interest in Receivables to the Obligor, which notice shall direct that payments be made directly to the Lender or its designee, and upon such instruction from the Lender, the Borrower or the Servicer, as applicable, shall give such notice at the expense of the Borrower; PROVIDED, that if the Borrower or the Servicer fails to so notify the Obligor, the Lender may so notify the Obligor; and

(iii) the Lender may request the Borrower or the Servicer to, and upon such request the Borrower or the Servicer, as applicable, shall, (A) assemble all of the records necessary or desirable to collect the Receivables and the Related Security, and transfer or license to any new Servicer the use of all software necessary or desirable to collect the Receivables and the Related Security, and make the same available to the Lender or its designee at a place selected by the Lender, and (B) segregate all cash, checks and other instruments received by it from time to time constituting Collections with respect to the Receivables in a manner acceptable to the Lender and, promptly upon receipt, remit all such cash, checks and instruments, duly endorsed or with duly executed instruments of transfer, to the Lender or its designee.

(b) The Borrower hereby authorizes the Lender, and irrevocably appoints the Lender as its attorney-in-fact with full power of substitution and with full authority in the place and stead of the Borrower, which appointment is coupled with an interest, to take any and all steps in the name of the Borrower and on behalf of the Borrower necessary or desirable, in the determination of the Lender, to collect any and all amounts or portions thereof due under any and all Receivables or Related Security, including, without limitation, endorsing the name of the Borrower on checks and other instruments representing Collections and enforcing such Receivables, Related Security and the Isuzu Loan Documents. The Lender shall only exercise the powers conferred by this SUBSECTION (b) after the occurrence of an Event of Default. Notwithstanding anything to the contrary contained in this SUBSECTION (b), none of the powers conferred upon such attorney-in-fact pursuant to this SUBSECTION (b) shall subject such attorney-in-fact to any liability if any action taken by it shall prove to be inadequate or invalid, nor shall they confer any obligations upon such attorney-in-fact in any manner whatsoever.

Section 5.5. SERVICING FEE. The Servicer shall be paid a fee on each Payment Date, solely through distributions contemplated by SECTION 1.4(d), equal to (a) at any time AFC or an Affiliate of AFC is the Servicer, 0.50% PER ANNUM of the average Total Outstanding Principal during the related Collection Period, and (b) at any time a Person other than AFC or an Affiliate of AFC is the Servicer, no more than 110% of the Servicer's cost of acting as Servicer.

ARTICLE VI.

MISCELLANEOUS

Section 6.1. AMENDMENTS, ETC. No amendment or waiver of any provision of this Agreement or consent to any departure by the Borrower or Servicer therefrom shall be effective unless in a writing signed by the Lender, and, in the case of any amendment, by the Borrower and the Servicer and then such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Lender to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right.

Section 6.2. NOTICES, ETC. All notices and other communications hereunder shall, unless otherwise stated herein, be in writing (which shall include facsimile communication) and sent or delivered, to each party hereto, at its address set forth under its name on the signature pages hereof or at such other address as shall be designated by such party in a written notice to the other parties hereto. Notices and communications by facsimile shall be effective when sent (and shall be followed by hard copy sent by first class mail), and notices and communications sent by other means shall be effective when received.

Section 6.3. ASSIGNABILITY. (a) This Agreement and the rights and obligations of the Lender hereunder shall be assignable, in whole or in part, by the Lender and its successors and assigns; PROVIDED, HOWEVER, that if such assignment is to any Person who is not an Affiliate of the Lender, the Lender must receive the prior written consent of the Borrower (which consent shall not be unreasonably withheld) Each assignor may, in connection with the assignment, disclose to the applicable assignee any information relating to the Borrower or the Receivables furnished to such assignor by or on behalf of the Borrower.

Upon the assignment by the Lender in accordance with this SECTION 6.3, the assignee receiving such assignment shall have all of the rights of the Lender with respect to the Transaction Documents and the Loans (or such portion thereof as has been assigned).

(b) The Lender may at any time grant to one or more banks or other institutions (each a "PARTICIPANT") participating interests or security interests in the Loans. In the event of any such grant by the Lender of a participating interest to a Participant, the Lender shall remain responsible for the performance of its obligations hereunder. The Borrower agrees that each Participant shall be entitled to the benefits of SECTIONS 1.8, 1.9, 1.10 and 1.11.

(c) Except as provided in SECTION 5.1(d), neither the Borrower nor the Servicer may assign its rights or delegate its obligations hereunder or any interest herein without the prior written consent of the Lender.

(d) Without limiting any other rights that may be available under applicable law, the rights of the Lender may be enforced through it or by its agents.

Section 6.4. COSTS, EXPENSES AND TAXES. (a) In addition to the rights of indemnification granted under SECTION 4.1 hereof, the Borrower agrees to pay on demand all reasonable costs and expenses in connection with the preparation, execution, delivery and administration (including periodic auditing of Receivables) of this Agreement, the Purchase and Sale Agreement and the other documents and agreements to be delivered hereunder or in connection herewith, including all reasonable costs and expenses relating to the amending, amending and restating, modifying or supplementing of this Agreement, the Purchase and Sale Agreement and the other documents and agreements to be delivered hereunder or in connection herewith and the waiving of any provisions thereof, and including in all cases, without limitation, Attorney Costs for the Lender, the Lender and their respective Affiliates and agents with respect thereto and with respect to advising the Lender and its Affiliates and agents as to their rights and remedies under this Agreement and the other

Transaction Documents, and all reasonable costs and expenses, if any (including Attorney Costs), of the Lender and its Affiliates and agents, in connection with the enforcement of this Agreement and the other Transaction Documents.

(b) In addition, the Borrower shall pay on demand any and all stamp and other taxes and fees payable in connection with the execution, delivery, filing and recording of this Agreement or the other documents or agreements to be delivered hereunder, and agrees to save each Indemnified Party harmless from and against any liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

Section 6.5. CONFIDENTIALITY. Unless otherwise required by applicable law or already known by the general public or the third party to which it is disclosed, the Borrower agrees to maintain the confidentiality of this Agreement and the other Transaction Documents (and all drafts thereof) in communications with third parties and otherwise; PROVIDED that this Agreement may be disclosed to (a) third parties to the extent such disclosure is made pursuant to a written agreement of confidentiality in form and substance reasonably satisfactory to the Lender, (b) the Borrower's legal counsel and auditors if they agree to hold it confidential, or (c) American Isuzu Motors Inc. to the extent reasonably deemed necessary by Servicer or Borrower so long as American Isuzu Motors Inc. agrees to hold it confidential.

Section 6.6. GOVERNING LAW AND JURISDICTION. (a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF INDIANA (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF), EXCEPT TO THE EXTENT THAT THE PERFECTION (OR THE EFFECT OF PERFECTION OR NON-PERFECTION) OF THE INTERESTS OF THE LENDER IN THE COLLATERAL IS GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF INDIANA.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF INDIANA OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF INDIANA, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE PARITES HERETO CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES, TO THE MAXIMUM EXTENT PERMITTED BY LAW, ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. EACH OF THE PARTIES WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY INDIANA LAW.

Section 6.7. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

Section 6.8. SURVIVAL OF TERMINATION. The provisions of SECTIONS 1.7, 1.8, 1.9, 1.10, 1.11, 4.1, 4.2, 6.4, 6.5, 6.6 and 6.9 shall survive any termination of this Agreement.

Section 6.9. WAIVER OF JURY TRIAL. EACH PARTY HERETO WAIVES ITS RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR PARTIES, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS OR OTHERWISE. EACH OF THE PARTIES HERETO AGREES THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, EACH OF THE PARTIES HERETO FURTHER AGREES THAT ITS RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR ANY PROVISION HEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT.

Section 6.10. ENTIRE AGREEMENT. This Agreement embodies the entire agreement and understanding between the parties hereto and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof, except for any prior arrangements made with respect to the payment by the Lender of (or any indemnification for) any fees, costs or expenses payable to or incurred (or to be incurred) by or on behalf of the Borrower, the Servicer and the Lender.

Section 6.11. HEADINGS. The captions and headings of this Agreement and in any Exhibit hereto are for convenience reference only and shall not affect the interpretation hereof or thereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

AFC AIM CORPORATION, as Borrower

By: /s/ Curtis L. Phillips

Name: Curtis L. Phillips
Title: EVP, CFO, Treas

310 East 96th Street, Suite 320
Indianapolis, Indiana 46240

Attention: Curtis Phillips
Telephone: (317) 815-9751
Facsimile: (317) 815-9650

AUTOMOTIVE FINANCE CORPORATION, as Servicer

By: /s/ Curtis L. Phillips

Name: Curtis L. Phillips
Title: EVP,CFO, Treas

310 East 96th Street, Suite 300
Indianapolis, Indiana 46240

Attention: Curtis L. Phillips
Telephone: (317) 815-9751
Facsimile: (317) 815-9650

STATE OF Indiana

COUNTY OF Marion

Before me the undersigned, a Notary Public in and for the said County and State, personally appeared the above-referred officer of AFC AIM Corporation who acknowledged the execution of the power of attorney granted in this Agreement this 22 of December, 2000.

Notary Public-State of Indiana My Commission Expires: November 11, 2007

/s/ Gina J. Cook — My Commission Expires: ---

(Notary Public Signature)

Gina J. Cook — My County of Residence: Boone

(Printed Name)

BANK OF MONTREAL, as Lender

By: /s/ Kanu Modi

Name: Kanu Modi
Title: Director

BANK OF MONTREAL
115 S. LaSalle Street
Floor 12W
Chicago, Illinois 60603
Attention: Kanu Modi
Telephone: (312) 750-3891
Facsimile: (312) 750-6057

EXHIBIT I

DEFINITIONS

As used in the Agreement (including its Exhibits), the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined). Unless otherwise indicated, all Section, Annex, Exhibit and Schedule references in this Exhibit are to Sections of and Annexes, Exhibits and Schedules to the Agreement.

"ADESA" means ADESA Corporation, an Indiana corporation.

"ADJUSTMENT AMOUNT" has the meaning set forth in SECTION 1.2(b).

"ADVANCE" has the meaning set forth in Section 1 of the Promissory Note and Security Agreement.

"ADVERSE CLAIM" means a lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, it being understood that a lien, security interest or other charge or encumbrance, or any other type of preferential arrangement, in favor of the Lender shall not constitute an Adverse Claim.

"AFC" has the meaning set forth in the Preamble to this Agreement.

"AFC FINANCED AMOUNT" means, with respect to any Financed Vehicle, the amount of any Advance made by AFC to finance such vehicle, MINUS the Lender Financed Amount with respect to such Financed Vehicle.

"AFFECTED PERSON" has the meaning set forth in SECTION 1.7.

"AFFILIATE" means, as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by or is under common control with such Person or is a director or officer of such Person.

"APPLICABLE MARGIN" has the meaning set forth in the Fee Letter.

"ALLETE" means Minnesota Power, Inc., a Minnesota corporation doing business as "Allete, Inc."

"ATTORNEY COSTS" means and includes all fees and disbursements of any law firm or other external counsel, and all disbursements of internal counsel.

"BAILMENT AGREEMENT" means each Bailment Agreement and Acknowledgment of Bailor's Security Interest between AFC, the Obligor and a bailee, in substantially the form attached to the Promissory Note and Security Agreement as Exhibit D, as the same may be amended, supplemented or otherwise modified from time to time in accordance herewith.

"BANK RATE" for any Interest Period for any Loan means an interest rate PER ANNUM equal to the Applicable Margin above the Cost of Funds for such Interest Period; provided, however, that in the case of

(i) any Interest Period on or prior to the first day on which the Lender determines that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other Governmental Authority asserts that it is unlawful, for the Lender to fund any Loan based on the Cost of Funds, and the Lender shall not have subsequently determined that such circumstances no longer exist,

(ii) any Interest Period as to which (i) the Lender does not receive notice, by no later than 12:00 noon (Chicago time) on the first day of such Interest Period that the Borrower desires that such Loan be funded at the Bank Rate, or

(iii) any Loan in an amount less than $1,000,000,

the "BANK RATE" for each such Interest Period shall be an interest rate per annum equal to the Base Rate in effect on each day of such Interest Period. Notwithstanding the foregoing, the "BANK RATE" for each day in a Interest Period occurring during the continuance of an Event of Default shall be an interest rate equal to 2% PER ANNUM above the Base Rate in effect on such day.

"BANKRUPTCY CODE" means the United States Bankruptcy Reform Act of 1978 (11 U.S.C. Section 101, ET SEQ.), as amended from time to time.

"BASE RATE" means for any day, a fluctuating interest rate per annum as shall be in effect from time to time, which rate shall be at all times equal to the rate of interest most recently announced by Harris Trust and Savings Bank in Chicago, Illinois as its prime commercial rate for United States loans made in the United States.

"BATCH" has the meaning set forth in SECTION 1.4(c)(iii).

"BLACK BOOK" means the Official Used Truck and Van Guide Semi-monthly Publication, SouthEast Edition, published by Hearst Publishing Company, or any successor publication.

"BLACK BOOK VALUE" of any vehicle or vehicle model means, as of any date of determination, the "average" vehicle book value (with no additions or deductions for equipment or mileage) of such vehicle or vehicle model as reported in the Black Book in effect on such date of

determination. The "Black Book Value" of any Financed Vehicle Pool as of any date of determination shall be calculated as the sum of the Black Book Values for all Financed Vehicles included in such Financed Vehicle Pool on such date of determination.

"BORROWER" has the meaning set forth in the preamble to the Agreement.

"BORROWING BASE" has the meaning set forth in SECTION 1.2(b).

"BORROWING NOTICE" shall have the meaning set forth in SECTION 1.2(a).

"BUSINESS DAY" means any day on which (i) both (A) the Lender at its branch office in Chicago, Illinois is open for business and (B) commercial banks in New York City are not authorized or required to be closed for business, and (ii) if this definition of "Business Day" is utilized in connection with the Cost of Funds, dealings are carried out in the London interbank market.

"CASUALTY" means, with respect to any Financed Vehicle, that the Servicer has actual knowledge that such Financed Vehicle (a) shall have suffered damage or destruction resulting in an insurance settlement on the basis of an actual, constructive or compromised total loss, (b) shall have suffered destruction or damage beyond repair, (c) shall have suffered damage that makes repairs uneconomic, or (d) shall have suffered theft, loss or disappearance.

"CHANGE IN CONTROL" means

(a) Allete, Inc. shall fail to own directly or indirectly at least 50% of the outstanding voting stock of ADESA; or

(b) AFC shall fail to own, free and clear of all liens or other encumbrances, 100% of the outstanding shares of voting stock of the Borrower; or

(c) Neither ADESA nor Allete shall own, directly or indirectly, free and clear of all liens or other encumbrances, at least 80% of the outstanding shares of voting stock of AFC, on a fully diluted basis.

"CLOSING DATE" means December 22, 2000.

"COLLATERAL" means (i) each Receivable, (ii) all of Borrower's right, title and interest under the Isuzu Loan Documents; (iii) all of the Borrower's right, title and interest in all payments of principal, interest, administrative fees or other amounts due in respect of any Advance or other disbursement under the Promissory Note and Security Agreement, (iv) the Collection Account and any other account established hereunder for the benefit of the Lender, all funds on deposit therein, all investments therein, and all certificates and instruments, if any, from time to time evidencing such accounts, and funds on deposit and all investments made with such funds, all claims thereunder or in connection therewith, and interest, dividends, moneys, instruments, securities and other

property from time to time received, receivable or otherwise distributed in respect of any or all of the foregoing; (vi) all of Borrower's right, title and interest under the Purchase and Sale Agreement; (vii) all Related Security; (viii) all books and records (including computer tapes and disks) related to the foregoing; and (ix) all Collections and other proceeds of any and all of the foregoing.

"COLLECTION ACCOUNT" means that certain bank account numbered 160-739-9 maintained at Harris Trust and Savings Bank in Chicago, Illinois which is (i) identified as the "AFC AIM CORPORATION COLLECTION ACCOUNT," (ii) in the Borrower's name, (iii) pledged, on a first-priority basis, to the Lender pursuant to SECTION 1.2(d), and (iv) governed by the Collection Account Agreement.

"COLLECTION ACCOUNT AGREEMENT" means the letter agreement, in form and substance acceptable to the Lender, among the Borrower, the Lender and the Collection Account Bank, as the same may be amended, supplemented, amended and restated, or otherwise modified from time to time in accordance with the Agreement.

"COLLECTION ACCOUNT BANK" means the bank where the Collection Account is maintained.

"COLLECTION PERIOD" means, (i) initially, the period beginning on the Closing Date and ending on the date which is one day prior to the first Payment Date, and (ii) thereafter, the date immediately following the last day of the preceding Collection Period and ending on the date which is one day prior to the next succeeding Payment Date.

"COLLECTIONS" means, with respect to any Receivable, (a) all funds which are received by the Borrower, AFC or the Servicer in payment of any amounts owed in respect of such Receivable (including, without limitation, principal payments, finance charges, interest and all other charges), or applied (or to be applied) to amounts owed in respect of such Receivable (including, without limitation, insurance payments and net proceeds of the sale or other disposition of Financed Vehicles or other collateral or property of the Obligor or any other Person directly or indirectly liable for the payment of such Receivable applied (or to be applied) thereto), (b) all Collections deemed to have been received pursuant to SECTION 1.4(g) and (c) all other proceeds of such Receivable, any Related Security and any other Collateral.

"COMPANY" has the meaning set forth in the preamble to the Purchase and Sale Agreement.

"COMPANY NOTE" has the meaning set forth in Section 3.2 of the Purchase and Sale Agreement.

"CONTRIBUTED PORTION" has the meaning set forth in Section 1.1(a) of the Purchase and Sale Agreement.

