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Securities and Exchange Commission
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, 1996

/ / 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

Minnesota Power & Light Company
(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
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (218) 722-2641

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
5% Cumulative Preferred Stock, par value $100 per share	American Stock Exchange
8.05% Cumulative Quarterly Income Preferred Securities of MP&L Capital I, a subsidiary of Minnesota Power & Light Company	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
Preferred Stock, without par value

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. /X/

The aggregate market value of voting stock held by nonaffiliates on March 3, 1997, was $969,116,933.

As of March 3, 1997, there were 32,934,958 shares of Minnesota Power & Light Company Common Stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Minnesota Power 1996 Annual Report are incorporated by reference in Part II, Items 7 and 8, and portions of the Proxy Statement for the 1997 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 Acronyms	Term
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
BNI Coal	BNI Coal, Ltd.
Boise	Boise Cascade Corp.
Boswell	Boswell Energy Center
Capital Re	Capital Re Corporation
CIP	Conservation Improvement Program
CPI	Consolidated Papers, Inc.
Company	Minnesota Power & Light Company and its Subsidiaries
DOJ	United States Department of Justice
Duluth	City of Duluth, Minnesota
Energy Policy Act	National Energy Policy Act of 1992
EPA	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FDEP	Florida Department of Environmental Protection
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
Heater	Heater Utilities, Inc.
Hibbard	M.L. Hibbard Station
ISI	Instrumentation Services, Inc.
Laskin	Laskin Energy Center
Lehigh	Lehigh Acquisition Corporation
MAPP	Mid-Continent Area Power Pool
MBtu	Million British thermal units
Minnesota Power	Minnesota Power & Light Company and its Subsidiaries
Minnkota Power	Minnkota Power Cooperative, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
MWh	Megawatthour
NCUC	North Carolina Utilities Commission
Note_	Note __ to the consolidated financial statements in the Minnesota Power 1996 Annual Report
NPDES	National Pollutant Discharge Elimination System
PSCW	Public Service Commission of Wisconsin
Rainy River	Rainy River Energy Corporation
Reach All	Reach All Partnership
SCPSC	South Carolina Public Service Commission
Seabrook	Heater of Seabrook, Inc.
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Synertec	Synertec, Incorporated
WPPI	Wisconsin Public Power, Inc. SYSTEM

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), the Company is hereby filing cautionary statements identifying important factors that could cause the Company's 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 the Company 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", "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 the control of the Company and may cause actual results to differ materially from those contained in forward-looking statements: (i) prevailing governmental policies and regulatory actions, including those of the FERC, the MPUC, the FPSC, the NCUC, the SCPSC and the PSCW, with respect to 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 present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs); (ii) economic and geographic factors including political and economic risks; (iii) changes in and compliance with environmental and safety laws and policies; (iv) weather conditions; (v) population growth rates and demographic patterns; (vi) competition for retail and wholesale customers; (vii) pricing and transportation of commodities; (viii) market demand, including structural market changes; (ix) changes in tax rates or policies or in rates of inflation; (x) changes in project costs; (xi) unanticipated changes in operating expenses and capital expenditures; (xii) capital market conditions; (xiii) competition for new energy development opportunities; and (xiv) legal and administrative proceedings (whether civil or criminal) and settlements that influence the business and profitability of the Company.

Any forward-looking statements speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such 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 such factors, nor can it assess the impact of any such factor on the business 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.

PART I

Item 1. Business.

Minnesota Power is an operating public utility incorporated under the laws of the State of Minnesota in 1906. Its principal executive office is at 30 West Superior Street, Duluth, Minnesota, 55802; and its telephone number is (218) 722-2641. Minnesota Power has operations in four business segments: (1) electric operations, which include electric and gas services, and coal mining; (2) water services, which include water and wastewater services; (3) automotive services, which include auctions, a finance company and an auto transport company; and (4) investments, which include a securities portfolio, a 21 percent equity investment in a financial guaranty reinsurance company and real estate operations. As of December 31, 1996, the Company and its subsidiaries had approximately 6,500 employees.

Summary of Earnings Per Share	Year Ended December 31, 1996	1995	1994
Consolidated Earnings Per Share			
Continuing Operations	$2.28	$2.06	$1.99
Discontinued Operations	-	.10	.07
Total	$2.28	$2.16	$2.06
Percentage of Earnings by Business Segment			
Continuing Operations			
Electric Operations	58%	63%	66%
Water Services	8	(2)	23
Automotive Services	6	0	-
Investments	57	67	40
Corporate Charges and Other	(29)	(33)	(33)
Discontinued Operations	-	5	4
	100%	100%	100%

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Financial statement information may not be comparable between periods due to the purchase of 80 percent of ADESA on July 1, 1995, another 3 percent on January 3, 1996, and the remaining 17 percent on August 21, 1996.

On June 30, 1995, the Company sold the interest in its paper and pulp business to CPI for $118 million in cash, plus CPI's assumption of certain debt and lease obligations. The Company is still committed to a maximum guarantee of $95 million to ensure a portion of a $33.4 million annual lease obligation for paper mill equipment under an operating lease extending to 2012. CPI has agreed to indemnify the Company for any payments the Company may make as a result of the Company's obligation relating to this operating lease.

Includes the financial results for Reach All and general corporate expenses not allocable to a specific business segment.

Since 1983 Minnesota Power has been diversifying to reduce its reliance on electricity sales to Minnesota's taconite industry and to gain additional earnings growth potential. Acquisitions have been a primary means of diversification. During 1996 the Company purchased the remaining 20 percent minority interest in ADESA, the third largest automobile auction business in the United States, making ADESA a wholly owned subsidiary of the Company. Additionally, the Company acquired five auction businesses to complement and expand its automotive services segment. In April 1996 the Company acquired Palm Coast real estate in Florida adding significantly to its inventory of commercial and residential properties. Water services expanded during 1996 with the acquisition of ISI, a predictive maintenance business that serves the water industry. During 1997 the Company plans to complete the purchase of a small water utility in North Carolina and continues to consider other acquisitions that would complement its businesses, expand its services and contribute to earnings growth.

For a detailed discussion of results of operations and trends, see Management's Discussion and Analysis of Financial Condition and Results of Operations in the Minnesota Power 1996 Annual Report. For business segment information, see Note 1.

The information contained or incorporated by reference in this annual report on Form 10-K reflects a categorization of the Company's business which is different from the categorization used in the annual report on Form 10-K for 1995. Financial data from prior years has been reclassified in this annual report on Form 10-K to present comparable data in all periods.

Electric Operations

Electric operations generate, transmit, distribute and market electricity. In addition, electric operations include coal mining, engineering, construction and maintenance services, and economic development projects within the Company's service area.

- Minnesota Power provides electricity in a 26,000 square mile electric service territory located in northeastern Minnesota. As of December 31, 1996, Minnesota Power was supplying retail electric service to 121,000 customers in 153 cities, towns and communities, and outlying rural areas. The largest city served is Duluth with a population of 85,000 based on the 1990 census. Wholesale electric service for resale is supplied to 13 municipal distribution systems, one private utility and SWL&P.

  MPEX is an expansion of the Company's inter-utility marketing group which has been a buyer and seller of capacity and energy for 25 years in the wholesale power market. It was formally established in early 1996 as a new division of Minnesota Power. The customers of MPEX are other power suppliers in the Midwest and Canada. MPEX contracts to provide hourly energy scheduling and power trading services.

- Superior Water, Light and Power Company sells electricity and natural gas, and provides water service in northwestern Wisconsin. As of December 31, 1996, SWL&P served 14,000 electric customers, 11,000 natural gas customers and 10,000 water customers.

- Minnesota Power Enterprises, Inc., a subsidiary of Minnesota Power, was created in 1996 to facilitate the development of the non-regulated services of electric operations. Subsidiaries of Minnesota Power Enterprises, Inc. include BNI Coal, Synertec, Rainy River, Upper Minnesota Properties, Inc. and Minnesota Power Services Group, Inc.

  - 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 coal supply agreements extending to 2027. Under an agreement with Square Butte, Minnesota Power purchases 71 percent of the output from the Square Butte unit which is capable of generating up to 470 MW. Minnkota Power has an option to extend its coal supply agreement to 2042. (See - Fuel and Note 17.)

  - Synertec provides project development, planning, construction management and operating services to new and expanding businesses.

  - Rainy River provides engineering, and operating and maintenance services to new and existing generating facilities.

  - Upper Minnesota Properties, Inc. has invested in affordable housing projects located in the electric operations' service territory. The Company is also an active participant in a variety of economic development projects throughout the electric operations' service territory providing resources and expertise.

  - Minnesota Power Services Group, Inc. includes the Electric Outlet, Inc., a retail store that sells life-style changing electric products, and also researches new products to be offered for sale or distribution.

Electric Sales

The two major industries in Minnesota Power's service territory are taconite production, and paper and wood products manufacturing. These two industries contributed about 43 percent of the Company's electric operating revenue in 1996 and 47 percent in 1995 and 1994.

Over the last five years, 80 percent of the domestic ore consumed by iron and steel plants in the United States has originated from plants within the Company's Minnesota electric service territory. Taconite, an iron-bearing rock of relatively low iron content which 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 46 million tons in 1996, 47 million tons in 1995 and 43 million tons in 1994. The Company estimates that 1997 Minnesota taconite production will be about 47 million tons. While taconite production is expected to continue at annual levels over 40 million tons, the long-term future of this cyclical industry is less certain. Production may decline gradually some time after the year 2005.

Summary of Electric Revenue and Income	Year Ended December 31, 1996	1995	1994
Total Electric Revenue and Income (000s)	$529,190	$503,457	$458,356
Percentage of Total Electric Revenue and Income			
Retail			
Industrial			
Taconite and Iron Mining	32%	35%	34%
Paper and Other Wood Products	11	12	13
Other Industrial	6	7	8
Total Industrial	49	54	55
Residential	12	11	12
Commercial	11	12	12
Other Retail	3	3	3
Resale	13	9	8
Other Revenue and Income	12	11	10
	100%	100%	100%

Two of the Company's largest customers represented 11 percent and 8 percent, respectively, of total electric revenue and income in 1996, 12 percent and 9 percent, respectively, in 1995 and 13 percent and 10 percent, respectively, in 1994.

Large Power Customer Contracts

The Company has Large Power Customer contracts with five taconite producers, four paper and wood products manufacturers and two pipeline companies (Large Power Customers). Large Power Customer contracts require the Company to have a certain amount of capacity available at all times (Firm Power). Each contract requires 10 MW or more of power and payment of a minimum monthly demand charge that covers some of the fixed costs associated with having capacity available to serve the customer, including a return on common equity. Such contracts minimize the impact on earnings that otherwise would result from significant reductions in kilowatthour sales to such customers. These contracts, which are subject to MPUC approval, have a minimum four-year cancellation notice required for termination. 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.)

As of March 14, 1997, the minimum annual revenue the Company would collect under contracts with these Large Power Customers, assuming no electric energy use by these customers, is estimated to be $101.0, $88.3, $79.4, $69.2 and $61.0 million during the years 1997, 1998, 1999, 2000 and 2001, respectively. The Company believes revenue from these Large Power Customers will be substantially in excess of the minimum contract amounts.

Contract Status for Minnesota Power Large Power Customers
as of March 14, 1997

Plant and Location	Operating Agent	Ownership	Earliest Termination Date
EVTAC Mining Eveleth, MN	EVTAC Mines L.L.C.	45% Rouge Steel Co. 40% AK Steel Co. 15% Stelco Inc.	October 31, 1999
Hibbing Taconite Co. Hibbing, MN	Cliffs Mining Company	70.3% Bethlehem Steel Corp. 15% Cleveland-Cliffs Inc. 14.7% Stelco Inc.	December 31, 2001
Inland Steel Mining Co. Virginia, MN	Inland Steel Mining Co.	Inland Steel Co.	October 31, 2000
Minntac (USX) Mt. Iron, MN	U.S. Steel Co.	USX Corp.	December 31, 2007
National Steel Pellet Co. Keewatin, MN	National Steel Corp.	National Steel Corp.	October 31, 2004
Blandin Paper Co. Grand Rapids, MN	Blandin Paper Co.	Fletcher Challenge Canada Ltd.	April 30, 2004
Boise Cascade Corp. International Falls, MN	Boise Cascade Corp.	Boise Cascade Corp.	December 31, 2002
Lake Superior Paper Industries Duluth, MN	Lake Superior Paper Industries	Consolidated Papers, Inc.	December 31, 2005
Potlatch Corp. Cloquet and Brainerd, MN	Potlatch Corp.	Potlatch Corp.	December 31, 2002
Lakehead Pipe Line Deer River, MN Floodwood, MN	Lakehead Pipe Line Company Inc.	Lakehead Pipe Line Partners, L.P.	April 30, 2001
Minnesota Pipeline Company Staples, MN Little Falls, MN Park Rapids, MN	Koch Pipeline Company L.P.	Koch Pipeline Company L.P.	September 30, 2002

Purchased Power

Minnesota Power has contracts to purchase capacity from various entities. In addition to the contracts listed below, the Company has entered into various smaller purchase power contracts for the purposes of meeting its capacity needs or brokering power.

Contract Status of Minnesota Power Purchased Power Contracts

Entity	Contract MW	Contract Period
Participation Power Purchases		
Square Butte	333	May 6, 1977 through December 31, 2007
LTV Steel	210	May 1, 1995 though April 30, 2000
Silver Bay Power	78	November 1, 1995 through October 31, 2000

Participation power purchase contracts require the Company to pay the demand charges for MW under contract and an energy charge for each MWh purchased. The selling entity is obligated to provide energy as scheduled by the Company from the generating unit specified in the contract as energy is available from that unit.