"COST OF FUNDS" means, (i) for any Loan requested to be made by the Borrower in a Borrowing Notice delivered to the Lender two days or more before the proposed Financing Date, the rate of interest per annum determined by the Lender to be the arithmetic mean of the rates of interest per annum notified to the Lender as the rate of interest at which dollar deposits in the approximate amount of the Loan or portion of the Loan associated with such Interest Period would be offered to major banks in the London interbank market at their request at or about 11:00 a.m. (London time) on the second Business Day prior to the commencement of the Interest Period at which interest is to accrue on such Loan based on the Cost of Funds, and (ii) for any Loan requested to be made by the Borrower in a Borrowing Notice delivered to the Lender less than two days before the proposed Financing Date, the rate of interest per annum determined by the Lender to be the rate of interest per annum notified to the Lender as the rate of interest at which dollar deposits in the approximate amount of the Loan or portion of the Loan associated with such Interest Period would be offered to major banks in the interbank wholesale funding market on such date of request.

"CREDIT ACCOUNT" has the meaning set forth in SECTION 1.4(h).

"CREDIT ACCOUNT ADJUSTMENT AMOUNT" has the meaning set forth in SECTION 1.2(b).

"CREDIT ACCOUNT BALANCE" means, on any date, the balance of the Credit Account as determined in accordance with SECTION 1.4(h).

"CURTAILMENT DATE" has the meaning set forth in Section 1 of the Promissory Note and Security Agreement.

"DEBT" means (i) indebtedness for borrowed money, (ii) obligations evidenced by bonds, debentures, notes or other similar instruments, (iii) obligations to pay the deferred purchase price of property or services, (iv) the outstanding balance of any non-recourse transaction, (v) obligations as lessee under leases which shall have been or should be, in accordance with generally accepted accounting principles, recorded as capital leases, (vi) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of kinds referred to in CLAUSES (i) through (v) above, and (vii) liabilities in respect of unfunded vested benefits under plans covered by Title IV of ERISA.

"DIVIDENDS" means any dividend or distribution (in cash or obligations) on any shares of any class of Borrower's capital stock or any warrants, options or other rights with respect to shares of any class of Borrower's capital stock.

"ELIGIBLE RECEIVABLE" means, at any time, any Receivable:

(a) which was originated by AFC in accordance with the terms and conditions of the Isuzu Loan Documents and was sold to the Borrower pursuant to, and in compliance with, the Purchase and Sale Agreement;

(b) in which the Lender has a first priority, perfected security interest and that is either a general intangible or chattel paper as defined in the UCC as in effect in the jurisdiction that governs the perfection of such security interest;

(c) in which Borrower has a first priority, perfected security interest in the related Financed Vehicles;

(d) with regard to which the warranty of Borrower in PARAGRAPH A.(h) of EXHIBIT III is true and correct;

(g) the sale of which pursuant to the Purchase and Sale Agreement, and granting of a security interest in the related Collateral pursuant to the Agreement, do not contravene or conflict with any law, or require the consent of the Obligor or any other Person;

(h) as to which the Isuzu Loan Documents been duly authorized by the parties thereto and that, together with such Receivable, is in full force and effect and constitutes the legal, valid and binding obligation of the Obligor enforceable against the Obligor in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law;

(j) which, together with the Isuzu Loan Documents, does not contravene in any material respect any laws, rules or regulations applicable thereto (including, without limitation, laws, rules and regulations relating to usury, truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy);

(k) which arises from the making of a loan to finance one or more Eligible Vehicles; and

(n) which is guaranteed by the Obligor pursuant to a guaranty that runs directly to the Lender.

"ELIGIBLE VEHICLE" mean a Financed Vehicle:

(a) which is an Eligible Vehicle Model;

(b) which satisfies all conditions and requirements of the Isuzu Loan Documents, including, without limitation, Section 1.15 of the Promissory Note and Security Agreement;

(c) with respect to which AFC has not financed more than 75% of the black book value (as determined in accordance with Section 1.1 of the Promissory Note and Security Agreement) of such Vehicle on the date of the related Advance;

(d) which is covered by an umbrella liability and comprehensive insurance policy or policies satisfying all conditions and requirements of the Isuzu Loan Documents, including, without limitation, Section 5.5 of the Promissory Note and Security Agreement; and

(e) prior to the financing of which, the Servicer shall have examined the title or MSO, as the case may be, for such Vehicle and confirmed that such title or MSO corresponds to the VIN number of such Vehicle, and that such title or MSO is authentic and has been properly assigned to the Obligor.

"ELIGIBLE VEHICLE MODEL" means any one of the Isuzu Rodeo LS 4x2, the Isuzu Rodeo LS 4x4 or the Isuzu Trooper S 4x4.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute of similar import, together with the regulations thereunder, in each case as in effect from time to time. References to sections of ERISA also refer to any successor sections.

"ERISA AFFILIATE" shall mean with respect to any Person, at any time, each trade or business (whether or not incorporated) that would, at the time, be treated together with such Person as a single employer under Section 4001 of ERISA or Sections 414(b), (c), (m) or (o) of the Code.

"EVENT OF DEFAULT" has the meaning specified in EXHIBIT V.

"EXCESS SALES PROCEEDS" has the meaning set forth in SECTION 1.4(c)(iii).

"FACILITY LIMIT" means $60,000,000, as such amount may be adjusted pursuant to SECTION 2.5.

"FEDERAL RESERVE BOARD" means the Board of Governors of the Federal Reserve System, or any entity succeeding to any of its principal functions.

"FEES" means the fees payable under the Fee Letter in accordance with the terms, and subject to the conditions, set forth therein.

"FEE LETTER" has the meaning set forth in SECTION 1.5.

"FINAL PAYOUT DATE" means the date following the Termination Date on which no Loan under the Agreement shall be outstanding and all other amounts payable by the Borrower or the Servicer to the Lender or any other Affected Person under the Transaction Documents shall have been paid in full.

"FINANCED VEHICLE" means each Vehicle identified from time to time on a Bailed Property Schedule (as set forth in Section 2.2 of the Promissory Note and Security Agreement) and

all other Vehicles acquired or funded, or purported to be acquired or funded, with the proceeds of Loans.

"FINANCED VEHICLE POOL" means all of the Financed Vehicles financed on a particular Financing Date with the proceeds of a single Loan.

"FINANCING DATE" means, with respect to any Financed Vehicle Pool, the date on which the Loan to finance such Financed Vehicle Pool is made.

"GAAP" means, generally accepted accounting principles and practices in the United States, consistently applied.

"GOVERNMENTAL AUTHORITY" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any body or entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including without limitation any court, and any Person owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"INDEMNIFIED AMOUNTS" has the meaning set forth in SECTION 4.1.

"INDEMNIFIED PARTY" has the meaning set forth in SECTION 4.1.

"INSOLVENCY PROCEEDING" means (a) any case, action or proceeding before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of its creditors generally or any substantial portion of its creditors; in each case (a) and (b) undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code.

"INTEREST PERIOD" means, with respect to each Loan, a period during which interest on such Loan or a portion of such Loan is accruing at a particular rate of interest, as determined by the Lender in accordance with the terms of this Agreement.

"ISUZU EVENT OF DEFAULT" means any of the "Events of Default" set forth in Section 7.0 of the Promissory Note and Security Agreement.

"ISUZU GUARANTY" means the Guaranty of the Obligor, dated as of December 22, 2000, in favor of AFC.

"ISUZU LOAN DOCUMENTS" means the Promissory Note and Security Agreement, the Bailment Agreements, the Isuzu Guaranty, the Isuzu Power of Attorney, the Subordination Agreement and each other agreement or instrument executed pursuant to or in connection with any of the foregoing, in each case as amended, supplemented or otherwise modified in accordance with the terms of this Agreement.

"ISUZU POWER OF ATTORNEY" means the power of attorney executed by Isuzu in favor of AFC, in substantially the form of Exhibit B to the Promissory Note and Security Agreement.

"LENDER" has the meaning set forth in the preamble to the Agreement.

"LENDER FINANCED AMOUNT" means, with respect to any Financed Vehicle, an amount which is equal to the product of (i) the Borrowing Base with respect to the Financed Vehicle Pool in which such Financed Vehicle was included as of the Financing Date for such Financed Vehicle Pool, and (ii) a fraction, the numerator of which is the Black Book Value of such Financed Vehicle as of such Financing Date, and the denominator of which is the aggregate Black Book Value of all Financed Vehicle in such Financed Vehicle Pool as of such Financing Date.

"LENDER'S ACCOUNT" means the special account (account number 124-856-6) of the Lender maintained at the office of Harris Trust and Savings Bank in Chicago, Illinois (ABA #071-000-288) and identified as "Bank of Montreal, Attention: Client Services, Ref.: AFC" or such other account as may be so designated in writing by the Lender to the Borrower and the Servicer.

"LICENSED SOFTWARE" has the meaning set forth in SECTION 5.1(b).

"LOAN" has the meaning set forth in SECTION 1.1.

"MANDATORY PRINCIPAL REPAYMENT AMOUNT" has the meaning set forth in SECTION 1.4(d).

"MATERIAL ADVERSE EFFECT" means, with respect to any event or circumstance, a material adverse effect on:

(a) the business, operations, property or financial condition of the Borrower or the Servicer;

(b) the ability of the Borrower or the Servicer to perform its obligations under this Agreement or any other Transaction Document to which it is a party or the performance of any such obligations;

(c) the validity or enforceability of this Agreement or any other Transaction Document;

(d) the status, existence, perfection, priority or enforceability of the Lender's security interest in the Collateral; or

(e) the collectibility of the Receivables.

"MATURITY DATE" means five (5) Business Days following the Curtailment Date of the Promissory Note and Security Agreement, as the same may be extended from time to time pursuant thereto.

"MAXIMUM BLACK BOOK VALUE" means, with respect to any Eligible Vehicle Model, (i) on the Closing Date and prior to the publication of a new edition of the Black Book following the Closing Date, the Black Book Value of such Eligible Vehicle Model as reported in the Black Book in effect on the Closing Date, and (ii) on any later date of determination, the highest Black Book Value for such Eligible Vehicle Model reported in any of the Black Books in effect between the Closing Date and such later date of determination.

"NOTE" has the meaning set forth in SECTION 2.1.

"OBLIGOR" means American Isuzu Motors Inc. as the borrower under the Isuzu Loan Documents or its successors and assigns in such capacity.

"ORIGINATOR" has the meaning set forth in the preamble to the Purchase and Sale Agreement.

"OUTSTANDING BALANCE" has the meaning set forth in Section 2.1 of the Purchase and Sale Agreement.

"PARTICIPANT" has the meaning set forth in SECTION 6.3(b).

"PAYMENT DATE" means the 10th calendar day of each month or, if such day is not a Business Day, the immediately preceding Business Day.

"PERMITTED INVESTMENTS" means (i) overnight obligations of the United States of America, (ii) demand and time deposits or certificates of deposit that are not represented by instruments, have a maturity of not later than the next succeeding Payment Date and are issued by the Collection Account Bank or Bank of Montreal and (iii) commercial paper rated at the time of investment not less than A-1 by S&P and P-1 by Moody's; PROVIDED, HOWEVER, that the Lender may, from time to time, upon three Business Days' prior written notice to Servicer, remove from the scope of "Permitted Investments" any such obligations, certificates of deposit or commercial paper and specify to be within such scope, other investments.

"PERSON" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"PORTFOLIO CERTIFICATE" means a certificate substantially in the form of EXHIBIT VI to the Agreement.

"PROMISSORY NOTE AND SECURITY AGREEMENT" means the Promissory Note and Security Agreement, dated as of December 22, 2000, between AFC and the Obligor, as the same may be amended, supplemented or otherwise modified from time to time in accordance herewith.

"PURCHASE AND SALE AGREEMENT" means the Purchase and Sale Agreement, dated as of the date hereof, between AFC and the Borrower, as the same may be modified, supplemented, amended and amended and restated from time to time in accordance with the Transaction Documents.

"PURCHASE AND SALE INDEMNIFIED AMOUNTS" has the meaning set forth in Section 9.1 of the Purchase and Sale Agreement.

"PURCHASE AND SALE INDEMNIFIED PARTY" has the meaning set forth in Section 9.1 of the Purchase and Sale Agreement.

"PURCHASE AND SALE TERMINATION DATE" has the meaning set forth in Section 1.4 of the Purchase and Sale Agreement.

"PURCHASE AND SALE TERMINATION EVENT" has the meaning set forth in Section 8.1 of the Purchase and Sale Agreement.

"PURCHASE FACILITY" has the meaning set forth in Section 1.1(e) of the Purchase and Sale Agreement.

"PURCHASE PRICE" has the meaning set forth in Section 2.1 of the Purchase and Sale Agreement.

"RECEIVABLE" means any right to payment from the Obligor, whether constituting an account, chattel paper, instrument or a general intangible, arising from the provision of financing and other services by AFC to the Obligor with respect to a particular Financed Vehicle Pool pursuant to the Isuzu Loan Documents, and that is denominated and payable only in United States dollars, and includes the right to payment of any interest, finance charges, administrative fees and other obligations of the Obligor with respect thereto.

"RELATED RIGHTS" has the meaning set forth in Section 1.1(h) of the Purchase and Sale Agreement.

"RELATED SECURITY" means, with respect to any Receivable:

(a) all right, title and interest in and to the Isuzu Loan Documents;

(b) all security interests or liens and property subject thereto from time to time purporting to secure payment of such Receivable, whether pursuant to the Isuzu Loan

Documents or otherwise, including all Vehicles securing or purporting to secure such payment;

(c) all UCC financing statements covering any collateral securing payment of such Receivable;

(d) all other guarantees and other agreements or arrangements of whatever character from time to time supporting or securing payment of such Receivable whether pursuant to the Contract related to such Receivable or otherwise;

(e) all rights in any power of attorney delivered by the Obligor; and

(f) all rights and claims of the Borrower with respect to such Receivable, pursuant to the Purchase and Sale Agreement or any other Transaction Document.

"RESTRICTED PAYMENTS" has the meaning set forth in PARAGRAPH (n)(i) of EXHIBIT IV of the Agreement.

"SERVICER" has the meaning set forth in the preamble.

"SERVICING FEE" means the fee referred to in SECTION 5.5.

"SOLVENT" has the meaning set forth in Section 1.6 of the Purchase and Sale Agreement.

"SUB-SERVICER" has the meaning set forth in SECTION 5.1(d).

"SUBORDINATION AGREEMENT" means the Intercreditor Agreement, dated as of December 22, 2000, among AFC, American Isuzu Motors Inc. and The CIT Group/Sales Financing, Inc., as the same may be amended, supplemented or otherwise modified in accordance with the provisions hereof.

"TANGIBLE NET WORTH" means, with respect to any Person, the net worth of such Person calculated in accordance with GAAP after subtracting therefrom the aggregate amount of such Person's intangible assets, including, without limitation, goodwill, franchises, licenses, patents, trademarks, tradenames, copyrights, service marks and brand names and capitalized software.

"TERMINATION DATE" means the earliest of (i) the Payment Date on which the Borrower elects to make a prepayment of principal in full pursuant to SECTION 2.3(a), (ii) the Maturity Date, and (iii) the date determined pursuant to SECTION 3.2.

"TOTAL OUTSTANDING PRINCIPAL" at any time means the aggregate outstanding principal amount of all Loans at such time.

"TRANSACTION DOCUMENTS" means the Agreement, the Purchase and Sale Agreement, the Collection Account Agreement, the Isuzu Loan Documents, and all other certificates, instruments, UCC financing statements, reports, notices, agreements and documents executed or delivered under or in connection with any of the foregoing, in each case as the same may be amended, supplemented or otherwise modified from time to time in accordance with the Agreement.

"TRIGGER EVENT" has the meaning set forth in SECTION 1.2(b).

"UCC" means the Uniform Commercial Code as from time to time in effect in the applicable jurisdiction.

"UNMATURED EVENT OF DEFAULT" means an event which, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

"VEHICLE" has the meaning set forth in Section 1 of the Promissory Note and Security Agreement.

OTHER TERMS. Any other capitalized terms used herein but not defined herein shall have the meanings assigned to such term in the Purchase and Sale Agreement, or, if not defined therein, in the Promissory Note and Security Agreement or the other Isuzu Loan Documents. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles. All terms used in Article 9 of the UCC in the State of Indiana, and not specifically defined herein, are used herein as defined in such Article 9. Unless the context otherwise requires, "or" means "and/or," and "including" (and with correlative meaning "include" and "includes") means including without limiting the generality of any description preceding such term.

EXHIBIT II

CONDITIONS PRECEDENT TO LOANS

1. CONDITIONS PRECEDENT TO INITIAL LOAN. The initial Loan under the Agreement is subject to the conditions precedent that the Lender shall have received on or before the date of such Loan the following, each in form and substance (including the date thereof) satisfactory to the Lender:

(a) A counterpart of this Agreement and the other Transaction Documents duly executed by the parties thereto.

(b) Certified copies of (i) the resolutions of the Board of Directors of each of the Borrower and AFC authorizing the execution, delivery, and performance by the Borrower and AFC of the Agreement and the other Transaction Documents, (ii) all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to the Agreement and the other Transaction Documents and (iii) the articles of incorporation and by-laws of the Borrower and AFC.

(c) A certificate of the Secretary or Assistant Secretary of the Borrower and AFC certifying the names and true signatures of the officers of the Borrower and AFC authorized to sign the Agreement and the other Transaction Documents. Until the Lender receives a subsequent incumbency certificate from the Borrower and AFC in form and substance satisfactory to the Lender, the Lender shall be entitled to rely on the last such certificate delivered to it by the Borrower and AFC, as applicable.

(d) Executed financing statements, in proper form for filing under the UCC of all jurisdictions that the Lender may deem necessary or desirable in order to perfect its security interest in the Collateral, as contemplated by the Agreement and other Transaction Documents.

(e) Executed financing statements, if any, necessary to release all security interests and other rights of any Person in the Collateral previously granted by the Borrower or AFC.

(f) Completed UCC requests for information, dated on or before the date of such initial Loan, listing the financing statements referred to in SUBSECTION (e) above and all other effective financing statements filed in the jurisdictions referred to in SUBSECTION (e) above that name the Borrower or AFC as debtor, together with copies of such other financing statements (none of which shall cover any item of Collateral), and similar search reports with respect to federal tax liens and liens of the Pension Benefit Guaranty Corporation in such jurisdictions as the Lender may request, showing no such liens on any of the Collateral.

(g) the Note, duly executed by the Borrower.

(h) Executed copies of the Collection Account Agreement with the Collection Account Bank, and an undated executed deposit account notice in connection therewith.

(i) Favorable opinions of Joel Garcia, Esq., in-house counsel for the Borrower and AFC, as to corporate and such other matters as the Lender may reasonably request.

(j) Favorable opinions of Ice Miller, special counsel for the Borrower and AFC, as to enforceability and such other matters as the Lender may reasonably request.

(k) Favorable opinions of Ice Miller, special counsel for the Borrower and AFC, as to bankruptcy matters.

(l) Favorable opinions of Sheppard, Mullin, Richter & Hampton, special counsel for the Obligor, as to perfection matters.

(m) A schedule listing all Financed Vehicles financed by the Lender on the Closing Date.

(n) Evidence (i) of the execution and delivery by each of the parties thereto of the Purchase and Sale Agreement, the Isuzu Loan Documents and all documents, agreements and instruments contemplated thereby (which evidence shall include copies, either original or facsimile, of each of such documents, instruments and agreements), (ii) that each of the conditions precedent to the execution and delivery of the Purchase and Sale Agreement and the Isuzu Loan Documents have been satisfied to the Lender's satisfaction, and (iii) that the initial Advances under the Isuzu Loan Documents and the initial purchases under the Purchase and Sale Agreement have been made.

(o) Evidence of payment by the Borrower of all accrued and unpaid fees (including those contemplated by the Fee Letter), costs and expenses to the extent then due and payable on the date thereof.

(p) The Fee Letter between the Borrower and the Lender contemplated by SECTION 1.5.

(q) Certificates of Existence with respect to the Borrower and AFC issued by the Indiana Secretary of State and articles of incorporation of the Borrower certified by the Indiana Secretary of State.

(r) Such other approvals, opinions or documents as the Lender may reasonably request.

(s) Such powers of attorney as the Lender shall reasonably request to enable the Lender to collect all amounts due under any and all Collateral.

2. CONDITIONS PRECEDENT TO ALL LOANS. Each Loan shall be subject to the further conditions precedent that:

(a) the Servicer shall have delivered to the Lender on or prior to the Financing Date for such Loan a completed Portfolio Certificate, dated as of such Financing Date, in form and substance satisfactory to the Lender, and such additional information as may reasonably be requested by the Lender;

(b) on the date of such Loan the following statements shall be true (and acceptance of the proceeds of any Loan shall be deemed a representation and warranty by the Borrower that such statements are then true):

(i) the representations and warranties contained in EXHIBIT III are true and correct on and as of the date of such Loan as though made on and as of such date; and

(ii) no event has occurred and is continuing, or would result from such Loan that constitutes an Event of Default or an Unmatured Event of Default;

(c) the Borrower shall have notified the Lender of the occurrence of any Trigger Event; and

(d) each Vehicle to be financed in connection with such Loan and the related Title shall be in the custody of a bailee who has executed a Bailment Agreement;

(e) all conditions precedent to the making of an Advance by AFC with respect to the Vehicles to be financed with the proceeds of such Loan, and all conditions precedent to the sale of the related Receivables and Related Security to the Borrower pursuant to the Purchase and Sale Agreement, shall have been satisfied;

(f) the Lender shall have received such other approvals, opinions or documents as it may reasonably request; and

(g) The Black Book Value of any Eligible Vehicle Model on any date shall not exceed the Maximum Black Book Value of such Eligible Vehicle Model by more than 25%.

EXHIBIT III

REPRESENTATIONS AND WARRANTIES

A. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants as follows:

(a) The Borrower is a corporation duly incorporated and in existence under the laws of the State of Indiana, and is duly qualified to do business, and is in good standing, as a foreign corporation in every jurisdiction where the nature of its business requires it to be so qualified except where the failure to so qualify has not had and could not reasonably be expected to have a Material Adverse Effect.

(b) The execution, delivery and performance by the Borrower of the Agreement and the other Transaction Documents to which it is a party, including the Borrower's use of the Loan proceeds, (i) are within the Borrower's corporate powers, (ii) have been duly authorized by all necessary corporate action of the Borrower, (iii) do not contravene or result in a default under or conflict with (1) the Borrower's charter or by-laws, (2) any law, rule or regulation applicable to the Borrower, (3) any contractual restriction binding on or affecting the Borrower or its property or (4) any order, writ, judgment, award, injunction or decree binding on or affecting the Borrower or its property, and (iv) do not result in or require the creation of any Adverse Claim upon or with respect to any of the Borrower's properties, where, in the cases of ITEMS (2), (3) and (4), such contravention, default or conflict has had or could reasonably be expected to have a Material Adverse Effect. The Agreement and the other Transaction Documents to which it is a party have been duly executed and delivered by the Borrower.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or other Person is required for the due execution, delivery and performance by the Borrower of the Agreement or any other Transaction Document to which it is a party other than those previously obtained or UCC filings.

(d) Each of the Agreement and the other Transaction Documents to which it is a party constitutes the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether enforceability is considered in a proceeding in equity or at law.

(e) Since December 31, 1999 there has been no material adverse change in the business, operations, property or financial condition of the Borrower or AFC, the ability of the Borrower or AFC to perform its obligations under the Agreement or the other Transaction

Documents to which it is a party or the collectibility of the Receivables, or which affects the legality, validity or enforceability of the Agreement or the other Transaction Documents.

(f) (i) There is no action, suit, proceeding or investigation pending or, to the knowledge of the Borrower, threatened in writing against the Borrower before any Governmental Authority or arbitrator and (ii) the Borrower is not subject to any order, judgment, decree, injunction, stipulation or consent order of or with any Governmental Authority or arbitrator, that, in the case of each of foregoing CLAUSES (i) and (ii), could reasonably be expected to have a Material Adverse Effect.

(g) No proceeds of any Loan will be used to acquire any equity security of a class which is registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended.

(h) The Borrower is the legal and beneficial owner of the Receivables and Related Security, free and clear of any Adverse Claim; the Agreement creates a security interest in favor of the Lender in the Collateral and the Lender has a first priority perfected security interest in the Collateral, free and clear of any Adverse Claims. No effective financing statement or other instrument similar in effect covering any of the Collateral is on file in any recording office, except those filed in favor of the Lender relating to the Agreement.

(i) Each Portfolio Certificate, information, exhibit, financial statement, document, book, record or report furnished or to be furnished at any time by or on behalf of the Borrower to the Lender in connection with the Agreement is or will be accurate in all material respects as of its date or (except as otherwise disclosed to the Lender at such time) as of the date so furnished, and no such item contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

(j) The principal place of business and chief executive office (as such terms are used in the UCC) of the Borrower and the office(s) where the Borrower keeps its records concerning the Receivables are located at the address(es) referred to in PARAGRAPH (b) of EXHIBIT IV.

(k) The Borrower is not in violation of any order of any court, arbitrator or Governmental Authority.

(l) Neither the Borrower nor any Affiliate of the Borrower has any direct or indirect ownership or other financial interest in the Lender.

(m) No proceeds of any Loan will be used for any purpose that violates any applicable law, rule or regulation, including, without limitation, Regulation U of the Federal Reserve Board.

(n) Each Receivable is an Eligible Receivable as of the related Financing Date.

(o) No event has occurred and is continuing, or would result from the making of a Loan or from the application of the proceeds thereof, which constitutes an Event of Default.

(p) The Borrower and the Servicer have complied in all material respects with the Isuzu Loan Documents with regard to each Receivable.

(q) The Borrower has complied with all of the terms, covenants and agreements contained in the Agreement and the other Transaction Documents and applicable to it.

(r) The Borrower's complete corporate name is set forth in the preamble to the Agreement, and the Borrower does not use and has not during the last six years used any other corporate name, trade name, doing-business name or fictitious name, except as set forth on SCHEDULE I and except for names first used after the date of the Agreement and set forth in a notice delivered to the Lender pursuant to PARAGRAPH (k)(vi) of EXHIBIT IV.

(s) The authorized capital stock of Borrower consists of 1,000 shares of common stock, no par value, 1,000 shares of which are currently issued and outstanding. All of such outstanding shares are validly issued, fully paid and nonassessable and are owned (beneficially and of record) by AFC.

(t) Except as set forth on SCHEDULE II, the Borrower has filed all federal and other tax returns and reports required by law to have been filed by it and has paid all taxes and governmental charges thereby shown to be owing.

(u) The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

B. REPRESENTATIONS AND WARRANTIES OF THE SERVICER. The Servicer represents and warrants as follows:

(a) The Servicer is a corporation duly incorporated and in existence under the laws of the State of Indiana, and is duly qualified to do business, and is in good standing, as a foreign corporation in every jurisdiction where the nature of its business requires it to be so qualified except where the failure to so qualify has not had and could not reasonably be expected to have a Material Adverse Effect.

(b) The execution, delivery and performance by the Servicer of the Agreement and the other Transaction Documents to which it is a party, (i) are within the Servicer's corporate powers, (ii) have been duly authorized by all necessary corporate action on the part of the Servicer, (iii) do not contravene or result in a default under or conflict with (1) the Servicer's charter or by-laws, (2) any law, rule or regulation applicable to the Servicer, (3) any contractual restriction binding on or affecting the Servicer or its property or (4) any order, writ, judgment, award, injunction or decree binding on or affecting the Servicer or its property, and (iv) do not result in or require the creation of any Adverse Claim upon or with respect to any of its properties, where, in the cases of

items (2), (3) and (4), such contravention, default or conflict has had or could reasonably be expected to have a Material Adverse Effect. The Agreement and the other Transaction Documents to which it is a party have been duly executed and delivered by the Servicer.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or other Person is required for the due execution, delivery and performance by the Servicer of the Agreement or any other Transaction Document to which it is a party.

(d) Each of the Agreement and the other Transaction Documents to which it is a party constitutes the legal, valid and binding obligation of the Servicer enforceable against the Servicer in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether enforceability is considered in a proceeding in equity or at law.

(e) There is no pending or threatened action or proceeding affecting the Servicer before any Governmental Authority or arbitrator which could have a Material Adverse Effect.

(f) The Servicer has complied in all material respects with the Isuzu Loan Documents.

EXHIBIT IV

COVENANTS

COVENANTS OF THE BORROWER AND THE SERVICER. Until the latest of the Termination Date, the date on which no Loan shall be outstanding or the date all other amounts owed by the Borrower under the Agreement to the Lender and any other Indemnified Party or Affected Person shall be paid in full:

(a) COMPLIANCE WITH LAWS, ETC. Each of the Borrower and the Servicer shall comply in all material respects with all applicable laws, rules, regulations and orders, and preserve and maintain its corporate existence, rights, franchises, qualifications, and privileges except to the extent that the failure so to comply with such laws, rules and regulations or the failure so to preserve and maintain such existence, rights, franchises, qualifications, and privileges would not materially adversely affect the collectibility of the Receivables or the enforceability of the Isuzu Loan Documents or the ability of the Borrower or the Servicer to perform its obligations under any Transaction Document to which it is a party.

(b) OFFICES, RECORDS AND BOOKS OF ACCOUNT, ETC. The Borrower (i) shall keep its principal place of business and chief executive office (as such terms are used in the UCC) and the office where it keeps its records concerning the Receivables at the address of the Borrower set forth under its name on the signature page to the Agreement or, upon at least 60 days' prior written notice of a proposed change to the Lender, at any other locations in jurisdictions where all actions reasonably requested by the Lender to protect and perfect the security interest of the Lender in the Collateral have been taken and completed and (ii) shall provide the Lender with at least 60 days' written notice prior to making any change in the Borrower's name or making any other change in the Borrower's identity or corporate structure (including a merger) which could render any UCC financing statement filed in connection with this Agreement "seriously misleading" as such term is used in the UCC; each notice to the Lender pursuant to this sentence shall set forth the applicable change and the effective date thereof. The Borrower and Servicer also will maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing Receivables in the event of the destruction of the originals thereof), and keep and maintain all documents, books, records, computer tapes and disks and other information reasonably necessary or advisable for the collection of all Receivables (including, without limitation, records adequate to permit the daily identification of each Receivable and all Collections of and adjustments to each existing Receivable).

(c) [RESERVED]

(d) SECURITY INTEREST, ETC. The Borrower shall, at its expense, take all action necessary or desirable to establish and maintain a first-priority, perfected security interest in the Collateral, free and clear of any Adverse Claim, in favor of the Lender, including, without limitation,

taking such action to perfect, protect or more fully evidence the security interest of the Lender under the Agreement as the Lender may request.

(e) SALES, LIENS, ETC. The Borrower shall not sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon or with respect to, any or all of its right, title or interest in, to or under any item of Collateral (including without limitation the Borrower's undivided interest in any Receivable, Related Security, or Collections, or upon or with respect to any account to which any Collections of any Receivables are sent), or assign any right to receive income in respect of any items contemplated by this PARAGRAPH (e).

(f) CHANGE IN BUSINESS. Neither the Borrower nor the Servicer shall make any material change in the character of its business that would adversely affect the collectibility of the Receivables or the enforceability of the Isuzu Loan Documents or the ability of the Borrower or Servicer to perform its obligations under any Transaction Document to which it is a party.

(g) AUDITS. Each of the Borrower and the Servicer shall, from time to time during regular business hours as requested by the Lender, permit the Lender, or its agents or representatives, (i) to examine and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in the possession or under the control of the Borrower or the Servicer relating to Receivables and the Related Security, including, without limitation, the Isuzu Loan Documents, and (ii) to visit the offices and properties of the Borrower and the Servicer for the purpose of examining such materials described in CLAUSE (i) above, and to discuss matters relating to Receivables and the Related Security or the Borrower's or Servicer's performance hereunder or under the Isuzu Loan Documents with any of the officers, employees, agents or contractors of the Borrower having knowledge of such matters; PROVIDED that so long as no Event of Default or Unmatured Event of Default has occurred the Lender shall not conduct more than one such examination in any year.

(h) CHANGE IN COLLECTION ACCOUNT BANK AND PAYMENT INSTRUCTIONS TO OBLIGOR. Without the prior written consent of the Lender, neither the Borrower nor the Servicer shall (x) add or terminate any bank as a Collection Account Bank, or (y) instruct the Obligor to make payments with respect to the Receivables to any account other than the Collection Account (or any substitute account approved by the Lender in advance and made subject to a Collection Account Agreement in form and substance acceptable to the Lender).

(i) COLLECTION ACCOUNT. The Collection Account shall at all times be subject to the Collection Account Agreement. Neither the Borrower nor the Servicer will deposit or otherwise credit, or cause or permit to be so deposited or credited, to the Collection Account cash or cash proceeds other than Collections of Receivables.

(j) MARKING OF RECORDS. At its expense, the Borrower (or the Servicer on its behalf) shall mark its master data processing records relating to Receivables and the Isuzu Loan

Documents, including with a legend evidencing that such Receivables and documents are subject to the security interest of the Lender pursuant to the Agreement.

(k) REPORTING REQUIREMENTS. The Borrower will provide to the Lender (in multiple copies, if requested by the Lender) (except that with respect to PARAGRAPH (iii), the Borrower will cause the Servicer to provide to the Lender and the Servicer will deliver to the Lender) the following:

(i) as soon as available and in any event within 45 days after the end of the first three quarters of each fiscal year of AFC in a format acceptable to the Lender, balance sheets of AFC, its consolidated subsidiaries and the Borrower as of the end of such quarter and statements of income, cash flows and retained earnings of AFC and its consolidated subsidiaries and balance sheets and income statements of the Borrower for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, certified by the chief financial officer of such Person;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of AFC, (A) a copy of the annual report for AFC and its consolidated subsidiaries, containing financial statements for such year audited by PriceWaterhouseCoopers LLP or other independent certified public accountants acceptable to the Lender and (B) the income statement of the Borrower for such year certified by the chief financial officer of the Borrower;

(iii) as soon as available and in any event no later than the last Business Day of each week, a weekly Portfolio Certificate dated no earlier than one week prior to the date of delivery;

(iv) as soon as possible and in any event within three days after the occurrence of each Event of Default and Unmatured Event of Default, a statement of the chief financial officer of the Borrower setting forth details of such Event of Default or event and the action that the Borrower has taken and proposes to take with respect thereto;

(v) promptly after the filing or receiving thereof, copies of all reports and notices that the Borrower or any Affiliate files under ERISA with the Internal Revenue Service or the Pension Benefit Guaranty Corporation or the U.S. Department of Labor or that the Borrower or any Affiliate receives from any of the foregoing or from any multiemployer plan (within the meaning of Section 4001(a)(3) of ERISA) to which the Borrower or any Affiliate is or was, within the preceding five years, a contributing employer, in each case in respect of the assessment of withdrawal liability or an event or condition which could, in the aggregate, result in the imposition of liability on the Borrower and/or any such Affiliate in excess of $250,000;

(vi) at least 30 days prior to any change in the Borrower's name or any other change requiring the amendment of UCC financing statements, a notice setting forth such changes and the effective date thereof;

(vii) such other information respecting the Receivables (including a Portfolio Certificate on a more frequent basis than provided in CLAUSE (iii) above) or the condition or operations, financial or otherwise, of the Borrower or AFC as the Lender may from time to time reasonably request;

(viii) promptly after the Borrower obtains knowledge thereof, notice of any (a) litigation, investigation or proceeding which may exist at any time between the Borrower, the Servicer or AFC, on the one hand, and any Governmental Authority which, if not cured or if adversely determined, as the case may be, would have a Material Adverse Effect, or (b) litigation or proceeding adversely affecting the Borrower or any of its subsidiaries, the Servicer or AFC, as the case may be, in which the amount involved, in the case of the Servicer or AFC, is $100,000 or more and not covered by insurance or in which injunctive or similar relief is sought or (c) litigation or proceeding relating to any Transaction Document; and

(ix) promptly after the occurrence thereof, notice of any event or circumstance that could reasonably be expected to have a Material Adverse Effect.