Under an agreement extending through 2007 with Square Butte, Minnesota Power purchases 71 percent of the output of a mine-mouth generating unit capable of generating up to 470 MW. The Square Butte generating unit is located near Center, North Dakota and is one of two lignite-fired units at Minnkota Power's Milton R. Young Generating Station. Reductions to about 49 percent of the output are provided for in the contract and, at the option of Square Butte, could begin after a five-year advance notice to the Company. The cost of the power and energy purchased is a proportionate share of Square Butte's fixed obligations and operating costs which are not incurred unless production takes place. The Company is responsible for paying all costs and expenses of Square Butte (including leasing, operating and any debt service costs) if not paid by Square Butte when due. These obligations and responsibilities of the Company are absolute and unconditional, whether or not any power is actually delivered to the Company. (See Note 17.)

Capacity Sales

Minnesota Power has contracts to sell capacity to nonaffiliated utility companies. In addition to the contracts listed below, the Company has entered into various smaller capacity sales contracts for the purposes of selling surplus capacity or brokering power.

Contract Status of Minnesota Power Capacity Sales Contracts

Utility	Contract MW	Contract Period
Participation Power Sales		
Interstate Power Company	55	May 1 through October 31 of each year from 1994 through 2000
	20	November 1, 1997 through April 30, 1998
	35	November 1, 1998 through April 30, 1999
	50	November 1, 1999 through April 30, 2000
Firm Power Sales		
Wisconsin Power & Light Company	30	November 1, 1993 through December 31, 1997
	75	January 1, 1998 through December 31, 2007
Northern States Power Company	150	May 1 through October 31 of each year from 1997 through 2000

Participation power sales contracts require the purchasing utility to pay the demand charges for MW under contract and an energy charge for each MWh purchased. The Company is obligated to provide energy as scheduled by the purchasing utility from the generating unit specified in the contract as energy is available from that unit.

Firm power sales contracts require the purchasing utility to pay the demand charges for MW under contract and an energy charge for each MWh purchased. The Company is obligated to provide energy as scheduled by the purchasing utility.

Fuel

The Company has experienced no difficulty in obtaining an adequate fuel supply. The Company purchases low-sulfur, sub-bituminous coal from the Powder River Basin coal field located in Montana and Wyoming to meet substantially all of its coal supply requirements. Coal consumption for electric generation at the Company's Minnesota coal-fired generating stations in 1996 was about 4.3 million tons. As of December 31, 1996, the Company had a coal inventory of about 425,000 tons. During 1996, the Company obtained its coal through both long- and short-term agreements. During 1996 the Company entered into two new coal supply agreements. A long-term agreement with Big Sky Coal Company enables the Company to purchase up to 2.5 million tons of coal on an annualized basis from the Big Sky Mine. Additionally, the Company entered into a three year agreement with Decker Coal Company to purchase up to 1.0 million tons of coal on an annualized basis from the Decker Mine. The Company also has a long-term agreement with Spring Creek Coal Company to purchase up to 4.0 million tons of coal on an annualized basis from the Spring Creek Mine. The Company will obtain coal in 1997 under these long-term agreements and the spot market. This mix of coal supply options allows the Company to reduce market risk and to take advantage of favorable spot market prices. The Company 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 the coal by unit train from Montana or Wyoming to the Company's generating stations. The Company and Burlington Northern Santa Fe Railroad have two long-term coal freight-rate contracts that provide for coal deliveries through 2002 to Laskin and through 2003 to Boswell. The Company also has a contract with the Duluth Missabe & Iron Range Railway which is the final destination short-hauler to Laskin. This contract provides for deliveries through 2002. The delivered price of coal is subject to periodic adjustments in freight rates.

	Year Ended December 31,		
Summary of Coal Delivered to Minnesota Power	1996	1995	1994
Average Price Per Ton	$19.30	$19.19	$19.27
Average Price Per MBtu	$1.06	$1.07	$1.08

The generating unit operated by Square Butte, which is capable of generating up to 470 MW, burns North Dakota lignite that is being supplied by BNI Coal, a wholly owned subsidiary of the Company, pursuant to the terms of a contract expiring in 2027. Square Butte's cost of lignite burned in 1996 was approximately 60 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. Under the various agreements with Square Butte, the Company is unconditionally obligated to pay all costs not paid by Square Butte when due. These costs include the price of lignite purchased under a cost-plus contract from BNI Coal. (See Item 2. Properties and Note 17.) BNI Coal has experienced no difficulty in supplying all of Square Butte's lignite requirements.

Regulatory Issues

The Company and its subsidiaries 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 operations.

The Company and its subsidiaries are subject to the jurisdiction of various regulatory authorities. The MPUC has regulatory authority over electric operations' 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 for 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 69 percent, 13 percent, and 8 percent, respectively, of the Company's 1996 electric operating revenue and income.

Electric Rates

The Company 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.

The Company's Firm Power rate schedules are designed to recover the fixed costs of providing Firm Power to Large Power Customers, including a return on common equity. A Large Power Customer's monthly demand charge obligation in any particular month is determined based upon the firm demand amount. The rates and corresponding revenue associated with capacity and energy provided under these contracts are subject to change through the regulatory process governing all retail electric rates. Contracts with ten of the eleven Large Power Customers provide for deferral without interest or diminishment 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. (See Electric Sales - Large Power Customer Contracts.)

The Company also has contracts with large industrial and commercial customers who have monthly demands of more than 2 MW but less than 10 MW of capacity (Large Light and Power Customers). The terms of these contracts vary depending upon the customers' demand for power and the cost of extending the Company's facilities to provide electric service. Generally, the contracts for less than 3 MW have one-year terms and the contracts ranging from 3 to 10 MW have initial five-year terms. The Company's rate schedule for Large Light and Power Customers is designed to minimize fluctuations in revenue and to recover a significant portion of the fixed costs of providing service to such customers.

The Company 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 it contracted. These conditions are part of all contracts covering power to be supplied to new large industrial and commercial customers and to current contract 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 obsolete rates, without regard to any unexpired term of the existing contract. All rate schedules are subject to approval by appropriate regulatory authorities.

Federal Energy Regulatory Commission

The FERC has jurisdiction over the Company's wholesale electric service resale customers and transmission service (wheeling) customers. In a filing with the FERC on December 22, 1995, the Company requested an overall rate decrease of $138,000 or 0.4 percent with an effective date of January 1, 1996. All of the customers affected by the rate change submitted written consents to the rate change and effective date. Minor modifications to the rate request were made in an amendment filed on January 16, 1996. On June 19, 1996, the FERC accepted the proposed rates as filed.

The Company has contracts with 13 Minnesota municipalities receiving full requirements resale service. One contract is for service through 2001 while the other 12 are for service through at least 2007. The contracts limit rate increases (including fuel costs) to about 2 percent per year on a cumulative basis. In 1996 the 13 municipal customers purchased 463,394 MWh from the Company.

Two municipalities whose requirements are only partially supplied by the Company have contracts with the Company through 2000. These municipal customers signed amendments under which the Company will provide exclusive brokering service for the municipalities' purchases of economy energy and will supply emergency, scheduled outage and firm energy as required through 2000. In 1996 these two municipalities purchased 154,873 MWh from the Company.

A contract between Minnesota Power and SWL&P provides for SWL&P to purchase its power from the Company through at least 2010 and limits rate increases (including fuel costs) to about 2 percent per year on a cumulative basis. SWL&P purchased 562,969 MWh from the Company in 1996.

The Company also has a contract through 2004 to supply electricity to Dahlberg Light and Power Company (Dahlberg), a private utility. Dahlberg purchased 86,099 MWh from the Company in 1996.

The Company's hydroelectric facilities which are located in Minnesota are licensed by the FERC. In 1995 the FERC issued to the Company a 30-year license for the St. Louis River hydroelectric project (87.6 MW generating capability). In 1996 the FERC extended the license term from 30 to 40 years because of certain mandates to mitigate environmental consequences of the project. On May 11, 1995, a final application to relicense the Pillager hydroelectric project (1.5 MW generating capability) was filed with the FERC. The Company expects that the FERC will issue a new license in 1997. (See Environmental Matters - Water.)

Minnesota Public Utilities Commission

In November 1994 the MPUC issued an order granting the Company an overall increase in annual electric operating revenue of $19 million, or 6.4 percent, with an 11.6 percent return on equity. Effective June 1, 1995, rates for large industrial customers increased less than 4 percent, while the rate for small businesses increased 6.5 percent. The rate increases for residential customers were approved to be phased in over three years: 13.5 percent began in June 1995, 3.75 percent in January 1996, and another 3.75 percent in January 1997.

Minnesota requires electric utilities to spend a minimum of 1.5 percent of gross annual retail electric revenue on conservation improvement programs (CIP) each year. In 1996, 1995 and 1994, the Company spent $14.4, $14.2 and $8 million, respectively, on CIP and expects to spend a total of $8.2 million during 1997. The MPUC allows such conservation expenditures in excess of amounts recovered through current rates to be accumulated in a deferred account for future recovery.

Since January 1994 the Company has been recovering ongoing CIP spending and $8.2 million of CIP spending from previous years. Through a billing adjustment and retail base rates approved by the MPUC, the Company is allowed to recover current and deferred CIP expenditures and the lost margins associated with power saved as a result of these programs. The Company collected CIP related revenue of $10.8 million in 1996 and 1995, and $7.8 million in 1994.

Public Service Commission of Wisconsin

SWL&P anticipates receiving approval from the PSCW to expand its gas service territory to serve one additional rural community adjacent to its existing service territory. This $1.6 million expansion project is expected to be completed by the end of 1997.

Capital Expenditure Program

Capital expenditures for electric operations totaled $38 million during 1996. Internally generated funds and long-term bank financing were used to fund these capital expenditures.

The Company's electric generating stations have the capacity to meet customer needs through 2002 without major capacity additions. Electric operations capital expenditures are expected to be $33 million in 1997 and total approximately $135 million during the period 1998 through 2001. The 1997 amount is for electric system component replacement and upgrades. The Company's estimates of such capital expenditures and the sources of financing are subject to continuing review and adjustment.

Competition

The electric utility industry is changing at both the wholesale and retail levels. The enactment of the Energy Policy Act of 1992 resulted in an increase in the competitive forces that affect three of the four components of the electric utility industry: generation, transmission and power marketing. The fourth component, local distribution, is subject to state regulation. This legislation has resulted in a more competitive market for electricity generally and particularly in wholesale markets. Wholesale deregulation is underway, while retail deregulation of the industry is being considered at both the federal and state levels, and is affecting the way the Company strategically views the future. With electric rates among the lowest in the U.S. and with long-term wholesale and large power retail contracts in place, Minnesota Power believes it is well positioned to address competitive pressures.

Wholesale

During 1996 the Company completed functional unbundling of operations under the requirements of FERC's Order No. 888 Open Access Transmission Rules. Order No. 888 requires public utilities to take transmission service for their own wholesale transactions under the same terms and conditions on which transmission service is provided to third parties. The Company has filed its open access transmission tariff with the FERC, and expects to receive final FERC rate approval in 1997. The Company has also filed its "Code of Conduct" under FERC's Order No. 889 Open Access Same Time Information System and Standards of Conduct to formalize the functional separation of generation from transmission within the organization. As a result, the transmission component of Minnesota Power's electric utility business is well organized for, and has begun to operate under, these new federal regulatory requirements.

Minnesota Power's newly formed MPEX division currently conducts the power marketing function. FERC approval of Minnesota Power's wholesale market based rates enabled MPEX to conduct a wholesale power and energy marketing business in 1996. During 1996 Minnesota Power also completed compliance filings under FERC's Open Access Transmission Rules to separately state the transmission component of the Company's coordination sales agreements, and is awaiting final FERC approvals. MPEX continues to review new strategic opportunities for its wholesale marketing operations in light of the new Open Access Transmission Rules enacted by FERC and of the new power and energy markets within MAPP. (See Item 2. Properties - Electric Operations.)

Retail

In 1995 the MPUC initiated an investigation into structural and regulatory issues in the electric utility industry. To make certain that delivery of electric service continues to be efficient following any restructuring, the MPUC adopted 15 principles to guide a deliberate and orderly approach to developing reasonable restructuring alternatives that ensure the fairness of a competitive market and protect the public interest. In January 1996 the MPUC established a competition working group in which company representatives have participated in addressing issues related to wholesale and retail competition. Minnesota Power has implemented a key account management process and anticipates continuing negotiations with its large industrial and commercial customers to explore contractual options to lower energy costs. These customers continue to aggressively seek lower energy costs and consider alternative suppliers in anticipation of deregulated retail markets.

Legislation

In 1997 Congress and the Minnesota legislature are expected to continue to debate proposed legislation which, if enacted, would promote customer choice and a more competitive electric market. The Company is actively participating in the dialogue and debate on these issues in various forums, principally to advocate fairness and parity for all power and energy competitors in any deregulated markets that may be created by any new legislation. The Company cannot predict the timing or substance of any legislation which might ultimately be enacted. However, the Company continues taking steps to maintain its competitive position as a low-cost supplier and maintain its long-term contracts with large industrial customers. The Company is also advocating property tax reform before the Minnesota legislature in order to eliminate the taxation of personal property that results in an inequitable tax burden among current and potential competitors in local markets. Finally, SWL&P is participating in the electric restructuring investigation before the PSCW, which is advising the Wisconsin legislature on recommended restructuring in Wisconsin.

Franchises

Minnesota Power holds franchises to construct and maintain an electric distribution and transmission system in 86 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 will not grant a franchise or do not require a franchise to operate within their boundaries.

Environmental Matters

The Company's electric operations are subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, solid wastes, and other environmental matters. The Company considers its electric operations to be in substantial compliance with those environmental regulations currently applicable to its operations and believes all necessary permits to conduct such operations have been obtained. The Company does not currently anticipate that its 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

The Federal Clean Air Act Amendments of 1990 (Clean Air Act) require that specified fossil-fueled generating plants meet new sulfur dioxide and nitrogen oxide emission standards beginning January 1, 1995 (Phase I) and that virtually all generating plants meet more strict emission standards beginning January 1, 2000 (Phase II). None of Minnesota Power's generating facilities are covered by the Phase I requirements of the Clean Air Act. However, Phase II requirements apply to the Company's Boswell, Laskin and Hibbard plants, as well as Square Butte.