(x) promptly after receipt thereof, a copy of any report or notice provided to the Servicer or the Borrower pursuant to the Isuzu Loan Documents.

(l) SEPARATE CORPORATE EXISTENCE. Each of the Borrower and the Servicer hereby acknowledges that Lender is entering into the transactions contemplated by the Agreement and the Transaction Documents in reliance upon the Borrower's identity as a legal entity separate from AFC. Therefore, from and after the date hereof, the Borrower and AFC shall take all reasonable steps to continue the Borrower's identity as a separate legal entity and to make it apparent to third Persons that the Borrower is an entity with assets and liabilities distinct from those of AFC and any other Person, and is not a division of AFC or any other Person. Without limiting the generality of the foregoing and in addition to and consistent with the covenant set forth in PARAGRAPH (a) of this EXHIBIT IV, the Borrower and AFC shall take such actions as shall be required in order that:

(i) The Borrower will be a limited purpose corporation whose primary activities are restricted in its certificate of incorporation to purchasing Receivables from AFC, entering into agreements for the servicing of such Receivables, financing such Receivables through the issuance of debt to the Lender secured by such Receivables and certain related assets, and conducting such other activities as it deems necessary or appropriate to carry out its primary activities;

(ii) Not less than one member of Borrower's Board of Directors (the "INDEPENDENT DIRECTORS") shall be an individual who is not a direct, indirect or beneficial

stockholder, officer, director, employee, affiliate, associate, customer, supplier or agent of AFC or any of its Affiliates. The Borrower's Board of Directors shall not approve, or take any other action to cause the commencement of a voluntary case or other proceeding with respect to the Borrower under any applicable bankruptcy, insolvency, reorganization, debt arrangement, dissolution or other similar law, or the appointment of or taking possession by, a receiver, liquidator, assignee, trustee, custodian, or other similar official for the Borrower unless in each case the Independent Directors shall approve the taking of such action in writing prior to the taking of such action. The Independent Directors' fiduciary duty shall be to the Borrower (and creditors) and not to the Borrower's shareholders in respect of any decision of the type described in the preceding sentence. In the event an Independent Director resigns or otherwise ceases to be a director of the Borrower, there shall be selected a replacement Independent Director who shall not be an individual within the proscriptions of the first sentence of this CLAUSE (ii) or any individual who has any other type of professional relationship with AFC or any of its Affiliates or any management personnel of any such Person or Affiliate and who shall be (x) a tenured professor at a business or law school, (y) a retired judge or (z) an established independent member of the business community, having a sound reputation and experience relative to the duties to be performed by such individual as an Independent Director;

(iii) No Independent Director shall at any time serve as a trustee in bankruptcy for AFC or any Affiliate thereof;

(iv) Any employee, consultant or agent of the Borrower will be compensated from the Borrower's own bank accounts for services provided to the Borrower except as provided herein in respect of the Servicer's Fee. The Borrower will engage no agents other than a Servicer for the Receivables, which Servicer will be fully compensated for its services to the Borrower by payment of the Servicer's Fee;

(v) The Borrower will contract with the Servicer to perform for the Borrower all operations required on a daily basis to service its Receivables. The Borrower will pay the Servicer a monthly fee based on the level of Receivables being managed by the Servicer. The Borrower will not incur any material indirect or overhead expenses for items shared between the Borrower and AFC or any Affiliate thereof which are not reflected in the Servicer's Fee. To the extent, if any, that the Borrower and AFC or any Affiliate thereof share items of expenses not reflected in the Servicer's Fee, such as legal, auditing and other professional services, such expenses will be allocated to the extent practical on the basis of actual use or the value of services rendered, and otherwise on a basis reasonably related to the actual use or the value of services rendered, it being understood that AFC shall pay all expenses relating to the preparation, negotiation, execution and delivery of the Transaction Documents, including, without limitation, legal and other fees;

(vi) The Borrower's operating expenses will not be paid by AFC or any Affiliate thereof unless the Borrower shall have agreed in writing with such Person to reimburse such Person for any such payments;

(vii) The Borrower will have its own separate mailing address and stationery;

(viii) The Borrower's books and records will be maintained separately from those of AFC or any Affiliate thereof;

(ix) Any financial statements which are consolidated to include the Borrower will contain detailed notes clearly stating that the Borrower is a separate corporate entity and has granted a security interest in the Receivables;

(x) The Borrower's assets will be maintained in a manner that facilitates their identification and segregation from those of AFC and any Affiliate thereof;

(xi) The Borrower will strictly observe corporate formalities in its dealings with AFC and any Affiliate thereof, and funds or other assets of the Borrower will not be commingled with those of AFC or any Affiliate thereof. The Borrower shall not maintain joint bank accounts or other depository accounts to which AFC or any Affiliate thereof (other than AFC in its capacity as Servicer) has independent access. None of the Borrower's funds will at any time be pooled with any funds of AFC or any Affiliate thereof;

(xii) The Borrower shall pay to AFC the marginal increase (or, in the absence of such increase, the market amount of its portion) of the premium payable with respect to any insurance policy that covers the Borrower and any Affiliate thereof, but the Borrower shall not, directly or indirectly, be named or enter into an agreement to be named, as a direct or contingent beneficiary or loss payee, under any such insurance policy, with respect to any amounts payable due to occurrences or events related to AFC or any Affiliate thereof (other than the Borrower); and

(xiii) The Borrower will maintain arm's length relationships with AFC and any Affiliate thereof. The AFC or any Affiliate thereof that renders or otherwise furnishes services to the Borrower will be compensated by the Borrower at market rates for such services. Neither the Borrower nor AFC or any Affiliate thereof will be or will hold itself out to be responsible for the debts of the other or the decisions or actions respecting the daily business and affairs of the other.

(m) MERGERS, ACQUISITIONS, SALES, ETC.

(i) The Borrower shall not:

(A) be a party to any merger or consolidation, or directly or indirectly purchase or otherwise acquire, whether in one or a series of transactions, all or substantially all of the assets or any stock of any class of, or any partnership or joint venture interest in, any other Person, or sell, transfer, assign, convey or lease any of its property and assets (including, without limitation, any Receivable or any interest therein) other than pursuant to this Agreement;

(B) make, incur or suffer to exist an investment in, equity contribution to, loan, credit or advance to, or payment obligation in respect of the deferred purchase price of property from, any other Person, except for obligations incurred pursuant to the Transaction Documents; or

(C) create any direct or indirect Subsidiary or otherwise acquire direct or indirect ownership of any equity interests in any other Person.

(n) RESTRICTED PAYMENTS.

(i) GENERAL RESTRICTION. Except in accordance with this SUBPARAGRAPH (I), the Borrower shall not (A) purchase or redeem any shares of its capital stock, (B) declare or pay any Dividend or set aside any funds for any such purpose, (C) prepay, purchase or redeem any subordinated indebtedness of the Borrower, (D) lend or advance any funds or (E) repay any loans or advances to, for or from AFC. Actions of the type described in this CLAUSE (i) are herein collectively called "RESTRICTED PAYMENTS".

(ii) TYPES OF PERMITTED PAYMENTS. Subject to the limitations set forth in CLAUSE (iii) below, the Borrower may make Restricted Payments so long as such Restricted Payments are made only to AFC and only in one or more of the following ways:

(A) Borrower may make cash payments (including prepayments) on the Company Note in accordance with its terms; and

(B) if no amounts are then outstanding under the Company Note, the Borrower may declare and pay Dividends.

(iii) SPECIFIC RESTRICTIONS. The Borrower may make Restricted Payments only out of Collections paid or released to the Borrower pursuant to SECTION 1.4(f). Furthermore, the Borrower shall not pay, make or declare:

(A) any Dividend if, after giving effect thereto, the AFC Financed Amount would be less than $5,000,000; or

(B) any Restricted Payment (including any Dividend) if, after giving effect thereto, any Event of Default or Unmatured Event of Default shall have occurred and be continuing.

(o) AMENDMENTS TO CERTAIN DOCUMENTS.

(i) Neither AFC nor the Borrower shall amend, supplement, amend and restate, or otherwise modify any Transaction Document or the Borrower's articles of incorporation or by-laws, except (A) in accordance with the terms of such document, instrument or agreement and (B) with the advance written consent of the Lender.

(ii) AFC shall not enter into or otherwise become bound by, any agreement, instrument, document or other arrangement that restricts its right to amend, supplement, amend and restate or otherwise modify, or to extend or renew, or to waive any right under, this Agreement or any other Transaction Document.

(p) INCURRENCE OF INDEBTEDNESS. The Borrower shall not (i) create, incur or permit to exist, any Debt or liability or (ii) cause or permit to be issued for its account any letters of credit or bankers' acceptances, except for Debt incurred pursuant to the Company Note and liabilities incurred pursuant to or in connection with the Transaction Documents or otherwise permitted therein.

(q) PERFORMANCE AND COMPLIANCE WITH TRANSACTION DOCUMENTS. Each of AFC and the Borrower shall, at its own expense, timely and fully perform and comply with all material provisions, covenants and other promises required to be observed by it under the Isuzu Loan Documents and the other Transaction Documents to which it is a party.

(r) ENFORCEMENT. Each of AFC and the Borrower shall maintain in effect each of the Isuzu Loan Documents, diligently and promptly enforce its respective rights thereunder and take all reasonable steps, actions and proceedings necessary or appropriate for the enforcement of all material terms, covenants and conditions of the Isuzu Loan Documents, including the prompt payment of all principal and interest payments, administrative fees and all other amounts due under the Isuzu Loan Documents.

EXHIBIT V

EVENTS OF DEFAULT

Each of the following shall be a "Event of Default":

(a) Any Person which is the Servicer shall fail to make when due any payment or deposit to be made by it under the Agreement and such failure shall remain unremedied for five (5) Business Days after notice to the Servicer; or

(b) The Borrower shall fail (i) to transfer to any successor Servicer when required any rights, pursuant to the Agreement, which the Borrower then has with respect to the servicing of the Receivables, or (ii) to make any payment required under the Agreement, and in either case such failure shall remain unremedied for five (5) Business Days after notice; or

(c) Any representation or warranty made or deemed made by the Borrower or the Servicer (or any of their respective officers) under or in connection with the Agreement or any information or report delivered by the Borrower or the Servicer pursuant to the Agreement shall prove to have been incorrect or untrue in any material respect when made or deemed made or delivered; PROVIDED, HOWEVER, if the violation of this PARAGRAPH (c) by the Borrower or the Servicer may be cured without any potential or actual detriment to the Lender, the Borrower or the Servicer, as applicable, shall have 30 days from the earlier of (i) such Person's knowledge of such failure and (ii) notice to such Person of such failure to so cure any such violation before an Event of Default shall occur so long as such Person is diligently attempting to effect such cure; or

(d) The Borrower or the Servicer shall fail to perform or observe any other material term, covenant or agreement contained in the Agreement on its part to be performed or observed and any such failure shall remain unremedied for 30 days after the earlier of (i) such Person's knowledge of such failure and (ii) notice to such Person of such failure (or, with respect to a failure to deliver a Portfolio Certificate pursuant to the Agreement, such failure shall remain unremedied for five days); or

(e) A default shall occur in the payment when due (subject to any applicable grace period), whether by acceleration or otherwise, of any Debt of either the Borrower, AFC Funding Corporation or AFC, or a default shall occur in the performance or observance of any obligation or condition with respect to such Debt if the effect of such default is to accelerate the maturity of any such Debt and the Debt with respect to which non-payment and/or non-performance shall have occurred exceeds, at any point in time, with respect to the Borrower, AFC Funding Corporation or AFC, $1,000,000 in the aggregate for all such occurrences; or

(f) The Agreement or any Loan pursuant to the Agreement shall for any reason (other than pursuant to the terms hereof) cease to create with respect to the Collateral, or the interest

of the Lender with respect to such items shall cease to be, a valid and enforceable first-priority, perfected security interest, free and clear of any Adverse Claim; or

(g) AFC, Allete or Borrower shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against AFC, Allete or Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or AFC, Allete or Borrower shall take any corporate action to authorize any of the actions set forth above in this PARAGRAPH (g); or

(h) A Change in Control shall occur; or

(i) The Internal Revenue Service shall file notice of a lien pursuant to Section 6323 of the Internal Revenue Code with regard to any assets of the Borrower, AFC Funding Corporation or AFC and such lien shall not have been released within ten Business Days, or the Pension Benefit Guaranty Corporation shall, or shall indicate its intention to, file notice of a lien pursuant to Section 4068 of ERISA with regard to any of the assets of Borrower, AFC Funding Corporation or AFC; or

(j) The AFC Financed Amount shall be less than $5,000,000 or the Tangible Net Worth of AFC shall be less than the lesser of (i) $24,000,000, or (ii) an amount equal to the sum of (x) $12,000,000 and (y) 50% of the sum of the net income of AFC for each fiscal quarter that net income was positive commencing with the fiscal quarter ending on March 31, 1997; or

(k) At any time, the sum of (i) all of AFC's Debt (including intercompany loans), (ii) the Total Outstanding Principal, and (iii) the outstanding balance of any other non-recourse transaction is greater than the product of (x) 8.5 and (y) the total stockholder's equity in AFC as determined quarterly; or

(l) Any material adverse change shall occur in the reasonable business judgment of the Lender in the collectibility of the Receivables or the business, operations, property or financial condition of AFC, AFC Funding Corporation or the Borrower; or

(m) Any Purchase and Sale Termination Event or Isuzu Event of Default shall occur (taking into account any applicable cure periods or grace periods provided for in the Purchase

and Sale Agreement or the Isuzu Loan Documents, but without regard to whether or not such event is waived by any party which may be authorized to do so).

EXHIBIT VI

PORTFOLIO CERTIFICATE

EXHIBIT VI
FORM OF PORTFOLIO CERTIFICATE

AFC AIM CORPORATION
PORTFOLIO CERTIFICATE

CERTIFICATE DATE:

	LOAN ROLLFORWARD		APC INVESTED AMOUNT	
Beginning Balance	$ -		$ -	
Additions	$ -		$ -	
Principal Repayments	$ -		$ -	GREATER THAN $5MM
Ending Balance	$ -		$ -	
Available Borrowing Base	$ -			
CREDIT ACCOUNT ROLLFORWARD				
Beginning Balance	$ -			
AFC Invested Amount Repayments	$ -	Support for AFC's Invested Amount Attached		
Reductions	$ -			
Ending Balance	$ -			

FINANCING DATE:

Market Value of Vehicle Pool	$ -	Financed Vehicle Pool Advance Rate Recap Attached
AFC AIM Advance (75% of MV)	$ -	
New Cash Invested by AFC	$ -	
Credit Account Reclaimed	$ -	Percentage
Total AFC Invested Amount Increase	$ -	
Adds to BMO's Invested Amount	$ -	
Number of Vehicles	-	
Floorplan Fees Earned	$ -	

CURRENT PORTFOLIO DETAILS

Number of Cars Outstanding	-	
Loan Balance	$ -	
Overcollateralization	$ -	
Overcollateralization Percentage		
Cash Balance + Investments	$ -	

MARKET VALUE TESTS Date of most current Black Book		Max. Black Book	Percent Increase (Decrease)	FUNDING RESTRICTIONS?
Rodeo LS 4x2	$ -	$ -	-	
Rodeo LS 4x4	$ -	$ -	-	
Trooper S 4x4	$ -	$ -	-	

SCHEDULE I

TRADE NAMES

None.

SCHEDULE II

TAX MATTERS

None.

ANNEX A

FORM OF BORROWING NOTICE

[DATE OF NOTICE]

BANK OF MONTREAL
115 S. LaSalle Street
Floor 11W
Chicago, Illinois 60603
Attention: Denise Jirak
Phone number: (312) 750-4366

Re: NOTICE OF BORROWING

Ladies and Gentlemen:

Please refer to the Loan and Servicing Agreement, dated as of December 22, 2000 (as amended, supplemented or otherwise modified from time to time, the "LOAN AND SERVICING AGREEMENT") among AFC AIM Corporation, as borrower (the "BORROWER"), Automotive Finance Corporation, as the initial servicer (the "SERVICER") and the Bank of Montreal, as lender (the "LENDER").

The undersigned, on behalf of the Borrower, hereby gives notice pursuant to SECTION 1.2(a) of the Loan and Servicing Agreement and requests that a Loan be made to the Borrower as follows:

1. Borrowing date: ----------

2. Aggregate amount of Loan: $ ----------

3. Term of Loan ----------

As an inducement to the Lender to make the Loan described above, the Servicer, on its own behalf and on behalf of the Borrower, hereby certifies to the Lender that each of the conditions precedent to the making of the Loan set forth in EXHIBIT II to the Loan and Servicing Agreement have been satisfied.

AUTOMOTIVE FINANCE CORPORATION, as Servicer

By: ----------
Name: ----------
Title: ----------

Exhibit 10(m)

PURCHASE AND SALE AGREEMENT

Dated as of December 22, 2000

between

AFC AIM CORPORATION

and

AUTOMOTIVE FINANCE CORPORATION

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PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (as amended, supplemented or modified from time to time, this "AGREEMENT"), dated as of December 22, 2000, is between AUTOMOTIVE FINANCE CORPORATION, an Indiana corporation, as originator and seller (the "ORIGINATOR"), and AFC AIM CORPORATION, an Indiana corporation (the "COMPANY"), as purchaser.

DEFINITIONS

Unless otherwise indicated, certain terms that are capitalized and used throughout this Agreement are defined in EXHIBIT I to the Loan and Servicing Agreement of even date herewith (as amended, supplemented or otherwise modified from time to time, the "LOAN AND SERVICING AGREEMENT"), among the Company, the Originator, as initial Servicer, and BANK OF MONTREAL, CHICAGO BRANCH, as lender (together with its successors and assigns, the "LENDER").