The Clean Air Act creates emission allowances for sulfur dioxide based on formulas relating to the permitted 1985 emissions rate and a baseline of average fossil fuel consumed in the years 1985, 1986 and 1987. Each allowance is an authorization to emit one ton of sulfur dioxide, and each utility must have sufficient allowances to cover its annual emissions. 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. Phase II sulfur dioxide emission requirements are currently being met by Boswell Unit 4. Some moderate reductions in emissions may be necessary for Boswell Units 1, 2 and 3, Laskin Units 1 and 2, and Square Butte to meet the Phase II sulfur dioxide emission requirements. The Company believes it is in a good position to comply with the sulfur dioxide standards without extensive modifications. Any required reductions at the Minnesota generating facilities are expected to be achieved through the use of lower sulfur coal. Square Butte anticipates meeting its sulfur dioxide requirements through increased use of existing scrubbers or by purchasing additional allowances.

The EPA, pursuant to the Clean Air Act, has established nitrogen oxide limitations for Phase II generating units. To meet Phase II nitrogen oxide limitations, the Company expects to install at its plants low-nitrogen oxide burner technology by the year 2000. The total cost of installing the low-nitrogen oxide burner technology and associated facilities for Boswell and Laskin is currently estimated to be $6 million. Options for complying with the nitrogen oxide limitations at Square Butte are being studied at this time and include operational changes, capital expenditures and seeking regulatory relief. The EPA decided not to promulgate nitrogen oxide limitations for the type of boilers at Hibbard.

The Company is participating in a voluntary program (Climate Challenge) with the U.S. Department of Energy to identify activities that the Company has taken and additional measures that the Company may undertake on a voluntary basis that will result in limitations, reductions or sequestrations of greenhouse gas emissions by the year 2000. The Company has agreed to participate in this voluntary program provided that such participation is consistent with the Company's integrated resource planning process, does not have a material adverse effect on the Company's competitive position with respect to rates and costs, and continues to be acceptable to the Company's regulators. The costs to Minnesota Power associated with Climate Challenge participation are minor, reflecting program facilitation and voluntary reporting costs.

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 that NPDES permits be obtained from the EPA (or, when delegated, from individual state pollution control agencies) for any wastewater discharged into navigable waters. The Company has obtained all necessary NPDES permits, including NPDES storm water permits for applicable facilities, to conduct its electric operations.

Summary of National Pollutant Discharge Elimination System Permits

Facility	Issue Date	Expiration Date
Laskin	December 22, 1993	October 31, 1998
Boswell	February 4, 1993	December 31, 1997
Hibbard	September 29, 1994	June 30, 1999
Arrowhead DC Terminal	June 17, 1996	March 31, 2001
General Office Building/ Lake Superior Plaza	May 1, 1995	December 31, 1997
Square Butte	July 1, 1995	June 30, 2000

The Company holds from the FERC licenses authorizing the ownership and operation of seven hydroelectric generating projects with a total generating capacity of 121 MW. In 1991 the Company submitted applications for new licenses for four of the projects. By orders issued in 1993, the FERC granted new licenses with terms of 30 years each, expiring December 31, 2023, for the Little Falls (4.7 MW), Sylvan (1.8 MW), and Prairie River (1.1 MW) projects.

On July 13, 1995, the FERC issued to the Company a 30-year license for the St. Louis River hydroelectric project (87.6 MW), with an effective date of July 1, 1995. The Company filed a request for rehearing of the FERC's order for the purpose of challenging certain terms and conditions of the license which, if accepted by the Company, would alter the Company's operation of the project. In 1996 the FERC issued a new license in response to the rehearing request and extended the license term from 30 to 40 years because of the anticipated impact of FERC's mandates to mitigate environmental consequences of the project. The FERC also directed the Company to negotiate with the Fond du Lac Band of Lake Superior Chippewa a reasonable annual charge for the use of tribal lands within the project. In June 1996 the Company filed in the U.S. Court of Appeals for the District of Columbia Circuit a petition for review of the 1996 license as issued by the FERC. Separate petitions for review were also filed in June 1996 in the same court by the U.S. Department of the Interior and the Fond du Lac Band of Lake Superior Chippewa, two intervenors in the licensing proceedings. The issues to be resolved concern the terms and conditions of the license which will govern the Company's operation and maintenance of the project. In July 1996 the court consolidated the three petitions for review. In October 1996 the Company filed with the court an unopposed motion for a procedural schedule pursuant to which the briefing of the issues would be completed in May 1997. The motion was granted by the court; however, the briefing schedule has been suspended while the Company and the Fond du Lac Band negotiate the reasonable fee for use of tribal lands as mandated by the new license. Both parties have 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.

An application to relicense the Pillager project (1.5 MW) was filed with the FERC on May 11, 1995. The FERC will perform an engineering, environmental and economic analysis of that application in order to determine whether to issue a new license for the project. The current license for the project expires on May 11, 1997. FERC scoping meetings to discuss any environmental and operational issues related to this project were held in October 1996 with the resource agencies and the public. The FERC staff sought input related to any water quality, fishery, terrestrial, cultural and recreation issues that the agencies and public have prior to preparing the environmental assessment for this project. To date, no substantive issues have been raised by the resource agencies or the public in the license process. In the event that the current license should expire prior to the issuance of a new license, the FERC is required to issue an annual license to the Company under the terms and conditions of the existing license until the new license is issued.

The two remaining hydroelectric projects, Blanchard (18 MW) and Winton (4 MW) have FERC licenses that expire in 2003. The Company is currently in the planning stages for the relicensing of these two facilities.

Solid 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. The Company 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 their Great Lakes Initiative by voluntarily removing remaining polychlorinated biphenyl (PCB) inventories, the Company is scheduling replacement of PCB-contaminated oil from substation equipment by 1998 and removal of PCB capacitors by 2004. The total cost is expected to be between $1.5 and $2 million of which $300,000 was expended through December 31, 1996. The Company expects to expend about $110,000 in 1997.

Mining Control and Reclamation

BNI Coal's mining operations are governed by the Federal Surface Mining Control and Reclamation Act of 1977. This Act, together with the rules and regulations adopted thereunder by the Department of the Interior, Office of Surface Mining Reclamation and Enforcement (OSM), governs the approval or disapproval of all mining permits on federally owned land and the actions of the OSM in approving or disapproving state regulatory programs regulating mining activities. The North Dakota Reclamation of Strip Mined Lands Act and rules and regulations enacted thereunder in 1969, as subsequently amended by the North Dakota Mining and Reclamation Act and rules and regulations enacted thereunder in 1977, govern the reclamation of surface mined lands and are generally as stringent or more stringent than the federal rules and regulations. Compliance is monitored by the North Dakota Public Service Commission. The federal and state laws and regulations require a wide range of procedures including water management, topsoil and subsoil segregation, stockpiling and revegetation, and the posting of performance bonds to assure compliance. In general, these laws and regulations require the reclaiming of mined lands to a level of usefulness equal to or greater than that available before active mining. The Company considers BNI Coal to be in substantial compliance with those environmental regulations currently applicable to its operations and believes all necessary permits to conduct such operations have been obtained.

Water Services

Water services include Florida Water, Heater and ISI, three wholly owned subsidiaries of the Company. Water services have been upgrading existing facilities, building new facilities, acquiring new systems and expanding unregulated services.

- Florida Water, formerly Southern States Utilities, Inc., owns and operates water and wastewater treatment facilities in Florida. Florida Water is the largest investor owned water supplier in Florida. As of December 31, 1996, Florida Water served 120,000 water customers and 54,000 wastewater treatment customers.

- Heater owns and operates three companies which provide water and wastewater treatment services in North Carolina and South Carolina. As of December 31, 1996, these companies served 22,000 water customers and 1,000 wastewater treatment customers.

  During 1996 Heater made a strategic decision to exit the South Carolina water and wastewater utility business. In March 1996 Heater of Seabrook, Inc. (Seabrook), a wholly owned subsidiary of Heater, sold all of its water and wastewater utility assets to the Town of Seabrook Island, South Carolina for $5.9 million. This sale was negotiated in anticipation of an eminent domain action by the Town of Seabrook Island, South Carolina. In December 1996 Heater sold its Columbia, South Carolina area water systems to South Carolina Water and Sewer, L.L.C. One service area remains and the pending sale is anticipated to be finalized in 1997. (See South Carolina Public Service Commission.)

  On December 31, 1996, Heater and the shareholders of LaGrange Waterworks Corporation (LaGrange), a water utility serving 5,300 customers near Fayetteville, North Carolina, requested the NCUC to approve the transfer of LaGrange to Heater in a stock transaction. The NCUC held hearings on February 19 and March 13, 1997. An order is expected in May 1997.

- Instrumentation Services, Inc. provides predictive maintenance services to water utility companies and other industrial operations in North Carolina, South Carolina, Florida, Georgia, Tennessee, Virginia and Texas. The Company acquired ISI in 1996.

Regulatory Issues

Florida Public Service Commission

The following summarizes current rate proceedings in Florida.

1995 Rate Case

Florida Water requested an $18.1 million rate increase in June 1995. On October 30, 1996, the FPSC issued its final order in the Florida Water rate case. The final order established water and wastewater rates for all customers of Florida Water regulated by the FPSC. The new rates, which became effective on September 20, 1996, resulted in an annualized increase in revenue of approximately $11.1 million. This increase included, and was not in addition to, the $7.9 million increase in annualized revenue granted as interim rates effective on January 23, 1996. The FPSC approved a new rate structure called "capband," which replaces uniform rates. The new structure combines the concept of a "cap" on monthly bills at a certain usage level for 85 of Florida Water's facilities that are more expensive to operate, with a "banding," or grouping, of rates paid by customers served by the 56 less expensive facilities. On November 1, 1996, Florida Water filed with the Florida First District Court of Appeals (Court of Appeals) an appeal of the FPSC's final order seeking judicial review of issues relating to the amount of investment in utility facilities recoverable in rates from current customers. Motions for reconsideration of the FPSC's final order were denied by the FPSC on March 19, 1997. The Company is unable to predict the outcome of this matter. Florida law provides that the new rates be implemented, subject to refund, while the order is under appeal.

1991 Rate Case Refund Order

Responding to a Florida Supreme Court decision addressing the issue of retroactive ratemaking with respect to another company, in March 1996 the FPSC voted to reconsider an October 1995 order (Refund Order) which would have required Florida Water to refund about $13 million, which includes interest, to customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. Under the Refund Order, the collection through a surcharge of the $13 million from customers who paid less under uniform rates would not be permitted. The Refund Order was in response to the Court of Appeals reversal in April 1995 of the 1993 FPSC order which imposed uniform rates for most of Florida Water's service areas in Florida. With "uniform rates," all customers in the uniform rate areas pay the same rates for water and wastewater services. Uniform rates are an alternative to "stand-alone" rates which are calculated based on the cost of serving each service area. The FPSC reconsidered the Refund Order, but upheld by a 3 to 2 vote its decision to order refunds without surcharges in August 1996. Florida Water filed an appeal of this decision with the Court of Appeals. A decision on the appeal is anticipated by early 1998. The Company continues to believe that it would be improper for the FPSC to order a refund to one group of customers without permitting recovery of a similar amount from the remaining customers since the Court of Appeals affirmed the Company's total revenue requirement for operations in Florida. No provision for refund has been recorded. The Company is unable to predict the outcome of this matter.

Florida Jurisdictional Issues

In June 1995 the FPSC issued an order assuming jurisdiction over Florida Water facilities statewide following an investigation of all of Florida Water's facilities. Several counties in Florida appealed this FPSC decision to the Court of Appeals. In December 1996 the Court of Appeals issued an opinion reversing the FPSC order. On December 26, 1996, the FPSC filed a motion for clarification and for rehearing with the Court of Appeals. The Court of Appeals denied this motion on January 22, 1997. On February 14, 1997, the FPSC issued an order which requires Florida Water to charge rates to customers in Hernando County based on a modified stand-alone rate structure. The imposition of this rate structure would reduce Florida Water revenue by $1.6 million on a prospective annual basis. On February 28, 1997, Florida Water filed a motion for reconsideration of this order. The Company anticipates that a ruling against the Company on this appeal may encourage other counties to exercise their right to regulate the rates for water and wastewater facilities located in their respective counties. In the event county regulation of water and wastewater rates prevails, the Company anticipates that the regulatory process will become significantly more complex and expensive.

South Carolina Public Service Commission

During 1994 and 1995 Heater was denied a rate increase from the SCPSC for requests filed for Seabrook and Upstate Heater Utilities, Inc. (Upstate). Heater filed appeals for both rate increases and began collecting the higher rates for water and wastewater services at Seabrook under a surety bond in February 1995. Rates under bond collected for Seabrook amounted to $359,350 at December 31, 1996. In August 1996 the South Carolina Supreme Court upheld Heater's appeal and remanded the case to the SCPSC. Heater continues to hold these rates under bond pending a final decision from the SCPSC. On February 21, 1997, the SCPSC issued an order granting Seabrook a $66,480 annual revenue increase. Heater filed a motion for reconsideration in March 1997.

The appeal for Upstate resulted in a remand from the South Carolina Court of Common Pleas (Court of Common Pleas) and a revised order issued by the SCPSC in September 1995. Heater filed another appeal with the Court of Common Pleas, and began collecting the higher rates for water service at Upstate under a surety bond in January 1996. Rates under bond collected for Upstate totaled $65,861 at December 31, 1996. If this appeal is denied, Heater must refund the difference between the amounts collected and the approved rates plus 12 percent interest. On February 3, 1997, the Court of Common Pleas issued an order vacating the September 1995 order and remanded the order to the SCPSC. A decision by the SCPSC is expected in April 1997.

Capital Expenditure Program

Capital expenditures for water services totaled $22 million during 1996. Expenditures were funded with the proceeds from long-term bonds issued by Florida Water and internally generated funds. Capital expenditures for the Company's water services are expected to be $21 million in 1997 to meet environmental standards, expand water and wastewater treatment facilities to accommodate customer growth, and for water conservation initiatives. Capital expenditures are expected to total approximately $85 million during the period 1998 through 2001.

Competition

Water services provide water and wastewater services at regulated rates within exclusive service territories granted by regulators.

Franchises

Florida Water provides water and wastewater treatment services in 22 counties regulated by the FPSC and holds franchises in three counties which have retained authority to regulate such operations. (See Regulatory Issues - Florida Public Service Commission.)

All of the water and wastewater services of Heater are under the jurisdiction of the SCPSC and the NCUC. These commissions grant franchises for Heater's service territory when the rates are authorized.

Environmental Matters

The Company's water services are subject to regulation by various federal, state and local authorities in the areas of water quality, solid wastes, and other environmental matters. The Company considers its water services to generally be in compliance with those environmental regulations currently applicable to its operations and have the permits necessary to conduct such operations. Except as noted below, the Company does not currently anticipate that its 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.

In 1993 the EPA notified Florida Water of alleged exceedences of effluent limitations in NPDES permit for Florida Water's facilities in the University Shores service area in Orange County, Florida. During 1993 and 1994, Florida Water periodically corresponded and met with the EPA concerning the alleged exceedences of the permit. In February 1994 the University Shores facility was modified such that effluent was no longer discharged to surface waters. In 1992 the EPA notified Florida Water of alleged exceedences of effluent limitations in the NPDES permit for Florida Water's Seaboard wastewater treatment facility. Between 1992 and 1994, Florida Water periodically corresponded and met with the EPA concerning alleged exceedences of the permit. In March 1994 the facility was taken out of service and the collection system was interconnected with the City of Tampa Utilities. In February 1997 Florida Water was notified by the United States Department of Justice (DOJ) that unless a settlement can be promptly achieved, the DOJ, at the request of the EPA, is prepared to bring a federal court action against Florida Water seeking civil penalties for alleged violations of effluent limitations in the NPDES permits occurring at the University Shores and Seaboard wastewater facilities from February 1992 through March 1994. For purposes of settlement discussions, the DOJ proposed a penalty totaling $3.25 million. Florida Water submitted a counter settlement offer of $141,000 to the DOJ on March 26, 1997. A meeting is scheduled on April 4, 1997, with the DOJ to discuss settlement options. If the DOJ pursues litigation, it is possible that the claim against Florida Water could substantially exceed $3.25 million. If a reasonable resolution is not reached, Florida Water intends to vigorously contest any action which is initiated by the DOJ. The Company is currently unable to predict the outcome of these matters.

In September 1993 the EPA issued an Administrative Order to Florida Water regarding operations of Florida Water's facilities in the Woodmere service area in Duval County, Florida (Woodmere facilities). The EPA required Florida Water to perform a Toxicity Reduction Evaluation (TRE) to determine the cause of the toxicity problems with the wastewater effluent. In March 1996 the EPA closed the Administrative Order and delegated enforcement authority to the Florida Department of Environmental Protection.

In 1996 water services invested approximately $10.2 million of a $22 million annual capital expenditure budget (or approximately 46 percent) in facilities necessary to comply with environmental requirements. In 1997 Florida Water expects that approximately $7.5 million of the $21 million annual capital expenditure budget (or approximately 36 percent) will be necessary to comply with environmental requirements.

Automotive Services

Automotive services include ADESA's auction facilities, AFC, which is a finance company, and an auto transport company. The Company acquired 80 percent of ADESA on July 1, 1995. On January 31, 1996, the Company provided additional capital in exchange for an additional 3 percent of ADESA. On August 21, 1996, the Company acquired the remaining 17 percent interest of ADESA from the ADESA management shareholders.

- ADESA is a wholly owned subsidiary of the Company and is the third largest automobile auction business in the United States. ADESA, headquartered in Indianapolis, Indiana, owns and operates 24 automobile 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, fleet/lease companies, banks and finance companies. ADESA opened new auto auctions in Manville, New Jersey; Jacksonville, Florida and Moncton, New Brunswick, Canada in 1996. ADESA also acquired auction businesses in Houston, San Antonio and Dallas, Texas; Portage, Wisconsin and Pittsburgh, Pennsylvania during 1996.

- Automotive Finance Corporation provides inventory financing for wholesale and retail automobile dealers who purchase vehicles from ADESA auctions, independent auctions as well as auction chains. AFC is headquartered in Indianapolis, Indiana, and has over 40 loan production offices which are located at most ADESA auctions, as well as several independently owned auto auctions. AFC expects to expand in 1997.

- ADESA Auto Transport, Inc., a wholly owned subsidiary of ADESA, is one of the nation's largest independent automobile transport carriers with about 90 transport vehicles. ADESA Auto Transport, Inc. offers customers pick up and delivery, four strategically located transportation hubs and an on-site transportation representative at every ADESA auction. It hauls vehicles for major customers including GE Capital, Nissan, Ford Motor Credit and General Motors Acceptance Corp. During 1996 over 100,000 cars were transported within the United States by ADESA.

Capital Expenditure Program

Capital expenditures for automobile auction site relocation, development and facility improvements were $41 million during 1996. Greenfield projects at Manville, New Jersey; Jacksonville, Florida; and Moncton, New Brunswick, Canada and relocation projects in Indianapolis, Indiana and Cincinnati, Ohio began operations in 1996. In February 1997 ADESA consolidated a small auction facility in Concord, Massachusetts with its Boston facility. Capital expenditures for the automobile auction business are expected to be $7 million in 1997 and to total approximately $40 million during the period 1998 through 2001. Capital expenditures in 1997 are for on-going improvements and new information systems at existing automobile auction sites.

Competition

Within the automobile auction industry, ADESA's competition includes independently owned auctions as well as major chains and associations with auctions in geographic proximity. ADESA competes with other auctions for a supply of automobiles 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. The automobile manufacturers often choose between auctions across multi-state areas in distributing rental repurchase vehicles. ADESA competes for these sellers of automobiles by attempting to attract a large number of dealers to purchase vehicles, which ensures competitive prices and supports the volume of vehicles auctioned, and by providing a full range of services including reconditioning services which prepare automobiles for auction, transporting automobiles and the prompt processing of sale transactions. Another factor affecting the industry, the impact of which is yet to be determined, is the entrance of the "superstore", large used car dealerships, that have emerged in densely populated markets.

AFC is well positioned as a provider of floorplan financing services to the used vehicle industry. AFC's competition includes other specialty lenders, as well as banks and other financial institutions. AFC competes with other floorplan providers and strives to distinguish itself based upon ease of use, quality of service and price. A key component of AFC's program is on-site personnel to assist automobile dealers with their financing needs.

Auto auction sales for the industry are expected to rise at a rate of 6 percent to 8 percent annually. With the increased popularity of leasing and the high cost of new cars, the same cars may come to auction more than once. Automotive services expect to participate in this industry's growth through selective acquisitions and expanded services.

Environmental Matters

The Company's automotive services business is subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, solid wastes, and other environmental matters. The Company considers operations of this business to be in substantial compliance with those environmental regulations currently applicable to its operations and believes all necessary permits to conduct such operations have been obtained. The Company does not currently anticipate that its 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.

Investments

The investments segment is comprised of real estate operations, financial guaranty reinsurance and a portfolio of securities.

- Real Estate Operations. The Company owns 80 percent of Lehigh, a Florida real estate company. Lehigh owns 4,000 acres of land and approximately 8,000 home sites near Fort Myers, Florida, 1,100 home sites in Citrus County, Florida, and 3,000 home sites and 13,000 acres of residential, commercial and industrial land at Palm Coast, Florida. The Palm Coast properties and $18 million receivable portfolio were purchased in April 1996. The real estate strategy is to acquire large residential community properties at low cost, add value, and sell them at going market prices.

- Reinsurance. Minnesota Power has a 21 percent equity investment in Capital Re. Capital Re is a Delaware holding company engaged primarily in financial and mortgage guaranty reinsurance through its wholly owned subsidiaries, Capital Reinsurance Company and Capital Mortgage Reinsurance Company. Capital Reinsurance Company is a reinsurer of financial guarantees of municipal and non-municipal debt obligations. Capital Mortgage Reinsurance Company is a reinsurer of residential mortgage guaranty insurance. The Company's equity investment in Capital Re at December 31, 1996, was $102 million.

- Securities Portfolio. Minnesota Power manages a securities portfolio which is intended to provide earnings and cash flow contributions and is available for reinvestment in existing businesses, acquisitions and other corporate purposes. The Company plans to continue to concentrate in market neutral strategies that are designed to provide stable and acceptable returns without sacrificing needed liquidity. Returns will continue to be partially dependent on general market conditions. As of December 31, 1996, the Company had approximately $155 million invested in the securities portfolio.

Environmental Matters

Certain businesses included in the Company's investments segment are subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, solid wastes, and other environmental matters. The Company considers these businesses to be in substantial compliance with those environmental regulations currently applicable to its operations and believes all necessary permits to conduct such operations have been obtained. The Company does not currently anticipate that its 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.

Executive Officers of the Registrant

Executive Officers	Initial Effective Date
Edwin L. Russell, Age 52	
Chairman, President and Chief Executive Officer	May 14, 1996
President and Chief Executive Officer	January 22, 1996
President	May 9, 1995
Robert D. Edwards, Age 52	
Executive Vice President and President - MP Electric	July 26, 1995
Executive Vice President and Chief Operating Officer	March 1, 1993
Group Vice President - Corporate Services and Chief Financial Officer	January 1, 1991
John A. Cirello, Age 53	
Executive Vice President and President and Chief Executive Officer - MP Water Resources	July 24, 1995
James P. Hallett, Age 43	
President and Chief Executive Officer - ADESA	August 21, 1996
John E. Fuller, Age 53	
President and Chief Executive Officer - Automotive Finance Corporation	January 1, 1994
Donnie R. Crandell, Age 53	
Senior Vice President and President - MP Real Estate Holdings	January 1, 1996
Senior Vice President - Corporate Development	December 1, 1994
Retired	February 28, 1994
Vice President - Corporate Development	March 1, 1993
David G. Gartzke, Age 53	
Senior Vice President - Finance and Chief Financial Officer	December 1, 1994
Vice President - Finance and Chief Financial Officer	March 1, 1993
Vice President - Finance and Treasurer	January 1, 1991
Laurence H. Fuller, 48	
Vice President - Corporate Development	February 10, 1997
Philip R. Halverson, Age 48	
Vice President, General Counsel and Secretary	January 1, 1996
General Counsel and Corporate Secretary	March 1, 1993
General Counsel and Assistant Secretary	January 23, 1991
James A. Roberts, Age 46	
Vice President - Corporate Relations	January 1, 1996
Mark A. Schober, Age 41	
Controller	March 1, 1993
James K. Vizanko, Age 43	
Treasurer	March 1, 1993

All of the executive officers above, except Mr. Russell, Mr. Cirello, Mr. Crandell, Mr. Hallet, Mr. John Fuller, and Mr. Laurence Fuller, had been employed by the Company for more than five years in executive or management positions. Mr. Russell was previously group vice president of J. M. Huber Corporation, a $1.5 billion diversified manufacturing and natural resources company; Mr. Cirello was president of Metcalf & Eddy Services, Inc. from 1992 to 1995, responsible for $64 million in water/wastewater operation services, and before that was vice president - Eastern Region of Chemical Waste Management; Mr. Crandell was director of business development of the Company, vice president of Topeka and vice president of business development for Topeka prior to March 1, 1993; Mr. Hallet was previously executive vice president of ADESA and president of ADESA's Canadian operations; Mr. John Fuller was previously president and 50 percent owner of CITA, Inc., which he founded in 1987 (CITA was renamed Automotive Finance Corporation in December 1993 and sold to ADESA Corporation in January 1994); and Mr. Laurence Fuller was previously senior vice president, new business development and strategic planning, for Diners Club International, a subsidiary of CitiCorp, Inc. Prior to election to the positions shown above, the following executive officers held other positions with the Company after January 1, 1992: Mr. Roberts was director of corporate relations and director of governmental relations; Mr. Schober was director of internal audit; and Mr. Vizanko was director of investments and analysis, and manager of financial planning and analysis. There are no family relationships between any executive officers of the Company. 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 the Company's Board of Directors after the next annual meeting of shareholders. Both meetings are scheduled for May 13, 1997.

Item 2. Properties.

Electric Operations

The Company had an annual and all-time record net peak load of 1,462 MW on November 12, 1996. The Company's average 1996 load factor was 87 percent. Information with respect to existing power supply sources is shown below.

Power Supply	Unit No.	Year Installed	Net Winter Capability (MW)	Net Electric Requirements (MWh)	(%)
Steam					
Coal-Fired					
Boswell Energy Center					
near Grand Rapids, MN	1	1958	69		
	2	1960	69		
	3	1973	350		
	4	1980	428		
			916	5,980,330	43.1%
Laskin Energy Center					
Hoyt Lakes, MN	1	1953	55		
	2	1953	55		
			110	418,261	3.0
Coal-Wood Chip Fired					
M. L. Hibbard					
Duluth, MN	3	1949	33	28	-
Total Steam			1,059	6,398,619	46.1
Hydro					
Group consisting of ten stations in MN		Various	121	687,537	5.0
Purchased Power					
Square Butte burns lignite in Center, ND			333	2,392,514	17.2
All other - net			-	4,393,680	31.7
Total Purchased Power			333	6,786,194	48.9
For the Year Ended December 31, 1996			1,513	13,872,350	100.0%

The Company has electric transmission and distribution lines of 500 kilovolts (kV) (7.8 miles), 230 kV (606.4 miles), 161 kV (42.9 miles), 138 kV (5.8 miles), 115 kV (1,257.3 miles) and less than 115 kV (6,114.1 miles). The Company owns and operates 178 substations with a total capacity of 8,539.2 megavoltamperes. Some of the transmission and distribution lines interconnect with other utilities.