BACKGROUND

1. The Company is a special purpose corporation, all of the capital stock of which is wholly-owned by the Originator.

2. On the Closing Date, the Originator is transferring a portion of the Receivables and Related Rights in existence on the Closing Date to the Company as a capital contribution to the Company.

3. In order to finance its business, the Originator wishes to sell certain Receivables and Related Rights from time to time to the Company, and the Company is willing, on the terms and subject to the conditions set forth herein, to purchase such Receivables and Related Rights from the Originator.

4. The Company intends to finance its purchase of the Receivables and Related Rights through secured loans to be made to the Company by the Lender pursuant to the Loan and Servicing Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I

AGREEMENT TO PURCHASE AND CONTRIBUTE

1.1. AGREEMENT TO PURCHASE AND SELL. On the terms and subject to the conditions set forth in this Agreement (including ARTICLE IV), and in consideration of the Purchase Price, the Originator agrees to sell to the Company, and does hereby sell to the Company, and the Company agrees to purchase from the Originator, and does hereby purchase from the Originator, without recourse and without regard to collectibility, all of the Originator's right, title and interest in and to:

(a) each Receivable of the Originator that existed and was owing to the Originator as of the opening of the Originator's business on December 22, 2000 (the "CLOSING DATE") (other than the portion of the Receivables and Related Rights contributed by the Originator to the Company pursuant to SECTION 3.1 (the "CONTRIBUTED PORTION"));

(b) each Receivable created or originated by the Originator from the opening of the Originator's business on the Closing Date to and including the Purchase and Sale Termination Date;

(c) all of the Originator's right, title and interest under the Isuzu Loan Documents;

(d) all of the Originator's right, title and interest in all payments of principal, interest, administrative fees or other amounts due in respect of any Advance or other disbursement under the Promissory Note and Security Agreement.

(e) all rights to, but not the obligations under, all Related Security (other than with respect to the Contributed Portion);

(f) all monies due or to become due with respect to any of the foregoing;

(g) all books and records related to any of the foregoing; and

(h) all proceeds thereof (as defined in the UCC) including, without limitation, all funds which either are received by the Originator, the Company or the Servicer from or on behalf of the Obligor in payment of any amounts owed (including, without limitation, finance charges, interest and all other charges) in respect of any Receivable (other than the Contributed Portion), or that are (or are to be) applied to amounts owed in respect of any such Receivable (including, without limitation, insurance payments and net proceeds of the sale or other disposition of vehicles or other collateral or property of the Obligor or any other Person directly or indirectly liable for the payment of any such Receivable that are (or are to be) applied thereto).

All purchases and contributions hereunder shall be made without recourse, but shall be made pursuant to and in reliance upon the representations, warranties and covenants of the Originator, in its capacity as Originator and contributor, set forth in each Transaction Document. The Company's foregoing commitment to purchase such Receivables and the proceeds and rights described in SUBSECTIONS (c) through (h) of this SECTION 1.1 (collectively, including such item relating to Contributed Portion, the "RELATED RIGHTS") is herein called the "PURCHASE FACILITY."

1.2. TIMING OF PURCHASES.

(a) CLOSING DATE PURCHASES. The Originator's entire right, title and interest in (i) each Receivable that existed and was owing to the Originator as of the opening of the Originator's business on the Closing Date, (other than Contributed Portion) and (ii) all Related Rights with respect thereto shall be sold to the Company on the Closing Date.

(b) REGULAR PURCHASES. After the Closing Date, each Receivable created or originated by the Originator and all Related Rights shall be purchased and owned by the Company (without any further action) upon the creation or origination of such Receivable.

1.3. CONSIDERATION FOR PURCHASES. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to make all Purchase Price payments to the Originator.

1.4. PURCHASE AND SALE TERMINATION DATE. The "PURCHASE AND SALE TERMINATION DATE" shall be the earlier to occur of (a) the date of the termination of this Agreement pursuant to SECTION 8.2 and (b) the Business Day immediately following the day on which the Originator shall have given notice to the Company that the Originator desires to terminate this Agreement.

1.5. INTENTION OF THE PARTIES. It is the express intent of the parties hereto that the transfers of the Receivables (other than Contributed Portion) and Related Rights (other than those relating to the Contributed Portion) by the Originator to the Company, as contemplated by this Agreement be, and be treated as, sales and not as secured loans secured by the Receivables and Related Rights. If, however, notwithstanding the intent of the parties, such transactions are deemed to be loans, the Originator hereby grants to the Company a first priority security interest in all of the Originator's right, title and interest in and to each of the items described in clauses (a) through (h) of SECTION 1.1 above to secure all of the Originator's obligations hereunder.

1.6. CERTAIN DEFINITIONS. As used in this Agreement, the terms "Material Adverse Effect" and "Solvent" are defined as follows:

"MATERIAL ADVERSE EFFECT" means, with respect to any event or circumstance, a material adverse effect on:

(i) the business, operations, property or financial condition of the Originator;

(ii) the ability of the Originator or the Servicer (if it is the Originator) to perform its

obligations under the Loan and Servicing Agreement or any other Transaction Document to which it is a party or the performance of any such obligations;

(iii) the validity or enforceability of the Loan and Servicing Agreement or any other Transaction Document;

(iv) with respect to the Purchase and Sale Agreement, the status, existence, perfection, priority or enforceability of Company's interest in the Receivables or Related Rights; or

(v) the collectibility of the Receivables.

"SOLVENT" means, with respect to any Person at any time, a condition under which:

(i) the fair value and present fair saleable value of such Person's total assets is, on the date of determination, greater than such Person's total liabilities (including contingent and unliquidated liabilities) at such time;

(ii) such Person is and shall continue to be able to pay all of its liabilities as such liabilities mature; and

(iii) such Person does not have unreasonably small capital with which to engage in its current and in its anticipated business.

For purposes of this definition:

(A) the amount of a Person's contingent or unliquidated liabilities at any time shall be that amount which, in light of all the facts and circumstances then existing, represents the amount which can reasonably be expected to become an actual or matured liability;

(B) the "fair value" of an asset shall be the amount which may be realized within a reasonable time either through collection or sale of such asset at its regular market value;

(C) the "regular market value" of an asset shall be the amount which a capable and diligent business person could obtain for such asset from an interested buyer who is willing to purchase such asset under ordinary selling conditions; and

(D) the "present fair saleable value" of an asset means the amount which can be obtained if such asset is sold with reasonable promptness in an arm's length transaction in an existing and not theoretical market.

ARTICLE II

CALCULATION OF PURCHASE PRICE

2.1. CALCULATION OF PURCHASE PRICE. On the Closing Date, the Servicer shall deliver to the Company, the Lender and the Originator (if the Servicer is other than the Originator) a schedule listing each of the Vehicles relating to the Receivable funded on the Closing Date, which schedule shall include the amount of the Advance made with respect to each such Vehicle. Thereafter, the Servicer shall provide to the Company, the Lender and the Originator (if the Servicer is other than the Originator) a copy of each Bailed Property Schedule delivered to the Originator by the Obligor pursuant to Section 2.2 of the Promissory Note and Security Agreement with respect to any Vehicle financed by an Advance thereunder.

The "PURCHASE PRICE" (to be paid to the Originator in accordance with the terms of Article III) for each Receivable and the Related Rights that are purchased hereunder shall be equal to the Outstanding Balance of such Receivable on the date of purchase.

"OUTSTANDING BALANCE" means, with respect to any Receivable, the aggregate amount of all Advances made by the Originator with respect to such Receivable, less any amounts deposited in the Collection Account and applied to the reduction of the principal amount of the related Loan pursuant to clause fifth of Section 1.4(d) of the Loan and Servicing Agreement (or paid directly to the Lender as a repayment of principal with respect to such Loan).

ARTICLE III

CONTRIBUTION OF RECEIVABLES;
PAYMENT OF PURCHASE PRICE

3.1. CONTRIBUTION OF RECEIVABLES. On the Closing Date, the Originator shall, and hereby does, contribute to the capital of the Company, in exchange for the issuance of 1,000 shares of common stock, a portion of the Receivable and the Related Rights relating to the Advances made by the Originator on the Closing Date, such that the aggregate Outstanding Balance of the contributed portion of such Receivable shall be equal to $1,000,000.

3.2. INITIAL PURCHASE PRICE PAYMENT. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to pay to the Originator the Purchase Price for the purchase of Receivables to be made on the Closing Date, partially in cash in the amount of the proceeds of the Loan made by the Lender on the Closing Date under the Loan and Servicing Agreement, and partially by issuing a promissory note in the form of EXHIBIT B to the Originator with an initial principal balance equal to the remaining Purchase Price (as such promissory note may be amended, supplemented, indorsed or otherwise modified from time to time, together with all promissory notes issued from time to time in substitution therefor or renewal thereof in accordance with the Transaction Documents, being herein called the "COMPANY NOTE").

3.3. SUBSEQUENT PURCHASE PRICE PAYMENTS. On each Business Day falling after the Closing Date and on or prior to the Purchase and Sale Termination Date, on the terms and subject to the conditions set forth in this Agreement, the Company shall pay to the Originator the Purchase Price for the Receivables sold by the Originator to the Company on such Business Day, in cash, to the extent funds are available to make such payment and such payment is permitted by paragraph (o) of Exhibit IV to the Loan and Servicing Agreement, and to the extent any of such Purchase Price remains unpaid, such remaining portion of such Purchase Price shall be paid by means of an automatic increase to the outstanding principal amount of the Company Note.

Servicer shall make all appropriate record keeping entries with respect to the Company Note or otherwise to reflect the foregoing payments and adjustments pursuant to SECTION 3.4, and Servicer's books and records shall constitute rebuttable presumptive evidence of the principal amount of and accrued interest on the Company Note at any time. Furthermore, Servicer shall hold the Company Note for the benefit of the Originator, and all payments under the Company Note shall be made to the Servicer for the account of the applicable payee thereof. The Originator hereby irrevocably authorizes Servicer to mark the Company Note "CANCELLED" and to return the Company Note to the Company upon the final payment thereof after the occurrence of the Purchase and Sale Termination Date.

3.4. SETTLEMENT AS TO SPECIFIC RECEIVABLES AND DILUTION.

(a) If on the day of purchase or contribution of any Receivable from the Originator hereunder, any of the representations or warranties set forth in SECTION 5.4, 5.11 or 5.20 is not true with respect to such Receivable or as a result of any action or inaction of the Originator, on any day any of the representations or warranties set forth in SECTION 5.4 or 5.11 is no longer true with respect to such a Receivable, then the Purchase Price with respect to the Receivables purchased hereunder shall be reduced by an amount equal to the Outstanding Balance of such Receivable and shall be accounted to the Originator as provided in SUBSECTION (c) below; PROVIDED, that if the Company thereafter receives payment on account of Collections due with respect to such Receivable, the Company promptly shall deliver such funds to the Originator.

(b) If, on any day, the Outstanding Balance of any Receivable purchased or contributed hereunder is reduced or adjusted as a result of any adjustment made by the Originator, Company or Servicer or any setoff or dispute between the Originator or the Servicer and the Obligor, then the Purchase Price with respect to the Receivables purchased hereunder shall be reduced by the amount of such reduction and shall be accounted to the Originator as provided in SUBSECTION (c) below.

(c) Any reduction in the Purchase Price of the Receivables pursuant to SUBSECTION (a) or (b) above shall be applied as a credit for the account of the Company against the Purchase Price of Receivables subsequently purchased by the Company from the Originator hereunder; PROVIDED, HOWEVER if there have been no purchases of Receivables (or insufficiently large purchases of Receivables) to create a Purchase Price sufficient to so apply such credit against, the amount of such credit

(i) shall be paid in cash to the Company by the Originator in the manner and for application as described in the following proviso, or

(ii) shall be deemed to be a payment under, and shall be deducted from the principal amount outstanding under, the Company Note, to the extent that such payment is permitted under paragraph (o) of Exhibit IV of the Loan and Servicing Agreement;

PROVIDED, FURTHER, that at any time (y) when an Event of Default or Unmatured Event of Default exists or (z) on or after the Termination Date, the amount of any such credit shall be paid by the Originator to the Company by deposit in immediately available funds into the Collection Account for application by Servicer to the same extent as if Collections of the applicable Receivable in such amount had actually been received on such date.

3.5. RECONVEYANCE OF RECEIVABLES. In the event that the Originator has paid to the Company the full Outstanding Balance of any Receivable pursuant to SECTION 3.4, the Company shall reconvey such Receivable to the Originator, without representation or warranty, but free and clear of all liens created by the Company.

ARTICLE IV

CONDITIONS OF PURCHASES

4.1. CONDITIONS PRECEDENT TO INITIAL PURCHASE. The initial purchase hereunder is subject to the condition precedent that the Company shall have received, on or before the Closing Date, the following, each (unless otherwise indicated) dated the Closing Date, and each in form, substance and date satisfactory to the Company:

(a) A copy of the resolutions of the Board of Directors of the Originator approving the Transaction Documents to be delivered by it and the transactions contemplated hereby and thereby, certified by the Secretary or Assistant Secretary of the Originator;

(b) A Certificate of Existence for the Originator issued as of a recent date by the Indiana Secretary of State;

(c) A certificate of the Secretary or Assistant Secretary of the Originator certifying the names and true signatures of the officers authorized on the Originator's behalf to sign the Transaction Documents to be delivered by it (on which certificate the Company and Servicer (if other than the Originator) may conclusively rely until such time as the Company and the Servicer shall receive from the Originator a revised certificate meeting the requirements of this SUBSECTION (c));

(d) The articles of incorporation of the Originator together with a copy of the by-laws of the Originator, each duly certified by the Secretary or an Assistant Secretary of the Originator;

(e) Copies of the proper financing statements (Form UCC-1) that have been duly executed and name the Originator as the assignor and the Company as the assignee (and the Lender as assignee of the Company) of the Receivables generated by the Originator and Related Rights or other, similar instruments or documents, as may be necessary or, in Servicer's or the Lender's opinion, desirable under the UCC of all appropriate jurisdictions or any comparable law of all appropriate jurisdictions to perfect the Company's ownership interest in all Receivables and Related Rights in which an ownership interest may be transferred to it hereunder;

(f) A written search report from a Person satisfactory to Servicer and the Lender listing all effective financing statements that name the Originator as debtor or assignor and that are filed in the jurisdictions in which filings were made pursuant to the foregoing SUBSECTION (e), together with copies of such financing statements (none of which, except for those described in the foregoing SUBSECTION (e), shall cover any Receivable or any Related Right), and tax and judgment lien search reports from a Person satisfactory to Servicer and the Lender showing no evidence of such liens filed against the Originator;

(g) Favorable opinions of Joel Garcia, Esq., general counsel to the Originator, Ice Miller, special counsel to the Originator, concerning enforceability of this Agreement and certain other matters, and Ice Miller, concerning certain bankruptcy matters, and such other opinions as the Company may reasonably request;

(h) Evidence (i) of the execution and delivery by each of the parties thereto of each of the other Transaction Documents to be executed and delivered in connection herewith and (ii) that each of the conditions precedent to the execution, delivery and effectiveness of such other Transaction Documents has been satisfied to the Company's satisfaction; and

(i) A certificate from an officer of the Originator to the effect that Servicer and the Originator have placed on the most recent, and have taken all steps reasonably necessary to ensure that there shall be placed on subsequent, summary master control data processing reports the following legend (or the substantive equivalent thereof): "THE RECEIVABLES DESCRIBED HEREIN HAVE BEEN SOLD TO AFC AIM CORPORATION PURSUANT TO A PURCHASE AND SALE AGREEMENT, DATED AS OF DECEMBER 22, 2000, BETWEEN AUTOMOTIVE FINANCE CORPORATION AND AFC AIM CORPORATION; AND A SECURITY INTEREST IN THE RECEIVABLES DESCRIBED HEREIN HAS BEEN GRANTED TO BANK OF MONTREAL, PURSUANT TO A LOAN AND SERVICING AGREEMENT, DATED AS OF DECEMBER 22, 2000, AMONG AFC AIM CORPORATION, AS BORROWER, AUTOMOTIVE FINANCE CORPORATION, AS SERVICER, AND BANK OF MONTREAL, AS LENDER.

4.2. CERTIFICATION AS TO REPRESENTATIONS AND WARRANTIES. The Originator, by accepting the Purchase Price (including by the increase in the outstanding balance of the Company Note) related to each purchase of Receivables and Related Rights shall be deemed to have certified that the representations and warranties contained in ARTICLE V are true and correct on and as of such day, with the same effect as though made on and as of such day.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE ORIGINATOR

In order to induce the Company to enter into this Agreement and to make purchases and accept contributions hereunder, the Originator, in its capacity as Originator under this Agreement, hereby makes the representations and warranties set forth in this ARTICLE V.

5.1. ORGANIZATION AND GOOD STANDING. The Originator has been duly incorporated and in existence as a corporation under the laws of the state of its incorporation, with power and authority to own its properties and to conduct its business as such properties are presently owned and such business is presently conducted.

5.2. DUE QUALIFICATION. The Originator is duly licensed or qualified to do business as a foreign corporation in good standing in the jurisdiction where its chief executive office and principal place of business are located and in all other jurisdictions in which the ownership or lease of its property or the conduct of its business requires such licensing or qualification except where the failure to be so licensed or qualified has not had and could not reasonably be expected to have a Material Adverse Effect.

5.3. POWER AND AUTHORITY; DUE AUTHORIZATION. The Originator has (a) all necessary corporate power, authority and legal right (i) to execute and deliver, and perform its obligations under, each Transaction Document to which it is a party, as Originator, and (ii) to generate, own, sell, contribute and assign Receivables and Related Rights on the terms and subject to the conditions herein and therein provided; and (b) duly authorized such execution and delivery and such sale, contribution and assignment and the performance of such obligations by all necessary corporate action.

5.4. VALID SALE OR CONTRIBUTION; BINDING OBLIGATIONS. Each sale or contribution, as the case may be, of Receivables and Related Rights made by the Originator pursuant to this Agreement shall constitute a valid sale or contribution, as the case may be, transfer, and assignment thereof to the Company, enforceable against creditors of, and purchasers from, the Originator; and this Agreement constitutes, and each other Transaction Document to be signed by the Originator, as Originator, when duly executed and delivered, will constitute, a legal, valid, and binding obligation of the Originator, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law.

5.5. NO VIOLATION. The consummation of the transactions contemplated by this Agreement and the other Transaction Documents to which the Originator is a party as Originator, and the fulfillment of the terms hereof or thereof will not (a) conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under (i) the Originator's articles of incorporation or by-laws, or (ii) any indenture, loan agreement, mortgage, deed of trust, or other agreement or instrument to which it is a party or by which it is

bound, (b) result in the creation or imposition of any Adverse Claim upon any of its properties pursuant to the terms of any such indenture, loan agreement, mortgage, deed of trust, or other agreement or instrument, other than the Transaction Documents, or (c) violate any law or any order, writ, judgment, award, injunction, decree, rule, or regulation applicable to it or its properties, where, in the cases of ITEMS (a)(ii), (b) or (c), such conflict, breach, default, Adverse Claim or violation has had or could reasonably be expected to have a Material Adverse Effect.

5.6. PROCEEDINGS. (i) There is no litigation or, to the Originator's knowledge, any proceeding or investigation pending before any Government Authority or arbitrator (a) asserting the invalidity of any Transaction Document to which the Originator is a party as Originator, (b) seeking to prevent the sale or contribution of Receivables and Related Rights to the Company or the consummation of any of the other transactions contemplated by any Transaction Document to which the Originator is a party as Originator, or (c) seeking any determination or ruling that could reasonably be expected to have a Material Adverse Effect. (ii) The Originator is not subject to any order, judgment, decree, injunction, stipulation or consent order that could reasonably be expected to have a Material Adverse Effect.

5.7. BULK SALES ACT. No transaction contemplated hereby requires compliance with any bulk sales act or similar law.

5.8. GOVERNMENT APPROVALS. Except for the filing of the UCC financing statements referred to in ARTICLE IV, all of which, at the time required in ARTICLE IV, shall have been duly made and shall be in full force and effect, no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the Originator's due execution, delivery and performance of any Transaction Document to which it is a party, as Originator.

5.9. FINANCIAL CONDITION.

(a) On the date hereof, and on the date of each sale of Receivables by the Originator to the Company (both before and after giving effect to such sale), the Originator shall be Solvent.

(b) The consolidated balance sheets of the Originator and its consolidated subsidiaries as of December 31, 1999, and the related statements of income and shareholders' equity of the Originator and its consolidated subsidiaries for the fiscal year then ended certified by the Originator's independent accountants, copies of which have been furnished to the Company, present fairly the consolidated financial position of the Originator and its consolidated subsidiaries for the period ended on such date, all in accordance with generally accepted accounting principles consistently applied; and since such date no event has occurred that has had, or is reasonably likely to have, a Material Adverse Effect.

5.10. MARGIN REGULATIONS. No use of any funds acquired by the Originator under this Agreement will conflict with or contravene any of Regulations T, U and X promulgated by the Board of Governors of the Federal Reserve System from time to time.

5.11. QUALITY OF TITLE.

(a) Each Receivable (together with the Related Rights) which is to be sold or contributed to the Company hereunder is or shall be owned by the Originator, free and clear of any Adverse Claim. Whenever the Company makes a purchase, or accepts a contribution, hereunder, it shall have acquired a valid and perfected ownership interest (free and clear of any Adverse Claim) in all Receivables generated by the Originator and all Collections related thereto, and in the Originator's entire right, title and interest in and to the other Related Rights with respect thereto.

(b) No effective financing statement or other instrument similar in effect covering any Receivable or any Related Right is on file in any recording office except such as may be filed in favor of the Company or the Originator, as the case may be, in accordance with this Agreement or in favor of the Lender in accordance with the Loan and Servicing Agreement.

5.12. ACCURACY OF INFORMATION. No factual written information furnished or to be furnished in writing by the Originator, as Originator, to the Company or the Lender for purposes of or in connection with any Transaction Document or any transaction contemplated hereby or thereby (including the information contained in any Purchase Report) is, and no other such factual written information hereafter furnished (and prepared) by the Originator, as Originator, to the Company or the Lender pursuant to or in connection with any Transaction Document, taken as a whole, will be inaccurate in any material respect as of the date it was furnished or (except as otherwise disclosed to the Company at or prior to such time) as of the date as of which such information is dated or certified, or shall contain any material misstatement of fact or omitted or will omit to state any material fact necessary to make such information, in the light of the circumstances under which any statement therein was made, not materially misleading on the date as of which such information is dated or certified.

5.13. OFFICES. The Originator's principal place of business and chief executive office is located at the address set forth under the Originator's signature hereto, and the offices where the Originator keeps all its books, records and documents evidencing the Receivables and all other agreements related to such Receivables are located at the addresses specified on SCHEDULE 5.13 (or at such other locations, notified to Servicer (if other than the Originator) and the Lender in accordance with SECTION 6.1(f), in jurisdictions where all action required by SECTION 7.3 has been taken and completed).

5.14. TRADE NAMES. Except as disclosed on SCHEDULE 5.14, the Originator does not use any trade name other than its actual corporate name. From and after the date that fell six years before the date hereof, the Originator has not been known by any legal name or trade name other than its corporate name as of the date hereof, nor has the Originator been the subject of any merger or other corporate reorganization except, in each case, as disclosed on SCHEDULE 5.14.

5.15. TAXES. Except as set forth on SCHEDULE 5.15 the Originator has filed all tax returns and reports required by law to have been filed by it and has paid all taxes and governmental charges thereby shown to be owing, except any such taxes which are not yet delinquent or are being

diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with generally accepted accounting principles shall have been set aside on its books.

5.16. LICENSES AND LABOR CONTROVERSIES.

(a) The Originator has not failed to obtain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of its properties or to the conduct of its business, which violation or failure to obtain would be reasonably likely to have a Material Adverse Effect; and

(b) There are no labor controversies pending against the Originator that have had (or are reasonably likely to have) a Material Adverse Effect.

5.17. COMPLIANCE WITH APPLICABLE LAWS. The Originator is in compliance, in all material respects, with the requirements of (i) all applicable laws, rules, regulations, and orders of all governmental authorities applicable to the Receivables and the Isuzu Loan Documents.

5.18. RELIANCE ON SEPARATE LEGAL IDENTITY. The Originator is aware that the Lender is entering into the Transaction Documents to which it is a party in reliance upon the Company's identity as a legal entity separate from the Originator.

5.19. PURCHASE PRICE. The purchase price payable by the Company to the Originator hereunder is intended by the Originator and Company to be consistent with the terms that would be obtained in an arm's length sale. The Servicer's Fee payable to the Originator is intended to be consistent with terms that would be obtained in an arm's length servicing arrangement.

5.20. ELIGIBILITY OF RECEIVABLES. Unless otherwise identified to the Company on the date of the purchase hereunder, each Receivable purchased hereunder is on the date of purchase an Eligible Receivable.

ARTICLE VI

COVENANTS OF THE ORIGINATOR

6.1. AFFIRMATIVE COVENANTS. From the date hereof until the first day following the Final Payout Date, the Originator will, unless the Company and the Lender shall otherwise consent in writing:

(a) COMPLIANCE WITH LAWS, ETC. Comply in all material respects with all applicable laws, rules, regulations and orders, including those with respect to the Receivables generated by it and the Isuzu Loan Documents and other agreements related thereto.

(b) PRESERVATION OF CORPORATE EXISTENCE. Preserve and maintain its corporate existence,

rights, franchises and privileges in the jurisdiction of its incorporation, and qualify and remain qualified in good standing as a foreign corporation in each jurisdiction where the failure to preserve and maintain such existence, rights, franchises, privileges and qualification could reasonably be expected to have a Material Adverse Effect.

(c) RECEIVABLES REVIEW. (i) At any time and from time to time during regular business hours, upon reasonable prior notice, permit the Company and/or the Lender, or their respective agents or representatives, (A) to examine, to audit and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in the possession or under the control of the Originator relating to the Receivables and Related Rights and (B) to visit the Originator's offices and properties for the purpose of examining such materials described in the foregoing CLAUSE (A) and discussing matters relating to the Receivables and Related Rights or the Originator's performance hereunder with any of the officers or employees of the Originator having knowledge of such matters; and (ii) without limiting the provisions of CLAUSE (i) next above, from time to time on request of the Lender, permit certified public accountants or other auditors acceptable to the Lender to conduct a review of its books and records with respect to the Receivables and Related Rights.

(d) KEEPING OF RECORDS AND BOOKS OF ACCOUNT. Maintain an ability to recreate records evidencing the Receivables in the event of the destruction of the originals thereof.

(e) PERFORMANCE AND COMPLIANCE WITH ISUZU LOAN DOCUMENTS. At its expense timely and fully perform and comply with all provisions, covenants and other promises required to be observed by it under the Isuzu Loan Documents and all other agreements related to the Receivables and Related Rights.

(f) LOCATION OF RECORDS, ETC.. (i) Keep its principal place of business and chief executive office, and the offices where it keeps its records concerning or related to Receivables and Related Rights, at the address(es) referred to in SCHEDULE 5.13 or, upon 30 days' prior written notice to the Company and the Lender, at such other locations in jurisdictions where all action required by SECTION 7.3 shall have been taken and completed, and (ii) provide the Company and the Lender with at least 30 days' written notice prior to making any change in its name or making any other change in its identity or corporate structure (including a merger) which could render any UCC financing statement filed in connection with this Agreement "seriously misleading" as such term is used in the UCC (which written notice sets forth the applicable change and the effective date thereof).

(g) SEPARATE CORPORATE EXISTENCE OF THE COMPANY. Take such actions as shall be required in order that:

(i) the Company's operating expenses (other than certain organization expenses and expenses incurred in connection with the preparation, negotiation and delivery of the Transaction Documents) will not be paid by the Originator;

(ii) the Company's books and records will be maintained separately from those of

the Originator;

(iii) all financial statements of the Originator that are consolidated to include the Company will contain detailed notes clearly stating that (A) all of the Company's assets are owned by the Company, and (B) the Company is a separate entity with creditors who have received interests in the Company's assets;

(iv) the Originator will strictly observe corporate formalities in its dealing with the Company;

(v) the Originator shall not commingle its funds with any funds of the Company;

(vi) the Originator will maintain arm's length relationships with the Company, and the Originator will be compensated at market rates for any services it renders or otherwise furnishes to the Company; and

(vii) the Originator will not be, and will not hold itself out to be, responsible for the debts of the Company or the decisions or actions in respect of the daily business and affairs of the Company (other than with respect to such decisions or actions of the Originator in its capacity as Servicer).

6.2. REPORTING REQUIREMENTS. From the date hereof until the first day following the Purchase and Sale Termination Date, the Originator shall, unless the Lender and the Company shall otherwise consent in writing, furnish to the Company and the Lender:

(a) PROCEEDINGS. As soon as possible and in any event within three Business Days after the Originator has knowledge thereof, written notice to the Company and the Lender of (i) all pending proceedings and investigations of the type described in SECTION 5.6 not previously disclosed to the Company and/or the Lender and (ii) all material adverse developments that have occurred with respect to any previously disclosed proceedings and investigations;

(b) as soon as possible and in any event within three Business Days after the occurrence of each Purchase and Sale Termination Event or event which, with the giving of notice or lapse of time, or both, would constitute a Purchase and Sale Termination Event, a statement of the chief financial officer of the Originator setting forth details of such Purchase and Sale Termination Event or event and the action that the Originator has taken and proposes to take with respect thereto;

(c) promptly after the filing or receiving thereof, copies of all reports and notices that the Originator or any Affiliate files under ERISA with the Internal Revenue Service or the Pension Benefit Guaranty Corporation or the U.S. Department of Labor or that the Originator or any Affiliate receives from any of the foregoing or from any multiemployer plan (within the meaning of Section 4001(a)(3) of ERISA) to which the Originator or any Affiliate is or was, within the preceding five years, a contributing employer, in each case in respect of the assessment of withdrawal liability or an event or condition which could, in the aggregate, result in the imposition of liability on the

Originator and/or any such Affiliate in excess of $250,000; and

(d) promptly after the occurrence of any event or condition that could reasonably be expected to have a Material Adverse Effect, notice of such event or condition.

(e) OTHER. Promptly, from time to time, such other information, documents, records or reports respecting the Receivables, the Related Rights or the Originator's performance hereunder that the Company or the Lender may from time to time reasonably request in order to protect the interests of the Company, the Lender or any other Affected Party under or as contemplated by the Transaction Documents.

6.3. NEGATIVE COVENANTS. From the date hereof until the date following the Final Payout Date, the Originator agrees that, unless the Lender and the Company shall otherwise consent in writing, it shall not:

(a) SALES, LIENS, ETC. Except as otherwise provided herein or in any other Transaction Document, sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon or with respect to, any Receivable, Collections or Related Security, or any interest therein, or assign to any person other than the Lender any right to receive income in respect thereof.

(b) CHANGE IN BUSINESS. Make any material change in the character of its business that would adversely affect the collectibility of the Receivables or the enforceability of the Isuzu Documents or the ability of the Originator to perform its obligations under the Isuzu Documents or under any other Transaction Document; without prior written consent of the Company and the Lender.

(c) RECEIVABLES NOT TO BE EVIDENCED BY INSTRUMENTS. Take any action to cause or permit any Receivable generated by it to become evidenced by any "instrument" (as defined in the applicable UCC) unless such "instrument" shall be delivered to the Company which in turn shall deliver the same to the Lender.

(d) MERGERS, ACQUISITIONS, SALES, ETC. Merge or consolidate with another Person (except pursuant to a merger or consolidation involving the Originator where the Originator is the surviving corporation), or convey, transfer, lease or otherwise dispose of (whether in one or in a series of transactions), all or substantially all of its assets (whether now owned or hereafter acquired), other than pursuant to this Agreement.

(e) COLLECTION ACCOUNT BANK. Replace or terminate the Collection Account Bank unless the requirements of paragraph (h) of Exhibit IV to the Loan and Servicing Agreement have been met.

(f) ACCOUNTING FOR PURCHASES. Account for or treat (whether in financial statements or otherwise) the transactions contemplated hereby in any manner other than as sales of the

Receivables and Related Security by the Originator to the Company.

(g) TRANSACTION DOCUMENTS. (i) Amend, supplement, amend and restate or otherwise modify any Transaction Document except (A) in accordance with the terms of such document, instrument or agreement and (B) with the advance written consent of the Lender, or (ii) enter into, execute, deliver or otherwise become bound by any agreement, instrument, document or other arrangement that restricts the right of the Originator to amend, supplement, amend and restate or otherwise modify, or to extend or renew, or to waive any right under, this Agreement or any other Transaction Documents.

ARTICLE VII

ADDITIONAL RIGHTS AND OBLIGATIONS IN RESPECT OF THE RECEIVABLES

7.1. RIGHTS OF THE COMPANY. The Originator hereby authorizes the Company and the Servicer (if other than the Originator) or their respective designees to take any and all steps in the Originator's name necessary or desirable, in their respective determination, to collect all amounts due under any and all Receivables and Related Rights, including, without limitation, endorsing the Originator's name on checks and other instruments representing Collections and enforcing such Receivables and the provisions of the Isuzu Loan Documents that concern payment and/or enforcement of rights to payment.

7.2. RESPONSIBILITIES OF THE ORIGINATOR. Anything herein to the contrary notwithstanding:

(a) The Originator agrees to transfer any Collections that it receives directly to the Collection Account within one Business Day of receipt thereof, and agrees that all such Collections shall be segregated and held in trust for the Company and the Lender; PROVIDED that if the Company or the Servicer is required by Section 5.4 of the Loan and Servicing Agreement to remit Collections directly to the Lender (or its designee) the Originator shall remit such Collections directly to the Lender (or its designee) in the same manner as the Company and Servicer may be required to do so by Section 5.4 of the Loan and Servicing Agreement. The Originator further agrees not to deposit any funds other than Collections in the Collection Account.

(b) The Originator shall perform its obligations hereunder, and the exercise by the Company or its designee of its rights hereunder shall not relieve the Originator from such obligations.

(c) None of the Company, Servicer (if other than the Originator), or the Lender shall have any obligation or liability to the Obligor or any other third Person with respect to any Receivables or the Isuzu Loan Documents, nor shall the Company, Servicer (if other than the Originator), or the Lender be obligated to perform any of the obligations of the Originator thereunder.

(d) The Originator agrees to deliver to the Servicer (if other than the Originator) an irrevocable power of attorney, with full power of substitution, coupled with an interest, to take in the name of the Originator all steps necessary or advisable to indorse, negotiate or otherwise realize on any writing or other right of any kind held or transmitted by the Originator or transmitted or received by the Company (whether or not from the Originator) in connection with any Receivable or Related Right.

7.3. FURTHER ACTION EVIDENCING PURCHASES. The Originator agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action that the Company or Servicer may reasonably request in order to perfect, protect or more fully evidence the Receivables (and the Related Rights) purchased by, or contributed to, the Company hereunder, or to enable the Company to exercise or enforce any of its rights hereunder or under any other Transaction Document. Without limiting the generality of the foregoing, the Originator will:

(a) upon the request of the Company execute and file such financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be necessary or appropriate; and

(b) mark the summary master control data processing records with the legend set forth in SECTION 4.1(i).

The Originator hereby authorizes the Company or its designee to file one or more financing or continuation statements, and amendments thereto and assignments thereof, relative to all or any of the Receivables (and the Related Rights) now existing or hereafter generated by the Originator. If the Originator fails to perform any of its agreements or obligations under this Agreement, the Company or its designee may (but shall not be required to) itself perform, or cause performance of, such agreement or obligation, and the expenses of the Company or its designee incurred in connection therewith shall be payable by the Originator as provided in SECTION 10.6.