The Company owns and has a substantial investment in offices and service buildings, area headquarters, an energy control center, repair shops, motor vehicles, construction equipment and tools, office furniture and equipment, and leases offices and storerooms in various localities within the Company's service territory. It also owns miscellaneous parcels of real estate not presently used in electric operations.

Substantially all of the electric plant of the Company is subject to the lien of its Mortgage and Deed of Trust which secures first mortgage bonds issued by the Company. The Company's properties are held by it in fee and are free from other encumbrances, subject to minor exceptions, none of which are of such a nature as to substantially impair the usefulness to the Company of such properties. Other property, including certain offices and equipment, is utilized under leases. In general, some of the electric lines are located on land not owned in fee, but are covered by necessary consents of various governmental authorities or by appropriate rights obtained from owners of private property. These consents and rights are deemed adequate for the purposes for which the properties are being used. In September 1990 the Company sold a portion of Boswell Unit 4 to WPPI. WPPI has the right to use the Company's transmission line facilities to transport its share of generation.

Substantially all of the plant of SWL&P is subject to the lien of its Mortgage and Deed of Trust which secures first mortgage bonds issued by SWL&P. Approximately one-half of BNI Coal's equipment is leased under a leveraged lease agreement which expires in 2002. The remaining property and equipment are owned by BNI Coal.

The Company is a member of the Mid-Continent Area Power Pool (MAPP). The MAPP enhances electric service reliability, and provides the opportunity for members to enter into various wholesale power transactions and coordinate planning, installation and operation of new generation and transmission facilities. The MAPP membership consists of various electric power suppliers located in North Dakota, South Dakota, eastern Montana, Nebraska, Iowa, Minnesota, Wisconsin, upper Michigan, Kansas, Manitoba and Saskatchewan and marketers and brokers located throughout North America. The electric power suppliers are investor-owned utilities including the Company, rural electric generation and transmission cooperatives, public power districts, municipal electric systems, municipal organizations, and the Western Area Power Administration - Billings, Montana. MAPP operates pursuant to an agreement that was approved by MAPP members on March 15, 1996, accepted by the FERC and became effective on November 1, 1996.

Water Services

Florida Water is largest investor owned provider of water and wastewater services in Florida, serving more than 170,000 customers over 120 communities. Florida Water maintains more than 150 water and wastewater facilities throughout the state with plants ranging in size from 6 connections to greater than 25,000 connections. Florida Water provides its customers with 12 billion gallons of water per year primarily from Florida's underground aquifer. Substantially all of Florida Water's properties used in its water and wastewater operations are encumbered by a mortgage.

Heater has water and wastewater systems located in subdivisions surrounding Raleigh, North Carolina, Fayetteville, North Carolina and Anderson, South 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 180 systems and 375 wells serving 22,000 customers. Heater also has six wastewater treatment plants, ranging in size from 35,000 gallons per day (gpd) to 250,000 gpd, and 17 lift stations located in its wastewater collection systems. These systems serve approximately 1,000 customers. Substantially all of Heater's properties used in its water and wastewater operations are encumbered by a mortgage.

Investments

Property within the Company's real estate operations consists of 4,000 acres of land and approximately 8,000 home sites near Fort Myers, Florida; 1,110 home sites in Citrus County, Florida; and 3,000 home sites and 13,000 acres of residential, industrial and commercial land at Palm Coast, Florida.

Automotive Services

The following table sets forth the auto 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 in which it stores vehicles for auction. All automobile auction property owned by ADESA is subject to liens securing various notes payable.

ADESA Auctions	Location	Year Operations Commenced	No. Auction Lanes
United States			
ADESA Birmingham	Moody, Alabama	1987	10
ADESA Sarasota/Bradenton	Bradenton, Florida	1990	6
ADESA Jacksonville	Jacksonville, Florida	1996	6
ADESA South Florida	Opa-Locka, Florida (near Miami)	1994	7
ADESA Indianapolis	Plainfield, Indiana	1983	10
ADESA Lexington	Lexington, Kentucky	1982	6
ADESA Boston	Framingham, Massachusetts	1995	11
ADESA New Jersey	Manville, New Jersey	1996	8
ADESA Buffalo	Akron, New York	1992	10
ADESA Charlotte	Charlotte, North Carolina	1994	8
ADESA Cincinnati-Dayton	Franklin, Ohio	1986	8
ADESA Cleveland	Northfield, Ohio	1994	8
ADESA Pittsburgh	Pittsburgh, Pennsylvania	1971	7
ADESA Knoxville	Lenoir City, Tennessee	1984	6
ADESA Memphis	Memphis, Tennessee	1990	6
ADESA Austin	Austin, Texas	1990	6
ADESA Dallas	Dallas, Texas	1990	6
ADESA Houston	Houston, Texas	1995	3
ADESA San Antonio	San Antonio, Texas	1989	5
ADESA Wisconsin	Portage, Wisconsin	1984	5
Canada			
ADESA Moncton	Moncton, New Brunswick	1996	2
ADESA Halifax	Lr. Sackville, Nova Scotia	1993	2
ADESA Ottawa	Vars, Ontario	1990	5
ADESA Montreal	St. Eustache, Quebec	1974	8

ADESA Corporation owns 51 percent of this auction facility.
Leased auction facilities.(See Note 12.)

Item 3. Legal Proceedings.

Material legal and regulatory proceedings are included in the discussion of the Company's 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 1996.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Company has paid dividends without interruption on its common stock since 1948. A quarterly dividend of $.51 per share on the common stock was paid on March 1, 1997, to the holders of record on February 14, 1997. The Company's common stock is listed on the New York Stock Exchange. Dividends paid per share and the high and low prices for the Company's common stock for the periods indicated as reported by The Wall Street Journal, Midwest Edition, were as follows:

		Price Range		Dividends Paid Per Share	
	Quarter	High	Low	Quarterly	Annual
1996	- First	$ 29 3/4	$ 26 1/8	$ .51	
	- Second	29	26	.51	
	- Third	28 3/4	26	.51	
	- Fourth	28 7/8	26 3/8	.51	$2.04
1995	- First	$ 26 3/8	$ 24 1/4	$ .51	
	- Second	28	25 1/4	.51	
	- Third	28 1/8	26 3/8	.51	
	- Fourth	29 1/4	27 1/2	.51	$2.04

The amount and timing of dividends payable on the Company's common stock are within the sole discretion of the Company's Board of Directors. In 1996 the Company paid out 90 percent of its per share earnings in dividends. Over the longer term, the Company's goal is to reduce dividend payout to between 75 percent and 80 percent of per share earnings. This is expected to be accomplished by increasing earnings rather than reducing dividends.

The Company's 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, 1996, no retained earnings were restricted as a result of these provisions. At March 1, 1997, there were approximately 24,000 common stock shareholders of record.

Item 6. Selected Financial Data.

	1996	1995	1994	1993	1992
	In thousands except per share amounts				
Operating Revenue and Income	$ 846,928	$ 672,917	$ 582,169	$ 582,495	$ 575,503
Income (Loss)					
Continuing Operations	$ 69,221	$ 61,857	$ 59,465	$64,374	$ 67,821
Discontinued Operations	-	2,848	1,868	(1,753)	636
Before Extraordinary Item	69,221	64,705	61,333	62,621	68,457
Extraordinary Gain	-	-	-	-	4,831
Net Income	$ 69,221	$ 64,705	$ 61,333	$62,621	$ 73,288
Earnings Per Share					
Continuing Operations	$2.28	$2.06	$1.99	$2.27	$2.29
Discontinued Operations	-	.10	.07	(.07)	.02
Before Extraordinary Item	2.28	2.16	2.06	2.20	2.31
Extraordinary Item	-	-	-	-	0.16
Total	$2.28	$2.16	$2.06	$2.20	$2.47
Dividends Per Share	$2.04	$2.04	$2.02	$1.98	$1.94
Total Assets	$2,146,049	$1,947,625	$1,807,798	$1,760,526	$1,625,504
Long-Term Debt	$ 694,423	$ 639,548	$ 601,317	$ 611,144	$ 541,960
Redeemable Preferred Stock	$ 20,000	$ 20,000	$ 20,000	$20,000	$ 21,000
Cumulative Quarterly Income Preferred Securities	$ 75,000	-	-	-	-

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Includes 22 cents per share from the recognition of tax benefits associated with real estate operations.

Includes 52 cents per share from the recognition of tax benefits associated with real estate operations and a 14 cent per share reduction associated with exiting the equipment manufacturing business.

Includes 42 cents per share from the sale of certain water plant assets, 13 cents per share from the recognition of escrow funds associated with real estate operations, a 21 cent per share decrease from the write-off of an investment and an 11 cent per share loss from the equipment manufacturing business.

Includes a 6 cent per share increase as a result of the adoption of Statement of Position No. 93-6 "Employers' Accounting for Employee Stock Ownership Plans," issued by the American Institute of Certified Public Accountants.

Includes an extraordinary gain of 16 cents per share from the early extinguishment of debt.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The management's discussion and analysis of financial condition and results of operations appearing on pages 13 through 22 of the Minnesota Power 1996 Annual Report are incorporated by reference in this Form 10-K Annual Report.

Item 8. Financial Statements and Supplementary Data.

The financial statements, together with the report thereon of Price Waterhouse LLP dated January 27, 1997, appearing on pages 23 through 40 of the Minnesota Power 1996 Annual Report, are incorporated by reference in this Form 10-K Annual Report.

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 from the "Election of Directors" section in the Company's Proxy Statement for the 1997 Annual Meeting of Shareholders, except for information with respect to executive officers which is set forth in Part I hereof.

Item 11. Executive Compensation.

The information required for this Item is incorporated by reference herein from the "Compensation of Executive Officers" section in the Company's Proxy Statement for the 1997 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 the Company's Proxy Statement for the 1997 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 the Company's Proxy Statement for the 1997 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 Form 10-K.

(1) Financial Statements

	Pages in Annual Report*
Minnesota Power	
Report of Independent Accountants	23
Consolidated Balance Sheet at December 31, 1996 and 1995	24
For the three years ended December 31, 1996	
Consolidated Statement of Income	25
Consolidated Statement of Retained Earnings	25
Consolidated Statement of Cash Flows	26
Notes to Consolidated Financial Statements	27-40

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* Incorporated by reference herein from the Minnesota Power 1996 Annual Report.

	Page
(2) Financial Statement Schedules	
Report of Independent Accountants on Financial Statement Schedule	32
Minnesota Power and Subsidiaries Schedule:	
II-Valuation and Qualifying Accounts and Reserves	33

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

(3) Exhibits including those incorporated by reference

Exhibit Number

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

*3(a)1 - Articles of Incorporation, restated as of July 27, 1988 (filed as Exhibit 3(a), File No. 33-24936).

*3(a)2 - Certificate Fixing Terms of Serial Preferred Stock A, $7.125 Series (filed as Exhibit 3(a)2, File No. 33-50143).

*3(a)3 - Certificate Fixing Terms of Serial Preferred Stock A, $6.70 Series (filed as Exhibit 3(a)3, File No. 33-50143).

*3(b) - Bylaws as amended January 23, 1991 (filed as Exhibit 3(b), File No. 33-45549).

Exhibit
Number
- -------

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

*4(a)2 - Supplemental Indentures to 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)

4(a)3 - Nineteenth Supplemental Indenture, dated as of February 1, 1997, between the Company and The Bank of New York (formerly Irving Trust Company) and W.T. Cunningham (successor to Richard H. West), Trustees.

*4(b) - 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 First Bank N.A., as Trustee (filed as Exhibit 7(c), File No. 2-8668), as supplemented and modified by First Supplemental Indenture thereto dated as of March 1, 1951 (filed as Exhibit 2(d)(1), File No. 2-59690), Second Supplemental Indenture thereto dated as of March 1, 1962 (filed as Exhibit 2(d)1, File No. 2-27794), Third Supplemental Indenture thereto dated July 1, 1976 (filed as Exhibit 2(e)1, File No. 2-57478), Fourth Supplemental Indenture thereto dated as of March 1, 1985 (filed as Exhibit 4(b), File No. 2-78641) and Fifth Supplemental Indenture thereto dated as of December 1, 1992 (filed as Exhibit 4(b)1 to Form 10-K for the year ended December 31, 1992, File No. 1-3548).

4(b)1 - Sixth Supplemental Indenture, dated as of March 24, 1994, between Superior Water, Light and Power Company and Chemical Bank (formerly Chemical Bank & Trust Company) and Peter Morse (successor to Howard B. Smith), Trustees.

4(b)2 - Seventh Supplemental Indenture, dated as of November 1, 1994, between Superior Water, Light and Power Company and Chemical Bank (formerly Chemical Bank & Trust Company) and Peter Morse (successor to Howard B. Smith), Trustees.

4(b)3 - Eighth Supplemental Indenture, dated as of January 1, 1997, between Superior Water, Light and Power Company and First Bank N.A. Trustee.