7.4. APPLICATION OF COLLECTIONS. Any payment by the Obligor in respect of any indebtedness owed by it to the Originator shall, except as otherwise specified by the Obligor or otherwise required by contract or law and unless otherwise instructed by the Company or the Lender, be applied FIRST, as a Collection of any Receivables of the Obligor, in the order of the age of such Receivables, starting with the oldest of such Receivables, and SECOND, to any other indebtedness of the Obligor.

ARTICLE VIII

PURCHASE AND SALE TERMINATION EVENTS

8.1. PURCHASE AND SALE TERMINATION EVENTS. Each of the following events or occurrences described in this SECTION 8.1 shall constitute a "PURCHASE AND SALE TERMINATION EVENT":

(a) The Termination Date (as defined in the Loan and Servicing Agreement) shall have occurred; or

(b) The Originator shall fail to make any payment or deposit to be made by it hereunder when due and such failure shall remain unremedied for five (5) Business Days after notice; or

(c) Any representation or warranty made or deemed to be made by the Originator (or any of its officers) under or in connection with this Agreement, any other Transaction Document or any other information or report delivered pursuant hereto or thereto shall prove to have been false or incorrect in any material respect when made or deemed made provided, however, if the violation of this paragraph (c) by the Originator may be cured without any potential or actual detriment to the Company, or the Lender, the Originator shall have 30 days from the earlier of (i) the Originator's knowledge of such failure and (ii) notice to the Originator of such failure to so cure any such violation before a Purchase and Sale Termination Event shall occur so long as the Originator is diligently attempting to effect such cure; or

(d) The Originator shall fail to perform or observe in any material respect any agreement contained in any of SECTIONS 6.1(g) or 6.3; or

(e) The Originator shall fail to perform or observe any other material term, covenant or agreement contained in this Agreement on its part to be performed or observed and such failure shall remain unremedied for 30 days after written notice thereof shall have been given by Servicer, the Lender or the Company to the Originator; or

(f)(i) The Originator or any of its subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Originator or any of its subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for all or any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), such proceeding shall remain undismissed or unstayed for a period of 30 days; or (ii) the Originator or any of its subsidiaries shall take any corporate action to authorize any of the actions set forth in CLAUSE (i) above in this SECTION 8.1(f);

(g) A contribution failure shall occur with respect to any benefit plan sufficient to give rise to a lien under Section 302(f) of ERISA, or the Internal Revenue Service shall, or shall indicate its intention in writing to the Originator to, file notice of a lien asserting a claim or claims pursuant to the Code with regard to any of the assets of the Originator, or the Pension Benefit Guaranty Corporation shall, or shall indicate its intention in writing to the Originator or an ERISA Affiliate to, either file notice of a lien asserting a claim pursuant to ERISA with regard to any assets of the Originator or an ERISA Affiliate or terminate any benefit plan that has unfunded benefit liabilities; or

(h) The Internal Revenue Service shall file notice of a lien pursuant to Section 6323 of the Internal Revenue Code with regard to any of assets of the Originator and such lien shall not have been released within ten Business Days, or the Pension Benefit Guaranty Corporation shall, or shall indicate its intention to, file notice of a lien pursuant to Section 4068 of ERISA with regard to any of the assets of the Originator.

8.2. REMEDIES.

(i) OPTIONAL TERMINATION. Upon the occurrence of a Purchase and Sale Termination Event, the Company (and not Servicer) shall have the option by notice to the Originator (with a copy to the Lender) to declare the Purchase and Sale Termination Date to have occurred.

(ii) REMEDIES CUMULATIVE. Upon any termination of the Facility pursuant to this SECTION 8.2, the Company shall have, in addition to all other rights and remedies under this Agreement or otherwise, all other rights and remedies provided under the UCC of each applicable jurisdiction and other applicable laws, which rights shall be cumulative. Without limiting the foregoing, the occurrence of the Purchase and Sale Termination Date shall not deny the Company any remedy in addition to termination of the Purchase Facility to which the Company may be otherwise appropriately entitled, whether at law or equity.

ARTICLE IX

INDEMNIFICATION

9.1. INDEMNITIES BY THE ORIGINATOR. Without limiting any other rights which the Company may have hereunder or under applicable law, the Originator hereby agrees to indemnify the Company, the Lender and each of their respective assigns, officers, directors, employees and agents (each of the foregoing Persons being individually called a "PURCHASE AND SALE INDEMNIFIED PARTY"), forthwith on demand, from and against any and all damages, losses, claims, judgments, liabilities and related costs and expenses, including reasonable attorneys' fees and disbursements (all of the foregoing being collectively called "PURCHASE AND SALE INDEMNIFIED AMOUNTS"), regardless of whether any such Purchase and Sale Indemnified Amount is the result of a Purchase and Sale Indemnified Party's negligence, strict liability or other acts or omissions of a Purchase and Sale Indemnified Party, awarded against or incurred by any of them arising out of or as a result of the following:

(a) the transfer by the Originator of an interest in any Receivable or Related Right to any Person other than the Company;

(b) the breach of any representation or warranty made by the Originator under or in connection with this Agreement or any other Transaction Document, or any information or report delivered by the Originator pursuant hereto or thereto (including any information contained in a

Purchase Report) which shall have been false or incorrect in any material respect when made, deemed made or delivered;

(c) the failure by the Originator to comply with any applicable law, rule or regulation with respect to any Receivable or the Isuzu Loan Documents, or the nonconformity of any Receivable or the Isuzu Loan Documents with any such applicable law, rule or regulation;

(d) the failure to vest and maintain vested in the Company a perfected ownership interest in the Receivables generated by the Originator and Related Rights free and clear of any Adverse Claim, other than an Adverse Claim arising solely as a result of an act of the Company, whether existing at the time of the purchase or contribution of such Receivables or at any time thereafter;

(e) the failure of the Originator to file with respect to itself, or any delay by the Originator in filing, financing statements or other similar instruments or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any Receivables or purported Receivables generated by the Originator or Related Rights, whether at the time of any purchase or contribution or at any subsequent time;

(f) any dispute, claim, offset or defense (other than discharge in bankruptcy) of the Obligor to the payment of any Receivable or purported Receivable generated by the Originator (including, without limitation, a defense based on such Receivables or the Isuzu Loan Documents not being a legal, valid and binding obligation of the Obligor enforceable against it in accordance with its terms), or any other claim resulting from or relating to the transaction giving rise to any Receivable or relating to collection activities with respect to any Receivable (if such collection activities were performed by the Originator or any of its Affiliates acting as Servicer or by any agent or independent contractor retained by the Originator or any of its Affiliates);

(g) any products liability or other claim, investigation, litigation or proceeding arising out of or in connection with goods, insurance or services that secure or relate to any Receivable;

(h) any litigation, proceeding or investigation against the Originator or in respect of any Receivable or Related Right;

(i) any tax or governmental fee or charge (other than any tax excluded pursuant to the proviso below), all interest and penalties thereon or with respect thereto, and all out-of-pocket costs and expenses, including the reasonable fees and expenses of counsel in defending against the same, which may arise by reason of the purchase, contribution or ownership of the Receivables or any Related Right connected with any such Receivables;

(j) any failure of the Originator, individually or as Servicer, to perform its duties or obligations in accordance with the provisions of this Agreement or any other Transaction Document; and

(k) the commingling of any Collections at any time with other funds;

EXCLUDING, HOWEVER, (i) Purchase and Sale Indemnified Amounts to the extent resulting from gross negligence or willful misconduct on the part of a Purchase and Sale Indemnified Party, (ii) any indemnification which has the effect of recourse for non-payment of the Receivables due to credit reasons to the Originator (except as otherwise specifically provided under this SECTION 9.1) and (iii) any tax based upon or measured by net income or gross receipts.

If for any reason the indemnification provided above in this SECTION 9.1 is unavailable to a Purchase and Sale Indemnified Party or is insufficient to hold such Purchase and Sale Indemnified Party harmless, then the Originator shall contribute to the amount paid or payable by such Purchase and Sale Indemnified Party as a result of such loss, claim, damage or liability to the maximum extent permitted under applicable law. Promptly after receipt by a Purchase and Sale Indemnified Party under this ARTICLE IX of notice of any claim or the commencement of any action arising out of or as a result of any of paragraphs (a) through (j) above, the Purchase and Sale Indemnified Party shall, if a claim in respect thereof is to be made against the Originator under this ARTICLE IX, notify the Originator in writing of the claim or the commencement of that action; PROVIDED, HOWEVER, that the failure to notify the Originator shall not relieve it from any liability which it may have under this ARTICLE IX except to the extent it has been materially prejudiced by such failure and, PROVIDED, FURTHER, that the failure to notify the Originator shall not relieve it from any liability which it may have to a Purchase and Sale Indemnified Party otherwise than under this ARTICLE IX. If any such claim or action shall be brought against a Purchase and Sale Indemnified Party, the Originator shall be entitled to participate therein and, to the extent that it wishes, to assume the defense thereof with counsel satisfactory to the Purchase and Sale Indemnified Party. After notice from the Originator to the Purchase and Sale Indemnified Party of its election to assume the defense of such claim or action, the Originator shall not be liable to the Purchase and Sale Indemnified Party under this ARTICLE IX for any legal or other expenses subsequently incurred by Purchase and Sale Indemnified Party in connection with the defense thereof other than reasonable costs of investigation. The Originator shall not (i) without the prior written consent of the relevant Purchase and Sale Indemnified Party or Parties (which consent shall not be unreasonably withheld), settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the Purchase and Sale Indemnified Party or Parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each Purchase and Sale Indemnified Party from all liability arising out of such claim, action, suit or proceeding or (ii) be liable for any settlement of any such action affected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment of the plaintiff in any such action, the Originator agrees to indemnify and hold harmless any indemnified party from and against any Purchase and Sale Indemnified Amounts relating thereto.

ARTICLE X

MISCELLANEOUS

10.1. AMENDMENTS, ETC.

(a) The provisions of this Agreement may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by the Originator, the Company, the Servicer (if other than the Originator) and the Lender.

(b) No failure or delay on the part of the Company, Servicer, the Originator or any third party beneficiary in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No notice to or demand on the Company, Servicer, or the Originator in any case shall entitle it to any notice or demand in similar or other circumstances. No waiver or approval by the Company or Servicer under this Agreement shall, except as may otherwise be stated in such waiver or approval, be applicable to subsequent transactions. No waiver or approval under this Agreement shall require any similar or dissimilar waiver or approval thereafter to be granted hereunder.

10.2. NOTICES, ETC. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including facsimile communication) and shall be personally delivered or sent by express mail or courier or by certified mail, postage-prepaid, or by facsimile, to the intended party at the address or facsimile number of such party set forth under its name on the signature pages hereof or at such other address or facsimile number as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall be effective, (i) if personally delivered or sent by express mail or courier or if sent by certified mail, when received, and (ii) if transmitted by facsimile, when sent, receipt confirmed by telephone or electronic means.

10.3. NO WAIVER; CUMULATIVE REMEDIES. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

10.4. BINDING EFFECT; ASSIGNABILITY. This Agreement shall be binding upon and inure to the benefit of the Company, the Originator and its respective successors and permitted assigns. The Originator may not assign its rights hereunder or any interest herein without the prior consent of the Company and the Lender. This Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until the date after the Purchase and Sale Termination Date on which the Originator has received payment in full for all Receivables and Related Rights purchased pursuant to SECTION 1.1 hereof. The rights and remedies with respect to any breach of any representation and warranty made by the Originator pursuant to ARTICLE V and the indemnification and payment provisions of ARTICLE IX and SECTION 10.6 shall be continuing and shall survive any termination of this Agreement.

10.5. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF INDIANA (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS PRINCIPLES THEREOF), EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE INTERESTS OF THE COMPANY IN THE RECEIVABLES OR RELATED RIGHTS, OR REMEDIES HEREUNDER IN RESPECT THEREOF, ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF INDIANA.

10.6. COSTS, EXPENSES AND TAXES. In addition to the obligations of the Originator under ARTICLE IX, the Originator agrees to pay on demand:

(a) all reasonable costs and expenses in connection with the preparation, execution, delivery and administration (including periodic auditing of the Receivables) of this Agreement, the Loan and Servicing Agreement and the other documents and agreements to be delivered hereunder or in connection herewith, including all reasonable costs and expenses relating to the amending, amending and restating, modifying or supplementing of this Agreement, the Loan and Servicing Agreement and the other documents and agreements to be delivered hereunder or in connection herewith and the waiving of any provisions thereof, and including in all cases, without limitation, Attorney Costs for the Company, the Lender and their respective Affiliates and agents with respect thereto and with respect to advising the Company, the Lender and their respective Affiliates and agents as to their rights and remedies under this Agreement and the other Transaction Documents, and all reasonable costs and expenses, if any (including Attorney Costs), of the Company, the Lender and their respective Affiliates and agents, in connection with the enforcement of this Agreement and the other Transaction Documents; and

(b) any and all stamp and other taxes and fees payable in connection with the execution, delivery, filing and recording of this Agreement or the other documents or agreements to be delivered hereunder, and agrees to save each Purchase and Sale Indemnified Party harmless from and against any liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

10.7. SUBMISSION TO JURISDICTION. EACH PARTY HERETO HEREBY IRREVOCABLY (a) SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY INDIANA STATE COURT AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF INDIANA, OVER ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY TRANSACTION DOCUMENT; (b) AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH STATE OR UNITED STATES DISTRICT COURT; (c) WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING; (d) CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO SUCH PERSON AT ITS ADDRESS SPECIFIED IN SECTION 10.2; AND (e) TO THE EXTENT ALLOWED BY LAW, AGREES THAT A NONAPPEALABLE FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING

SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS SECTION 10.7 SHALL AFFECT THE COMPANY'S RIGHT TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING ANY ACTION OR PROCEEDING AGAINST THE ORIGINATOR OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTIONS.

10.8. WAIVER OF JURY TRIAL. EACH PARTY HERETO EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY OTHER TRANSACTION DOCUMENT, OR UNDER ANY AMENDMENT, INSTRUMENT OR DOCUMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

10.9. CAPTIONS AND CROSS REFERENCES; INCORPORATION BY REFERENCE. The various captions (including, without limitation, the table of contents) in this Agreement are included for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. References in this Agreement to any underscored Section or Exhibit are to such Section or Exhibit of this Agreement, as the case may be. The Exhibits hereto are hereby incorporated by reference into and made a part of this Agreement.

10.10. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same Agreement.

10.11. ACKNOWLEDGMENT AND AGREEMENT. By execution below, the Originator expressly acknowledges and agrees that all of the Company's rights, title, and interests in, to, and under this Agreement shall be pledged by the Company to the Lender pursuant to the Loan and Servicing Agreement, and the Originator consents to such pledge. Each of the parties hereto acknowledges and agrees that the Lender is a third party beneficiary of the rights of the Company arising hereunder and under the other Transaction Documents to which the Originator is a party and that the Lender may enforce the rights of the Company under this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

AUTOMOTIVE FINANCE CORPORATION

By: /s/ Curtis L. Phillips

Name: Curtis L. Phillips
Title: EVP, CFO, Treas
310 East 96th Street, Suite 300
Indianapolis, Indiana 46240
Attention: Curt Phillips
Telephone: (317) 815-9751
Facsimile: (317) 815-9650

AFC AIM CORPORATION

By: /s/ Curtis L. Phillips

Name: Curtis L. Phillips
Title: EVP CFO Treas
310 East 96th Street, Suite 320
Indianapolis, Indiana 46240
Attention: Curt Phillips
Telephone: (317) 815-9751
Facsimile: (317) 815-9650

SCHEDULE 5.13

OFFICE LOCATIONS

310 East 96th Street, Suite 300
Indianapolis, Indiana 46240

SCHEDULE 5.14

TRADE NAMES

AFC

AFC, Inc.

Autodaq Finance Corporation

Automotive Finance

Automotive Floorplan Corporation

SCHEDULE 5.15

TAX MATTERS

None.

EXHIBIT A

FORM OF COMPANY NOTE

NON-NEGOTIABLE
TERM NOTE

December 22, 2000

FOR VALUE RECEIVED, the undersigned, AFC AIM CORPORATION, an Indiana corporation (the "COMPANY"), promises to pay to AUTOMOTIVE FINANCE CORPORATION, an Indiana corporation ("ORIGINATOR"), on the terms and subject to the conditions set forth herein and in the Purchase and Sale Agreement referred to below, the aggregate unpaid Purchase Price of all Receivables purchased by the Company from Originator pursuant to such Purchase and Sale Agreement, as such unpaid Purchase Price is shown in the records of Servicer.

1. PURCHASE AND SALE AGREEMENT. This Term Note is the Company Note described in, and is subject to the terms and conditions set forth in, that certain Purchase and Sale Agreement of even date herewith (as the same may be amended, supplemented, amended and restated or otherwise modified in accordance with its terms, the "PURCHASE AND SALE AGREEMENT"), among the Company and Originator. Reference is hereby made to the Purchase and Sale Agreement for a statement of certain other rights and obligations of the Company and Originator.

2. DEFINITIONS. Capitalized terms used (but not defined) herein have the meanings assigned thereto in the Purchase and Sale Agreement and in EXHIBIT I to the Receivables Purchase Agreement (as defined in the Purchase and Sale Agreement). In addition, as used herein, the following terms have the following meanings:

"BANKRUPTCY PROCEEDINGS" has the meaning set forth in CLAUSE (b) of PARAGRAPH 9 hereof.

"FINAL MATURITY DATE" means the Payment Date immediately following the date that falls one hundred twenty one (121) days after the Purchase and Sale Termination Date.

"INTEREST PERIOD" means the period from and including a Payment Date (or, in the case of the first Interest Period, the date hereof) to but excluding the next Payment Date.

"SENIOR INTERESTS" means, collectively, (i) all accrued interest on the Loans, (ii) the fees referred to in SECTION 1.5 of the Loan and Servicing Agreement, (iii) all amounts payable pursuant to SECTION 1.7, 1.8, 1.9 or 1.11 of the Loan and Servicing Agreement, (iv) the principal amount of the Loans and (v) all other obligations of the Company, the Originator and the Servicer (as long as the Originator is the Servicer) that are due and payable, to (a) the Lender and its successors, permitted transferees

and assigns arising in connection with the Transaction Documents and (b) any Indemnified Party arising in connection with the Loan and Servicing Agreement, in each case, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, together with any and all interest accruing on any such amount after the commencement of any Bankruptcy Proceedings, notwithstanding any provision or rule of law that might restrict the rights of any Senior Interest Holder, as against the Company or anyone else, to collect such interest.