Exhibit Number		
*4(c)	-	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 Form 10-K for the year ended December 31, 1992, File No. 1-3548).
4(c)1	-	First Supplemental 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.
*4(d)	-	Amended and Restated Trust Agreement, dated as of March 1, 1996, relating to MP&L 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 Form 10-Q for the quarter ended March 31, 1996, File No. 1-3548).
*4(e)	-	Amendment No. 1, dated April 11, 1996, to Amended and Restated Trust Agreement, dated as of March 1, 1996, relating to MP&L Capital I's 8.05% Cumulative Quarterly Income Preferred Securities (filed as Exhibit 4(b) to Form 10-Q for the quarter ended March 31, 1996, File No. 1-3548).
*4(f)	-	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 Form 10-Q for the quarter ended March 31, 1996, File No. 1-3548).
*4(g)	-	Guarantee Agreement, dated as of March 1, 1996, relating to MP&L 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 Form 10-Q for the quarter ended March 31, 1996, File No. 1-3548).
*4(h)	-	Agreement as to Expenses and Liabilities, dated as of March 20, 1996, relating to MP&L Capital I's 8.05% Cumulative Quarterly Income Preferred Securities, between the Company and MP&L Capital I (filed as Exhibit 4(e) to Form 10-Q for the quarter ended March 31, 1996, File No. 1-3548).
4(i)	-	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 Capital I.
*4(j)	-	Rights Agreement dated as of July 24, 1996, between Minnesota Power & Light Company and the Corporate Secretary of Minnesota Power & Light Company, as Rights Agent (filed as Exhibit 4 to Form 8-K dated August 2, 1996, File No. 1-3548).
4(k)	-	Indenture, dated as of May 15, 1996, relating to the ADESA Corporation's 7.70% Senior Notes, Series A, Due 2006, between ADESA Corporation and The Bank of New York, as Trustee.
4(l)	-	Guarantee of Minnesota Power & Light Company, dated as of May 30, 1996, relating to the ADESA Corporation's 7.70% Senior Notes, Series A, Due 2006.
4(m)	-	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.

Exhibit Number		
*10(a)	-	Asset Holdings III, L.P. Note Purchase Agreement, dated as of November 22, 1994 (filed as Exhibit 10(i) to Form 10-K for the year ended December 31, 1995, File No. 1-3548).
*10(b)	-	Lease and Development Agreement, dated as of November 28, 1994 between Asset Holdings III, L.P., as Lessor and A.D.E. of Knoxville, Inc., as Lessee (filed as Exhibit 10(j) to Form 10-K for the year ended December 31, 1995, File No. 1-3548).
*10(c)	-	Lease and Development Agreement, dated as of November 28, 1994 between Asset Holdings III, L.P., as Lessor and ADESA-Charlotte, Inc., as Lessee (filed as Exhibit 10(k) to Form 10-K for the year ended December 31, 1995, File No. 1-3548).
*10(d)	-	Lease and Development Agreement, dated as of December 21, 1994 between Asset Holdings III, L.P., as Lessor and Auto Dealers Exchange of Concord, Inc., as Lessee (filed as Exhibit 10(l) to Form 10-K for the year ended December 31, 1995, File No. 1-3548).
*10(e)	-	Guaranty and Purchase Option Agreement between Asset Holdings III, L.P. and ADESA Corporation, dated as of November 28, 1994 (filed as Exhibit 10(m) to Form 10-K for the year ended December 31, 1995, File No. 1-3548).
10(f)	-	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.
10(g)	-	First Amendment to Receivables Purchase Agreement, dated as of February 28, 1997, 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.
10(h)	-	Purchase and Sale Agreement dated as of December 31, 1996, between AFC Funding Corporation and Automotive Finance Corporation.
+*10(i)	-	Minnesota Power Executive Annual Incentive Plan, effective January 1, 1996 (filed as Exhibit 10(a) to Form 10-K for the year ended December 31, 1995, File No. 1-3548).
+*10(j)	-	Minnesota Power and Affiliated Companies Supplemental Executive Retirement Plan, as amended and restated, effective August 1, 1994 (filed as Exhibit 10(b) to Form 10-K for the year ended December 31, 1995, File No. 1-3548).
+*10(k)	-	Executive Investment Plan-I, as amended and restated, effective November 1, 1988 (filed as Exhibit 10(c) to Form 10-K for the year ended December 31, 1988, File No. 1-3548).
+*10(l)	-	Executive Investment Plan-II, as amended and restated, effective November 1, 1988 (filed as Exhibit 10(d) to Form 10-K for the year ended December 31, 1988, File No. 1-3548).
+*10(m)	-	Deferred Compensation Trust Agreement, as amended and restated, effective January 1, 1989 (filed as Exhibit 10(f) to Form 10-K for the year ended December 31, 1988, File No. 1-3548).
+*10(n)	-	Executive Long-Term Incentive Plan, as amended and restated, effective January 1, 1994 (filed as Exhibit 10(e) to Form 10-K for the year ended December 31, 1994, File No. 1-3548).
+*10(o)	-	Minnesota Power Executive Long-Term Incentive Compensation Plan, effective January 1, 1996 (filed as Exhibit 10(a) to Form 10-Q for the quarter ended June 30, 1996, File No. 1-3548).

Exhibit Number		
+*10(p)	-	Directors' Long-Term Incentive Plan, as amended and restated, effective January 1, 1994 (filed as Exhibit 10(f) to Form 10-K for the year ended December 31, 1994, File No. 1-3548).
+*10(q)	-	Minnesota Power Director Stock Plan, effective January 1, 1995 (filed as Exhibit 10 to Form 10-Q for the quarter ended March 31, 1995, File No. 1-3548).
+*10(r)	-	Minnesota Power Director Long-Term Stock Incentive Plan, effective January 1, 1996 (filed as Exhibit 10(b) to Form 10-Q for the quarter ended June 30, 1996, File No. 1-3548).
12	-	Computation of Ratios of Earnings to Fixed Charges and Supplemental Ratios of Earnings to Fixed Charges.
13	-	Minnesota Power 1996 Annual Report - Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Company's financial statements listed in Item 14 (a)(1) of this report.
*21	-	Subsidiaries of the Registrant (reference is made to the Company's Form U-3A-2 for the year ended December 31, 1996, File No. 69-78).
23(a)	-	Consent of Independent Accountants.
23(b)	-	Consent of General Counsel.
*27	-	Financial Data Schedule (filed as Exhibit 27 to Form 8-K dated March 19, 1997, File No. 1-3548).

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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 dated and filed on March 19, 1997, with respect to Item 7. Financial Statements and Exhibits.

Report of Independent Accountants on Financial Statement Schedule

To the Board of Directors
of Minnesota Power

Our audits of the consolidated financial statements referred to in our report dated January 27, 1997 appearing on page 23 of the 1996 Annual Report to Shareholders of Minnesota Power (which report and consolidated financial statements are incorporated by reference in this Annual Report on 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.

Price Waterhouse LLP

PRICE WATERHOUSE LLP
Minneapolis, Minnesota
January 27, 1997

Minnesota Power and Subsidiaries

Valuation and Qualifying Accounts and Reserves
For the Years Ended December 31, 1996, 1995 and 1994
In thousands

	Balance at Beginning of Year	Additions: Charged to Income	Additions: Other Changes	Deductions from Reserves	Balance at End of Period
Reserve deducted from related assets					
Provision for uncollectible accounts					
1996 Trade accounts receivable	$ 3,325	$ 4,697	$ 1,443	$ 2,897	$ 6,568
Other accounts receivable	1,152	188	180	42	1,478
1995 Trade accounts receivable	1,041	3,004	1,453	2,173	3,325
Other accounts receivable	2,773	186	-	1,807	1,152
1994 Trade accounts receivable	1,565	722	116	1,362	1,041
Other accounts receivable	1,135	1,845	-	207	2,773
Deferred asset valuation allowance					
1996 Deferred tax assets	8,943	(8,200)	-	-	743
1995 Deferred tax assets	26,878	(17,935)	-	-	8,943
1994 Deferred tax assets	31,475	-	(4,597)	-	26,878

Provision for uncollectible accounts includes bad debts written off.
The deferred tax asset valuation allowance was reduced by $18.4 million in 1995 and $8.2 million in 1996 based on a detailed analysis of the projected future taxable income based on a new business strategy for real estate operations. (See Note 14.)

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.

MINNESOTA POWER & LIGHT COMPANY
(Registrant)

Dated: March 28, 1997 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	March 28, 1997
D.G. GARTZKE D.G. Gartzke	Senior Vice President-Finance and Chief Financial Officer	March 28, 1997
MARK A. SCHOBER Mark A. Schober	Controller	March 28, 1997

Signature	Title	Date
MERRILL K. CRAGUN - ---------- Merrill K. Cragun	Director	March 28, 1997
DENNIS E. EVANS - ---------- Dennis E. Evans	Director	March 28, 1997
PETER J. JOHNSON - ---------- Peter J. Johnson	Director	March 28, 1997
GEORGE L. MAYER - ---------- George L. Mayer	Director	March 28, 1997
PAULA F. MCQUEEN - ---------- Paula F. McQueen	Director	March 28, 1997
ROBERT S. NICKOLOFF - ---------- Robert S. Nickoloff	Director	March 28, 1997
JACK I. RAJALA - ---------- Jack I. Rajala	Director	March 28, 1997
AREND J. SANDBULTE - ---------- Arend J. Sandbulte	Director	March 28, 1997
NICK SMITH - ---------- Nick Smith	Director	March 28, 1997
BRUCE W. STENDER - ---------- Bruce W. Stender	Director	March 28, 1997
DONALD C. WEGMILLER - ---------- Donald C. Wegmiller	Director	March 28, 1997

MINNESOTA POWER & LIGHT COMPANY

TO

THE BANK OF NEW YORK
(formerly Irving Trust Company)

AND

W.T. CUNNINGHAM

(successor to Richard H. West, J.A. Austin,
E.J. McCabe, D.W. May and J.A. Vaughan)

As Trustees under Minnesota Power &
Light Company's Mortgage and Deed of
Trust dated as of September 1, 1945

Nineteenth Supplemental Indenture

Providing among other things for

First Mortgage Bonds, 7% Series Due February 15, 2007

(Twenty-fifth Series)

Dated as of February 1, 1997

NINETEENTH SUPPLEMENTAL INDENTURE

THIS INDENTURE, dated as of February 1, 1997, by and between MINNESOTA POWER & LIGHT COMPANY, a corporation of the State of Minnesota, whose post office address is 30 West Superior Street, Duluth, Minnesota 55802 (hereinafter sometimes called the "Company"), and THE BANK OF NEW YORK (formerly Irving Trust Company), a corporation of the State of New York, whose post office address is 101 Barclay Street, New York, New York 10286 (hereinafter sometimes called the "Corporate Trustee"), and W. T. CUNNINGHAM (successor to Richard H. West, J. A. Austin, E. J. McCabe, D. W. May and J. A. Vaughan), whose post office address is 3 Arlington Drive, Denville, New Jersey 07834 (said W. T. Cunningham being hereinafter sometimes called the "Co-Trustee" and the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the "Trustees"), as Trustees under the Mortgage and Deed of Trust, dated as of September 1, 1945, between the Company and Irving Trust Company and Richard H. West, as Trustees, securing bonds issued and to be issued as provided therein (hereinafter sometimes called the "Mortgage"), reference to which mortgage is hereby made, this indenture (hereinafter sometimes called the "Nineteenth Supplemental Indenture") being supplemental thereto:

WHEREAS, the Mortgage was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of October 16, 1957, was executed and delivered under which J.A. Austin succeeded Richard H. West as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of April 4, 1967, was executed and delivered under which E. J. McCabe in turn succeeded J. A. Austin as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, under the Sixth Supplemental Indenture, dated as of August 1, 1975, to which reference is hereinafter made, D.W. May in turn succeeded E. J. McCabe as Co-Trustee under the Mortgage; and

WHEREAS, an instrument, dated as of June 25, 1984, was executed and delivered under which J. A. Vaughan in turn succeeded D. W. May as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, an instrument, dated as of July 27, 1988, was executed and delivered under which W. T. Cunningham in turn succeeded J.A. Vaughan as Co-Trustee under the Mortgage, and such instrument was filed and recorded in various official records in the State of Minnesota; and

WHEREAS, by the Mortgage the Company covenanted, among other things, that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectually the purposes of the Mortgage and to make subject to the lien of the Mortgage any property thereafter acquired and intended to be subject to the lien thereof; and

WHEREAS, for said purposes, among others, the Company executed and delivered the following indentures supplemental to the Mortgage:

Designation	Dated as of
First Supplemental Indenture	March 1, 1949
Second Supplemental Indenture	July 1, 1951
Third Supplemental Indenture	March 1, 1957
Fourth Supplemental Indenture	January 1, 1968
Fifth Supplemental Indenture	April 1, 1971
Sixth Supplemental Indenture	August 1, 1975
Seventh Supplemental Indenture	September 1, 1976
Eighth Supplemental Indenture	September 1, 1977
Ninth Supplemental Indenture	April 1, 1978
Tenth Supplemental Indenture	August 1, 1978
Eleventh Supplemental Indenture	December 1, 1982
Twelfth Supplemental Indenture	April 1, 1987
Thirteenth Supplemental Indenture	March 1, 1992
Fourteenth Supplemental Indenture	June 1, 1992
Fifteenth Supplemental Indenture	July 1, 1992
Sixteenth Supplemental Indenture	July 1, 1992
Seventeenth Supplemental Indenture	February 1, 1993

which supplemental indentures were filed and recorded in various official records in the State of Minnesota; and

WHEREAS, for said purposes, among others, the Company also executed and delivered a Eighteenth Supplemental Indenture, dated as of July 1, 1993, which was filed and recorded in various official records in the State of Minnesota as follows:

County in Minnesota	Recorder		Registrar of Titles	
	Date	Doc. No.	Date	Doc. No.
Aitkin	7/22/93	279192	---	---
Benton	7/22/93	216475	---	---

County in Minnesota	Recorder Date	Recorder Doc. No.	Registrar of Titles Date	Registrar of Titles Doc. No.
Carlton	7/26/93	290406	7/26/93	17009
Cass	7/22/93	349234	---	---
Crow Wing	8/4/93	454463	8/4/93	107838
Hubbard	7/22/93	217070	---	---
Itasca	8/9/93	443960	8/9/93	32531
Koochiching	7/22/93	203656	---	---
Lake	7/26/93	124992	7/26/93	22877
Morrison	7/26/93	346958	7/26/93	2303
Otter Tail	7/22/93	747792	---	
Pine	7/23/93	335532	---	---
St. Louis	7/29/93	578489	7/29/93	568173
Stearns	7/22/93	750975	---	---
Todd	7/22/93	353561	---	---
Wadena	7/26/93	169695	---	---

Office of Secretary of State of Minnesota; recorded July 27, 1993 as Document No. 1604887; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, as heretofore supplemented, the following series of First Mortgage Bonds:

Series	Principal Amount Issued	Principal Amount Outstanding
3-1/8% Series due 1975	$26,000,000	None
3-1/8% Series due 1979	4,000,000	None
3-5/8% Series due 1981	10,000,000	None
4-3/4% Series due 1987	12,000,000	None
6-1/2% Series due 1998	18,000,000	$18,000,000
8-1/8% Series due 2001	23,000,000	None
10-1/2% Series due 2005	35,000,000	None
8.70% Series due 2006	35,000,000	None
8.35% Series due 2007	50,000,000	None
9-1/4% Series due 2008	50,000,000	None
Pollution Control Series A	111,000,000	None

Series	Principal Amount Issued	Principal Amount Outstanding
Industrial Development Series A	$2,500,000	None
Industrial Development Series B	1,800,000	None
Industrial Development Series C	1,150,000	None
Pollution Control Series B	13,500,000	None
Pollution Control Series C	2,000,000	None
Pollution Control Series D	3,600,000	$3,600,000
7-3/4% Series due 1994	55,000,000	None
7-3/8% Series due March 1, 1997	60,000,000	60,000,000
7-3/4% Series due June 1, 2007	55,000,000	55,000,000
7-1/2% Series due August 1, 2007	35,000,000	35,000,000
Pollution Control Series E	111,000,000	111,000,000
7% Series due March 1, 2008	50,000,000	50,000,000
6-1/4% Series due July 1, 2003	25,000,000	25,000,000

which bonds are also hereinafter sometimes called bonds of the First through Twenty-fourth Series, respectively; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder and of coupons to be attached to coupon bonds of such series shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein expressing or referring to the terms and conditions upon which such bonds are to be issued and/or secured under the Mortgage; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that any power, privilege or right expressly or impliedly reserved to or in any way conferred upon the Company by any provision of the Mortgage, whether such power, privilege or right is in any way restricted or is unrestricted, may (to the extent permitted by law) be in whole or in part waived or surrendered or subjected to any restriction if at the time unrestricted or to additional restriction if already restricted, and the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may cure any ambiguity contained therein, or in any supplemental indenture, or may establish the terms and provisions of any series of bonds (other than said First Series) by an instrument in writing executed and acknowledged by the Company in such manner as

would be necessary to entitle a conveyance of real estate to record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create a new series of bonds and (pursuant to the provisions of Section 120 of the Mortgage) to add to its covenants and agreements contained in the Mortgage, as heretofore supplemented, certain other covenants and agreements to be observed by it and to alter and amend in certain respects the covenants and provisions contained in the Mortgage, as heretofore supplemented; and

WHEREAS, the execution and delivery by the Company of this Nineteenth Supplemental Indenture, and the terms of the bonds of the Twenty-fifth Series, hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

Now, THEREFORE, THIS INDENTURE WITNESSETH:

That the Company, in consideration of the premises and of One Dollar to it duly paid by the Trustees at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment of both the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, as heretofore supplemented, according to their tenor and effect and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances) unto THE BANK OF NEW YORK and W. T. CUNNINGHAM, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all property, real, personal and mixed, of the kind or nature specifically mentioned in the Mortgage, as heretofore supplemented, or of any other kind or nature acquired by the Company after the date of the execution and delivery of the Mortgage, as heretofore supplemented (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or, subject to the provisions of subsection (I) of Section 87 of the Mortgage, hereafter acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) and wheresoever situated, including (without in anywise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Nineteenth Supplemental Indenture) all lands, power sites, flowage rights, water rights, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants for the generation of electricity by steam, water and/or other power; all power houses, gas plants, street lighting systems, standards and other

equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water works, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, ice or refrigeration plants and equipment, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, electric, gas and other machines, regulators, meters, transformers, generators, motors, electrical, gas and mechanical appliances, conduits, cables, water, steam heat, gas or other pipes, gas mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture and chattels; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of electric current, gas, steam heat or water for any purpose including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

TOGETHER WITH all and singular the tenements, hereditaments, prescriptions, servitudes and appurtenances belonging or in anywise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

IT IS HEREBY AGREED by the Company that, subject to the provisions of subsection (I) of Section 87 of the Mortgage, all the property, rights, and franchises acquired by the Company (by purchase, consolidation, merger, donation, construction, erection or in any other way) after the date hereof, except any herein or in the Mortgage, as heretofore supplemented, expressly excepted, shall be and are as fully granted and conveyed hereby and by the Mortgage and as fully embraced within the lien hereof and the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein or in the Mortgage and conveyed hereby or thereby.

PROVIDED that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, hypothecated, affected, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of this Nineteenth Supplemental Indenture and from the lien and operation of the Mortgage, namely: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the

Mortgage or covenanted so to be; (2) merchandise, equipment, apparatus, materials or supplies held for the purpose of sale or other disposition in the usual course of business; fuel, oil and similar materials and supplies consumable in the operation of any of the properties of the Company; all aircraft, rolling stock, trolley coaches, buses, motor coaches, automobiles and other vehicles and materials and supplies held for the purpose of repairing or replacing (in whole or part) any of the same; all timber, minerals, mineral rights and royalties; (3) bills, notes and accounts receivable, judgments, demands and choses in action, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the Company's contractual rights or other interest in or with respect to tires not owned by the Company; (4) the last day of the term of any lease or leasehold which may hereafter become subject to the lien of the Mortgage; (5) electric energy, gas, steam, ice, and other materials or products generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; and (6) the Company's franchise to be a corporation; provided, however, that the property and rights expressly excepted from the lien and operation of this Nineteenth Supplemental Indenture and from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 thereof.

TO HAVE AND TO HOLD all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto the Trustees and their successors and assigns forever.

IN TRUST NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as supplemented, this Nineteenth Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors in the trust in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to said Trustees by the Mortgage as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage as follows:

ARTICLE I
TWENTY-FIFTH SERIES OF BONDS

SECTION 1. There shall be a series of bonds designated "7% Series due February 15, 2007" (herein sometimes referred to as the "Twenty-fifth Series"), each of which shall also bear the descriptive title "First Mortgage Bond", and the form thereof, which shall be established by Resolution of the Board of Directors of the Company, shall contain suitable provisions with respect to the matters hereinafter in this Section specified. Bonds of the Twenty-fifth Series shall be dated as in Section 10 of the Mortgage provided, mature on February 15, 2007, be issued as fully registered bonds in denominations of One Thousand Dollars and, at the option of the Company, in any multiple or multiples of One Thousand Dollars (the exercise of such option to be evidenced by the execution and delivery thereof) and bear interest at the rate of 7% per annum, payable semi-annually on February 15 and August 15 of each year, commencing August 15, 1997, the principal of and interest on each said bond to be payable at the office or agency of the Company in the Borough of Manhattan, The City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts.

(I) Bonds of the Twenty-fifth Series shall not be redeemable prior to maturity.

(II) At the option of the registered owner, any bonds of the Twenty-fifth Series, upon surrender thereof for cancellation at the office or agency of the Company in the Borough of Manhattan, The City of New York, together with a written instrument of transfer wherever required by the Company duly executed by the registered owner or by his duly authorized attorney, shall (subject to the provisions of Section 12 of the Mortgage) be exchangeable for a like aggregate principal amount of bonds of the same series of other authorized denominations.

Bonds of the Twenty-fifth Series shall be transferable (subject to the provisions of Section 12 of the Mortgage) at the office or agency of the Company in the Borough of Manhattan, The City of New York.

Upon any exchange or transfer of bonds of the Twenty-fifth Series, the Company may make a charge therefor sufficient to reimburse it for any tax or taxes or other governmental charge, as provided in Section 12 of the Mortgage, but the Company hereby waives any right to make a charge in addition thereto for any exchange or transfer of bonds of the Twenty-fifth Series.

Upon the delivery of this Nineteenth Supplemental Indenture and upon compliance with the applicable provisions of the Mortgage, there shall be an initial issue of bonds of the Twenty-fifth Series for the aggregate principal amount of $60,000,000.

ARTICLE II

DIVIDEND COVENANT

SECTION 2. The Company covenants and agrees that the provisions of subdivision (III) of Section 39 of the Mortgage, which are to remain in effect so long as any of the bonds of the First Series shall remain Outstanding, shall remain in full force and effect so long as any bonds of the First through Twenty-fifth Series shall remain Outstanding.

ARTICLE III

MISCELLANEOUS PROVISIONS

SECTION 3. Section 126 of the Mortgage, as heretofore amended, is hereby further amended by adding the words "and February 15, 2007" after the words "July 1, 2003".

SECTION 4. Subject to the amendments provided for in this Nineteenth Supplemental Indenture, the terms defined in the Mortgage, as heretofore supplemented, shall, for all purposes of this Nineteenth Supplemental Indenture, have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 5. The holders of bonds of the Twenty-fifth Series consent that the Company may, but shall not be obligated to, fix a record date for the purpose of determining the holders of bonds of the Twenty-fifth Series entitled to consent to any amendment, supplement or waiver. If a record date is fixed, those persons who were holders at such record date (or their duly designated proxies), and only those persons, shall be entitled to consent to such amendment, supplement or waiver or to revoke any consent previously given, whether or not such persons continue to be holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

SECTION 6. The Trustees hereby accept the trusts herein declared, provided, created or supplemented and agree to perform the same upon the terms and conditions herein and in the Mortgage set forth and upon the following terms and conditions:

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Nineteenth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Nineteenth Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Nineteenth Supplemental Indenture.

SECTION 7. Whenever in this Nineteenth Supplemental Indenture any party hereto is named or referred to, this shall, subject to the provisions of Articles XVI and XVII of the Mortgage, as heretofore supplemented, be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Nineteenth Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustees shall, subject as aforesaid, bind and inure to the benefit of the respective successors and assigns of such party whether so expressed or not.

SECTION 8. Nothing in this Nineteenth Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds and coupons Outstanding under the Mortgage, any right, remedy, or claim under or by reason of this Nineteenth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this Nineteenth Supplemental Indenture contained by and on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 9. This Nineteenth Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 10. The Company, the mortgagor named herein, by its execution hereof acknowledges receipt of a full, true and complete copy of this Nineteenth Supplemental Indenture.

IN WITNESS WHEREOF, Minnesota Power & Light Company has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, and The Bank of New York has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents or one of its Assistant Vice Presidents and its corporate seal to be attested by one of its Assistant Treasurers or one of its Assistant Vice Presidents, and W. T. Cunningham has hereunto set his hand and affixed his seal, all in The City of New York, as of the day and year first above written.

MINNESOTA POWER & LIGHT COMPANY

By David G. Gartzke

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

Attest:

Philip R. Halverson

Philip R. Halverson
Vice President, General Counsel
and Corporate Secretary

Executed, sealed and delivered by
MINNESOTA POWER & LIGHT COMPANY
in the presence of:

Jan A. Berguson

Lorie Skudstad

THE BANK OF NEW YORK
as Trustee

By Mary LaGumina

Mary LaGumina
Assistant Vice President

Attest:

B Merino
- ---
Byron Merino
Assistant Treasurer

W.T. Cunningham

W.T. Cunningham

Executed, sealed and delivered by
THE BANK OF NEW YORK AND W. T. CUNNINGHAM
in the presence of:

/s/ Illegible
- ---

Jason G. Gregory
- ---

STATE OF MINNESOTA)
) SS.:
COUNTY OF ST. LOUIS)

On this 18th day of February, 1997, before me, a Notary Public within and for said County, personally appeared DAVID G. GARTZKE and PHILIP R. HALVERSON, to me personally known, who, being each by me duly sworn, did say that they are respectively the Senior Vice President - Finance and Chief Financial Officer and the Vice President, General Counsel and Corporate Secretary of MINNESOTA POWER & LIGHT COMPANY of the State of Minnesota, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said DAVID G. GARTZKE and PHILIP R. HALVERSON acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 18th day of February, 1997, DAVID G. GARTZKE to me known to be the Senior Vice President - Finance and Chief Financial Officer and PHILIP R. HALVERSON, to me known to be the Vice President, General Counsel and Corporate Secretary, of the above named MINNESOTA POWER & LIGHT COMPANY, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively the Senior Vice President Finance and Chief Financial Officer and the Vice President, General Counsel and Corporate Secretary of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors and stockholders, and said DAVID G. GARTZKE and PHILIP R. HALVERSON then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 18th day of February, 1997, before me personally came DAVID G. GARTZKE and PHILIP R. HALVERSON, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 2609 East 5th Street, Duluth, Minnesota, and 3364 West Tischer Road, Duluth, Minnesota; that they are respectively the Senior Vice President - Finance and Chief Financial Officer and the Vice President, General Counsel and Corporate Secretary of MINNESOTA POWER & LIGHT COMPANY, one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 18th day of February, 1997.

Kristie J. Lindstrom

[SEAL] KRISTIE J. LINDSTROM
NOTARY PUBLIC-MINNESOTA
ST. LOUIS COUNTY
My Comm. Expires Jan.
31, 2000

STATE OF NEW YORK)
) SS:
COUNTY OF NEW YORK)

On this 18th day of February, 1997, before me, a Notary Public within and for said County, personally appeared MARY LAGUMINA and BYRON MERINO, to me personally known, who, being each by me duly sworn, did say that they are respectively an Assistant Vice President and an Assistant Treasurer of THE BANK OF NEW YORK of the State of New York, the corporation named in the foregoing instrument; that the seal affixed to the foregoing instrument is the corporate seal of said corporation; that said instrument was signed and sealed in behalf of said corporation by authority of its Board of Directors; and said MARY LAGUMINA and BYRON MERINO acknowledged said instrument to be the free act and deed of said corporation.