"SENIOR INTEREST HOLDERS" means, collectively, the Lender and the Indemnified Parties.

"SUBORDINATION PROVISIONS" means, collectively, CLAUSES (a) through (l) of PARAGRAPH 9 hereof.

"TELERATE SCREEN RATE" means, for any Interest Period, the rate for thirty day commercial paper denominated in Dollars which appears on Page 1250 of the Dow Jones Telerate Service (or such other page as may replace that page on that service for the purpose of displaying Dollar commercial paper rates) at approximately 9:00 a.m., New York City time, on the first day of such Interest Period.

3. INTEREST. Subject to the Subordination Provisions set forth below, the Company promises to pay interest on this Term Note as follows:

(a) Prior to the Final Maturity Date, the aggregate unpaid Purchase Price from time to time outstanding during any Interest Period shall bear interest at a rate PER ANNUM equal to the Telerate Screen Rate for such Interest Period, as determined by Servicer; and

(b) From (and including) the Final Maturity Date to (but excluding) the date on which the entire aggregate unpaid Purchase Price is fully paid, the aggregate unpaid Purchase Price from time to time outstanding shall bear interest at a rate PER ANNUM equal to the rate of interest publicly announced from time to time by Bank of Montreal, as its "base rate", "reference rate" or other comparable rate, as determined by Servicer.

4. INTEREST PAYMENT DATES. Subject to the Subordination Provisions set forth below, the Company shall pay accrued interest on this Term Note on each Payment Date, and shall pay accrued interest on the amount of each principal payment made in cash on a date other than a Payment Date at the time of such principal payment.

5. BASIS OF COMPUTATION. Interest accrued hereunder that is computed by reference to the Telerate Screen Rate shall be computed for the actual number of days elapsed on the basis of a 360-day year, and interest accrued hereunder that is computed by reference to the rate described in PARAGRAPH 3(b) of this Term Note shall be computed for the actual number of days elapsed on the basis of a 365- or 366-day year.

6. PRINCIPAL PAYMENT DATES. Subject to the Subordination Provisions set forth below, payments of the principal amount of this Term Note shall be made as follows:

(a) The principal amount of this Term Note shall be reduced by an amount equal to each payment deemed made pursuant to SECTION 3.4 of the Purchase and Sale Agreement; and

(b) The entire remaining unpaid Purchase Price of all Receivables purchased by the Company from Originator pursuant to the Purchase and Sale Agreement shall be paid on the Final Maturity Date.

Subject to the Subordination Provisions set forth below, the principal amount of and accrued interest on this Term Note may be prepaid on any Business Day without premium or penalty.

7. PAYMENT MECHANICS. All payments of principal and interest hereunder are to be made in lawful money of the United States of America in the manner specified in ARTICLE III of the Purchase and Sale Agreement.

8. ENFORCEMENT EXPENSES. In addition to and not in limitation of the foregoing, but subject to the Subordination Provisions set forth below and to any limitation imposed by applicable law, the Company agrees to pay all expenses, including reasonable attorneys' fees and legal expenses, incurred by Originator in seeking to collect any amounts payable hereunder which are not paid when due.

9. SUBORDINATION PROVISIONS. The Company covenants and agrees, and Originator and any other holder of this Term Note (collectively, Originator and any such other holder are called the " HOLDER"), by its acceptance of this Term Note, likewise covenants and agrees on behalf of itself and any holder of this Term Note, that the payment of the principal amount of and interest on this Term Note is hereby expressly subordinated in right of payment to the payment and performance of the Senior Interests to the extent and in the manner set forth in the following clauses of this PARAGRAPH 9:

(a) No payment or other distribution of the Company's assets of any kind or character, whether in cash, securities, or other rights or property, shall be made on account of this Term Note except to the extent such payment or other distribution is (i) permitted under CLAUSE (n) of EXHIBIT IV to the Loan and Servicing Agreement or (ii) made pursuant to CLAUSE (a) or (b) of PARAGRAPH 6 of this Term Note;

(b) In the event of any dissolution, winding up, liquidation, readjustment, reorganization or other similar event relating to the Company, whether voluntary or involuntary, partial or complete, and whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors, or any other marshalling of the assets and liabilities of the Company or any sale of all or substantially all of the assets of the Company other than as permitted by the Purchase and Sale Agreement (such proceedings being herein collectively called "BANKRUPTCY PROCEEDINGS"), the Senior Interests

shall first be paid and performed in full and in cash before Originator shall be entitled to receive and to retain any payment or distribution in respect of this Term Note. In order to implement the foregoing: (i) all payments and distributions of any kind or character in respect of this Term Note to which Holder would be entitled except for this CLAUSE (b) shall be made directly to the Lender (for the benefit of the Senior Interest Holders); (ii) Holder shall promptly file a claim or claims, in the form required in any Bankruptcy Proceedings, for the full outstanding amount of this Term Note, and shall use commercially reasonable efforts to cause said claim or claims to be approved and all payments and other distributions in respect thereof to be made directly to the Lender (for the benefit of the Senior Interest Holders) until the Senior Interests shall have been paid and performed in full and in cash; and (iii) Holder hereby irrevocably agrees that Lender, in the name of Holder or otherwise, demand, sue for, collect, receive and receipt for any and all such payments or distributions, and file, prove and vote or consent in any such Bankruptcy Proceedings with respect to any and all claims of Holder relating to this Term Note, in each case until the Senior Interests shall have been paid and performed in full and in cash;

(c) In the event that Holder receives any payment or other distribution of any kind or character from the Company or from any other source whatsoever, in respect of this Term Note, other than as expressly permitted by the terms of this Term Note, such payment or other distribution shall be received in trust for the Senior Interest Holders and shall be turned over by Holder to the Lender (for the benefit of the Senior Interest Holders) forthwith. Holder will mark its books and records so as clearly to indicate that this Term Note is subordinated in accordance with the terms hereof. All payments and distributions received by the Lender in respect of this Term Note, to the extent received in or converted into cash, may be applied by the Lender (for the benefit of the Senior Interest Holders) first to the payment of any and all expenses (including reasonable attorneys' fees and legal expenses) paid or incurred by the Senior Interest Holders in enforcing these Subordination Provisions, or in endeavoring to collect or realize upon this Term Note, and any balance thereof shall, solely as between Originator and the Senior Interest Holders, be applied by the Lender (in the order of application set forth in SECTION 1.4(d) of the Loan and Servicing Agreement) toward the payment of the Senior Interests; but as between the Company and its creditors, no such payments or distributions of any kind or character shall be deemed to be payments or distributions in respect of the Senior Interests;

(d) Notwithstanding any payments or distributions received by the Senior Interest Holders in respect of this Term Note, while any Bankruptcy Proceedings are pending Holder shall not be subrogated to the then existing rights of the Senior Interest Holders in respect of the Senior Interests until the Senior Interests have been paid and performed in full and in cash. If no Bankruptcy Proceedings are pending, Holder shall only be entitled to exercise any subrogation rights that it may acquire (by reason of a payment or distribution to the Senior Interest Holders in respect of this Term Note) to the extent that any payment arising out of the exercise of such rights would be permitted under CLAUSE (n) of EXHIBIT IV to the Loan and Servicing Agreement;

(e) These Subordination Provisions are intended solely for the purpose of defining the relative rights of Holder, on the one hand, and the Senior Interest Holders on the other hand. Nothing contained in these Subordination Provisions or elsewhere in this Term Note is intended to or shall impair, as between the Company, its creditors (other than the Senior Interest Holders) and Holder, the Company's obligation, which is unconditional and absolute, to pay Holder the principal of and interest on this Term Note as and when the same shall become due and payable in accordance with the terms hereof or to affect the relative rights of Holder and creditors of the Company (other than the Senior Interest Holders);

(f) Holder shall not, until the Senior Interests have been paid and performed in full and in cash, (i) cancel, waive, forgive, transfer or assign, or commence legal proceedings to enforce or collect, or subordinate to any obligation of the Company, howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, or now or hereafter existing, or due or to become due, other than the Senior Interests, this Term Note or any rights in respect hereof or (ii) convert this Term Note into an equity interest in the Company, unless Holder shall have received the prior written consent of the Lender in each case;

(g) Holder shall not, without the advance written consent of the Lender, commence, or join with any other Person in commencing, any Bankruptcy Proceedings with respect to the Company until at least one year and one day shall have passed since the Senior Interests shall have been paid and performed in full and in cash;

(h) If, at any time, any payment (in whole or in part) of any Senior Interest is rescinded or must be restored or returned by a Senior Interest Holder (whether in connection with Bankruptcy Proceedings or otherwise), these Subordination Provisions shall continue to be effective or shall be reinstated, as the case may be, as though such payment had not been made;

(i) Each of the Senior Interest Holders may, from time to time, at its sole discretion, without notice to Holder, and without waiving any of its rights under these Subordination Provisions, take any or all of the following actions: (i) retain or obtain an interest in any property to secure any of the Senior Interests; (ii) retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to any of the Senior Interests; (iii) extend or renew for one or more periods (whether or not longer than the original period), alter or exchange any of the Senior Interests, or release or compromise any obligation of any nature with respect to any of the Senior Interests; (iv) amend, supplement, amend and restate, or otherwise modify any Transaction Document; and (v) release its security interest in, or surrender, release or permit any substitution or exchange for all or any part of any rights or property securing any of the Senior Interests, or extend or renew for one or more periods (whether or not longer than the original period), or release, compromise, alter or exchange any obligations of any nature of any obligor with respect to any such rights or property;

(j) Holder hereby waives: (i) notice of acceptance of these Subordination Provisions by any of the Senior Interest Holders; (ii) notice of the existence, creation, non-payment or non-performance of all or any of the Senior Interests; and (iii) all diligence in enforcement, collection or protection of, or realization upon, the Senior Interests, or any thereof, or any security therefor;

(k) Each of the Senior Interest Holders may, from time to time, on the terms and subject to the conditions set forth in the Transaction Documents to which such Persons are party, but without notice to Holder, assign or transfer any or all of the Senior Interests, or any interest therein; and, notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof, such Senior Interests shall be and remain Senior Interests for the purposes of these Subordination Provisions, and every immediate and successive assignee or transferee of any of the Senior Interests or of any interest of such assignee or transferee in the Senior Interests shall be entitled to the benefits of these Subordination Provisions to the same extent as if such assignee or transferee were the assignor or transferor; and

(l) These Subordination Provisions constitute a continuing offer from the holder of this Term Note to all Persons who become the holders of, or who continue to hold, Senior Interests; and these Subordination Provisions are made for the benefit of the Senior Interest Holders, and the Lender may proceed to enforce such provisions on behalf of each of such Persons.

10. GENERAL. No failure or delay on the part of Originator in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No amendment, modification or waiver of, or consent with respect to, any provision of this Term Note shall in any event be effective unless (i) the same shall be in writing and signed and delivered by the Company and Holder and (ii) all consents required for such actions under the Transaction Documents shall have been received by the appropriate Persons.

11. MAXIMUM INTEREST. Notwithstanding anything in this Term Note to the contrary, the Company shall never be required to pay unearned interest on any amount outstanding hereunder and shall never be required to pay interest on the principal amount outstanding hereunder at a rate in excess of the maximum nonusurious interest rate that may be contracted for, charged or received under applicable federal or state law (such maximum rate being herein called the "HIGHEST LAWFUL RATE"). If the effective rate of interest which would otherwise by payable under this Term Note would exceed the Highest Lawful Rate, or if the holder of this Term Note shall receive any unearned interest or shall receive monies that are deemed to constitute interest which would increase the effective rate of interest payable by the Company under this Term Note to a rate in excess of the Highest Lawful Rate, then (i) the amount of interest which would otherwise by payable by the Company under this Term Note shall be reduced to the amount allowed by applicable law, and (ii) any unearned interest paid by the Company or any interest paid by the Company in excess of the Highest Lawful Rate shall be refunded to the Company. Without limitation of the foregoing, all

calculations of the rate of interest contracted for, charged or received by Originator under this Term Note that are made for the purpose of determining whether such rate exceeds the Highest Lawful Rate applicable to Originator (such Highest Lawful Rate being herein called the "ORIGINATOR'S MAXIMUM PERMISSIBLE RATE") shall be made, to the extent permitted by usury laws applicable to Originator (now or hereafter enacted), by amortizing, prorating and spreading in equal parts during the actual period during which any amount has been outstanding hereunder all interest at any time contracted for, charged or received by Originator in connection herewith. If at any time and from time to time (i) the amount of interest payable to Originator on any date shall be computed at Originator's Maximum Permissible Rate pursuant to the provisions of the foregoing sentence and (ii) in respect of any subsequent interest computation period the amount of interest otherwise payable to Originator would be less than the amount of interest payable to Originator computed at Originator's Maximum Permissible Rate, then the amount of interest payable to Originator in respect of such subsequent interest computation period shall continue to be computed at Originator's Maximum Permissible Rate until the total amount of interest payable to Originator shall equal the total amount of interest which would have been payable to Originator if the total amount of interest had been computed without giving effect to the provisions of the foregoing sentence.

12. NO NEGOTIATION. This Term Note is not negotiable.

13. GOVERNING LAW. THIS TERM NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE LAWS OF THE STATE OF INDIANA WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

14. CAPTIONS. Paragraph captions used in this Term Note are for convenience only and shall not affect the meaning or interpretation of any provision of this Term Note.

[Signature page follows)

AFC AIM CORPORATION

By: /S/ CURTIS L. PHILLIPS

Name: CURTIS L. PHILLIPS

Title: EVP CFO, TREAS

EXHIBIT 12

ALLETE
Computation of Ratios of Earnings to Fixed Charges and
Supplemental Ratios of Earnings to Fixed Charges

For the Year Ended December 31	2000	1999	1998	1997	1996
Millions Except Ratios					
Income from Continuing Operations Per Consolidated Statement of Income	$148.6	$ 68.0	$ 88.5	$ 77.6	$ 69.2
Add (Deduct)					
Current Income Tax Expense	91.1	70.5	52.9	44.7	31.4
Deferred Income Tax Expense (Benefit)	(4.8)	(11.3)	2.7	3.2	(9.8)
Deferred Investment Tax Credits	(1.8)	(1.5)	(1.6)	(1.3)	(2.0)
Undistributed Income from Less than 50% Owned Equity Investments	-	(0.6)	(14.1)	(13.9)	(11.0)
Minority Interest	-	1.8	2.0	2.3	3.3
	233.1	126.9	130.4	112.6	81.1
Fixed Charges					
Interest on Long-Term Debt	54.5	48.4	48.5	50.4	52.4
Capitalized Interest	0.9	0.7	1.0	1.5	1.5
Other Interest Charges - Net	15.9	12.0	17.1	14.3	10.2
Interest Component of All Rentals	8.5	4.8	5.7	3.7	2.5
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	6.0	6.0	6.0	4.7
Total Fixed Charges	85.8	71.9	78.3	75.9	71.3
Earnings Before Income Taxes and Fixed Charges (Excluding Capitalized Interest)	$318.0	$198.1	$207.7	$187.0	$150.9
Ratio of Earnings to Fixed Charges	3.71	2.76	2.65	2.46	2.12
Earnings Before Income Taxes and Fixed Charges (Excluding Capitalized Interest)	$318.0	$198.1	$207.7	$187.0	$150.9
Supplemental Charges	14.8	15.4	14.5	12.0	14.4
Earnings Before Income Taxes and Fixed and Supplemental Charges (Excluding Capitalized Interest)	$332.8	$213.5	$222.2	$199.0	$165.3
Total Fixed Charges	$ 85.8	$71.9	$78.3	$75.9	$71.3
Supplemental Charges	14.8	15.4	14.5	12.0	14.4
Fixed and Supplemental Charges	$100.6	$87.3	$92.8	$87.9	$85.7
Supplemental Ratio of Earnings to Fixed Charges	3.31	2.45	2.39	2.26	1.93

The supplemental ratio of earnings to fixed charges includes Minnesota Power's obligation under a contract with Square Butte which extends through 2026, pursuant to which Minnesota Power is entitled to approximately 71% of the output of a 455-megawatt coal-fired generating unit (Unit). Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Unit output entitlement. 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. Variable operating costs include the price of coal purchased from BNI Coal under a long-term contract. (See Note 14.)

Exhibit 23(a)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-51989, 333-26755, 333-16463, 333-16445, 333-82901) of ALLETE (legally incorporated as Minnesota Power, Inc.) of our report dated January 17, 2001 appearing on page 54 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 17, 2001 relating to the Financial Statement Schedule, which appears on page 74 of this Form 10-K.

We also consent to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (Nos. 333-02109, 333-40797, 333-52161, 333-58945, 333-54330, 333-41882) of ALLETE (legally incorporated as Minnesota Power, Inc.) of our report dated January 17, 2001 appearing on page 54 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 17, 2001 relating to the Financial Statement Schedule, which appears on page 74 of this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Minneapolis, Minnesota
February 5, 2001

Exhibit 23(b)

CONSENT OF GENERAL COUNSEL

The statements of law and legal conclusions under "Item 1. Business" in ALLETE's Annual Report on Form 10-K for the year ended December 31, 2000 have been reviewed by me and are set forth therein in reliance upon my opinion as an expert.

I hereby consent to the incorporation by reference of such statements of law and legal conclusions in Registration Statement Nos. 333-02109, 333-40797, 333-52161, 333-58945, 333-41882 and 333-54330 on Form S-3, and Registration Statement Nos. 33-51989, 333-26755, 333-16463, 333-16445 and 333-82901 on Form S-8.

Philip R. Halverson

Philip R. Halverson
Duluth, Minnesota
February 5, 2001