Personally came before me on this 18th day of February, 1997, MARY LAGUMINA, to me known to be an Assistant Vice President, and BYRON MERINO, known to me to be an Assistant Treasurer, of the above named THE BANK OF NEW YORK, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn did depose and say and acknowledge that they are respectively an Assistant Vice President and an Assistant Treasurer of said corporation; that the seal affixed to said instrument is the corporate seal of said corporation; and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said MARY LAGUMINA and BYRON MERINO then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

On the 18th day of February, 1997, before me personally came MARY LAGUMINA and BYRON MERINO, to me known, who, being by me duly sworn, did depose and say that they respectively reside at 214-12 40th Avenue, Bayside, New York, and 30 Stuyvesant Avenue, Lyndhurst, New Jersey; that they are respectively an Assistant Vice President and an Assistant Treasurer of THE BANK OF NEW YORK, one of the corporations described in and which executed the above instrument; that they know the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that they signed their names thereto by like order.

GIVEN under my hand and notarial seal this 18th day of February, 1997.

William J. Cassels

William J. Cassels
Notary Public, State of New York
No. 01CA5027729
Qualified in Bronx County
[SEAL] Certificate Filed in New York County
Commission Expires May 16, 1998

STATE OF NEW YORK)
) SS:
COUNTY OF NEW YORK)

On this 18th day of February, 1997, before me personally appeared W. T. CUNNINGHAM, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same as his free act and deed.

Personally came before me this 18th day of February, 1997, the above named W. T. CUNNINGHAM, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

On the 18th day of February, 1997, before me personally came W. T. CUNNINGHAM, to me known to be the person described in and who executed the foregoing instrument, and acknowledged that he executed the same.

GIVEN under my hand and notarial seal this 18th day of February, 1997.

William J. Cassels

William J. Cassels
Notary Public, State of New York
No. 01CA5027729
Qualified in Bronx County
[SEAL] Certificate Filed in New York County
Commission Expires May 16, 1998

Exhibit 4(b)1

Executed in 6 Counterparts
of which this is
Counterpart No. 2

SUPERIOR WATER, LIGHT AND POWER COMPANY

TO

CHEMICAL BANK

and

PETER MORSE

As Trustees Under Superior Water, Light
and Power Company's Mortgage and Deed of Trust,
Dated as of March 1, 1943

SIXTH SUPPLEMENTAL INDENTURE

Dated as of March 24, 1994

SIXTH SUPPLEMENTAL INDENTURE

INDENTURE, dated as of the 24th day of March, 1994, made and entered into by and between SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin, whose post office address is 1230 Tower Avenue, Superior, Wisconsin 54880 (hereinafter sometimes called the Company), party of the first part, and CHEMICAL BANK (successor to Chemical Bank & Trust Company), a corporation of the State of New York, whose principal corporate trust office at the date hereof is 450 West 33rd Street, New York, New York 10001 (hereinafter called the Corporate Trustee) , and PETER MORSE (successor to Howard B. Smith, Russell H. Sherman, Richard G. Pintard, Steven F. Lasher, and C. G. Martens), whose post office address is 84-26 115th Street, Richmond Hill, New York 11418 (hereinafter sometimes called the Co-Trustee), parties of the second part (the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the Trustees), as Trustees under the Mortgage and Deed of Trust dated as of March 1, 1943 (hereinafter called the Mortgage), which Mortgage was executed and delivered by Superior Water, Light and Power Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which Mortgage is hereby made, this Indenture (hereinafter sometimes called the Sixth Supplemental Indenture) being supplemental thereto;

WHEREAS, said Mortgage was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 3, 1943, in Volume 191 of Mortgages at page 1, Document No. 362844; and

WHEREAS, an instrument dated as of September 15, 1949, was executed by the Company appointing Russell H. Sherman as Co-Trustee in succession to said Howard B. Smith, resigned, under said Mortgage and by Russell H. Sherman accepting the appointment as Co-Trustee under said Mortgage in succession to the said Howard B. Smith, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 8, 1949, in Volume 196 of Mortgages at page 510, Document No. 398649; and

WHEREAS, by the Mortgage, the Company covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectively the purposes of the Mortgage and to make subject to the lien of the Mortgage any property acquired after the date of the execution of the Mortgage and intended to be subject to the lien thereof; and

WHEREAS, the Company executed and delivered to the Trustees its First Supplemental Indenture, dated as of March 1, 1951 (hereinafter called its First Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 30, 1951, in Volume 205 of Mortgages at page 73, Document No. 405297; and

WHEREAS, an instrument dated as of May 16, 1961, was executed by the Company appointing Richard G. Pintard as Co-Trustee in succession to said Russell H. Sherman, resigned, under said Mortgage and by Richard G. Pintard accepting the appointment as Co-Trustee under said Mortgage in succession to said Russell H. Sherman, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 31, 1961, in Volume 256 of Mortgages at page 423, Document No. 453857; and

WHEREAS , the Company executed and delivered to the Trustees its Second Supplemental Indenture, dated as of March 1, 1962 (hereinafter called its Second Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 26, 1962, in Volume 261 of Mortgages at page 81, Document No. 457662; and

WHEREAS, an instrument dated as of June 23, 1976, was executed by the Company appointing Steven F. Lasher as Co-Trustee in succession to said Richard G. Pintard, resigned, under said Mortgage and by Steven F. Lasher accepting the appointment as Co-Trustee under said Mortgage in succession to said Richard G. Pintard, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on July 16, 1976, in Volume 353 of Records at page 274, Document No. 532495; and

WHEREAS , the Company executed and delivered to the Trustees its Third Supplemental Indenture, dated as of July 1, 1976 (hereinafter called its Third Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 1, 1976, in Volume 355 of Records at page 683, Document No. 534332; and

WHEREAS, an instrument dated as of December 30, 1977, was executed by the Company appointing C. G. Martens as Co-Trustee in succession to said Steven F. Lasher, resigned, under said Mortgage and by C. G. Martens accepting the appointment as Co-Trustee under said Mortgage in succession to said Steven F. Lasher, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on February 13, 1985, in Volume 436 of Records at page 264, Document No. 589308; and

WHEREAS, the Company executed and delivered to the Trustees its Fourth Supplemental Indenture, dated as of March 1, 1985 (hereinafter called its Fourth Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 19, 1985, in Volume 436 of Records at page 910, Document No. 589776; and

WHEREAS, an instrument dated as of October 26, 1992, was executed by the Company appointing Peter Morse as Co-Trustee in

succession to said C. G. Martens, resigned, under said Mortgage and by Peter Morse accepting the appointment as Co-Trustee under said Mortgage in succession to said C. G. Martens, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on November 13, 1992, in Volume 539 of Records at page 9, Document No. 649056; and

WHEREAS, the Company executed and delivered to the Trustees its Fifth Supplemental Indenture, dated as of December 1, 1992 (hereinafter called its Fifth Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on December 28, 1992, in Volume 541 of Records at page 229, Document No. 650104; and

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, bonds of a series entitled and designated First Mortgage Bonds, 3 3/8% Series due 1973 (hereinafter called the bonds of the First Series), in the aggregate principal amount of Two Million Five Hundred Thousand Dollars ($2,500,000), none of which bonds of the First Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 3 1/10% Series due 1981 (hereinafter called the bonds of the Second Series), in the aggregate principal amount of Five Million Dollars ($5,000,000), none of which bonds of the Second Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 5% Series due 1992 (hereinafter called the bonds of the Third Series), in the aggregate principal amount of Two Million Seven Hundred Thousand Dollars ($2,700,000), none of which bonds of the Third Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 9 5/8% Series due 2001 (hereinafter called the bonds of the Fourth Series), in the aggregate principal amount of Three Million Dollars ($3,000,000), of which One Million Two Hundred Thousand Dollars ($1,200,000) aggregate principal amount is now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 12 1/2% Series due 1992 (hereinafter called the bonds of the Fifth Series), in the aggregate principal amount of Three Million Five Hundred Thousand Dollars ($3,500,000), none of which bonds of the Fifth Series are now Outstanding; and bonds of a series entitled and designated First Mortgage Bonds, 7.91% Series due 2013 (hereinafter called the bonds of the Sixth Series), in the aggregate principal amount of Five Million Dollars ($5,000,000), of which Four Million Seven Hundred Fifty Thousand Dollars ($4,750,000) aggregate principal amount is now Outstanding; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more

series of bonds issued thereunder by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to be of record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to modify the Third Supplemental Indenture and the terms of the bonds of the Fourth Series, issued under the Third Supplemental Indenture, and to add to the covenants, limitations or restrictions contained in the Mortgage certain other covenants, limitations or restrictions to be observed by it and to amend the Mortgage; and

WHEREAS, the execution and delivery by the Company of this Sixth Supplemental Indenture, and the modifications of the Third Supplemental Indenture and the terms of the bonds of the Fourth Series hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

WHEREAS, the amendments to the Third Supplemental Indenture and the terms of the bonds of the Fourth Series contained in this Sixth Supplemental Indenture have been duly approved by the holders of one hundred per centum (100%) in principal amount of the bonds outstanding and entitled to vote thereon.

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That Superior Water, Light and Power Company, in consideration of the premises and of One Dollar ($1) to it duly paid by the Trustees at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, according to their tenor and effect, and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto Peter Morse and (to the extent of its legal capacity to hold the same for the purposes hereof) to Chemical Bank, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all and singular the permits, franchises, rights, privileges, grants and property, real, personal and mixed, now owned or which may be hereafter acquired by the Company (except any of the character herein or in the Mortgage expressly excepted), including (but not limited to) its electric light and power works, gas works, water works, buildings, structures, machinery, equipment, mains, pipes, lines, poles, wires, easements, rights of way, permits, franchises, rights,

privileges, grants and all property of every kind and description, situated in the City of Superior, Douglas County, Wisconsin, or elsewhere in Douglas County, Wisconsin, in Washburn County, Wisconsin, or in any other place or places, now owned by the Company, or that may be hereafter acquired by it, including, but not limited to, the following described properties of the Company--that is to say:

All Lands and Rights and Interests in Lands of the Company (except any such property as may have been released from the lien of the Mortgage), including, but not limited to, all such property acquired by the Company under the following deed, which is referred to for more particular descriptions thereof, to wit:

Deed from Burlington Northern Railroad to the Company, dated December 17, 1993 and recorded in the office of the Register of Deeds of Douglas County, Wisconsin, on January 25, 1994, in Volume 565 of Records at p. 510.

All other property, real, personal and mixed, acquired by the Company after the date of the execution and delivery of the Mortgage (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted), now owned or hereafter acquired by the Company and wheresoever situated, including (without in any way limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Sixth Supplemental Indenture) all lands, power sites, flowage rights, water rights, water franchises, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants, works, reservoirs and tanks for the pumping and purification of water; all water works; all plants for the generation of electricity by water, steam and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, street and interurban railway systems, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, water, electric, gas and other machines, regulators, meters, transformers, generators, motors, water, electrical, gas and mechanical appliances, conduits, cables, water, steam, heat, gas or other mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture, chattels and choses in action; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of water, electric current, gas, steam heat or hot water for any purpose, including

towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property herein before or in the Mortgage, as heretofore supplemented, described.

Together with all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

It is hereby agreed by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) shall be and are as fully granted and conveyed hereby and as fully embraced within the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

Provided that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of the Mortgage, via: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business and fuel, oil and similar materials and supplies consumable in the operation of any properties of the Company; rolling stock, buses, motor coaches, automobiles and other vehicles; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the last day of the term of any lease or leasehold which may heretofore have or hereafter may become subject to the lien of the Mortgage; (4) water, electric energy, gas, ice and other materials or products pumped, stored, generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; (5) the Company's franchise to be a corporation; and (6) all permits, franchises, rights, privileges, grants and property in the

state of Minnesota now owned or hereafter acquired unless such permits, franchises, rights, privileges, grants and property in the state of Minnesota shall have been subjected to the lien of the Mortgage by an indenture or indentures supplemental to the Mortgage, pursuant to authorization of the Board of Directors of the Company, whereupon all the permits, franchises, rights, privileges, grants and property then owned or thereafter acquired by the Company in the state of Minnesota (except property of the character expressly excepted from the lien of the Mortgage in clauses (1) to (5) above, inclusive), shall become and be subject to the lien of the Mortgage as part of the Mortgaged and Pledged Property and may be released, funded and otherwise dealt with on the same terms and subject to the same conditions and restrictions as though not theretofore excepted from the lien of the Mortgage; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 of the Mortgage.

To have and to hold all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto Peter Morse and (to the extent of its legal capacity to hold the same for the purposes hereof) to Chemical Bank, as Trustees, and their successors and assigns forever.

In trust nevertheless, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as heretofore supplemented, this Sixth Supplemental Indenture being supplemental thereto.

And it is hereby covenanted by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property herein before described and conveyed and to the estate, rights, obligations and duties of the Company and the Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors as Trustees of said property, in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to the Trustees by the Mortgage as part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage as follows:

ARTICLE I.

Amendment to the Third Supplemental Indenture and Terms of the Fourth Series of Bonds.

SECTION 1. Effective upon the date of this Sixth Supplemental Indenture, the Third Supplemental Indenture and the terms of the Bonds of the Fourth Series shall be amended as follows:

(a) The Bonds of the Fourth Series shall bear interest (computed on the basis of a 360 day year--30-day month) at the rate of (a) six and ten hundredths per centum (6.10%) per annum at any time other than during the continuance of a Payment Default and (b) eight and ten hundredths per centum (8.10%) per annum during the continuance of any Payment Default, payable semi-annually on January 1 and July 1 of each year, commencing July 1, 1994, except that any overdue payment (including any overdue prepayment) of principal, any overdue payment of any premium and to the extent that payment of such interest is enforceable under applicable law, any overdue installment of interest shall bear interest (computed on the basis of a 360-day year--30-day month), payable semiannually as aforesaid (or, at the option of the holder of the Bonds, on demand), at a rate per annum from time to time equal to the greater of (i) eight and ten hundredths per centum (8.10%) or (ii) the rate of interest publicly announced by Morgan Guaranty Trust Company of New York from time to time in New York City as its prime rate. The rate of interest to be borne by the Bonds of the Fourth Series prior to the date of this Sixth Supplemental Indenture shall be the rate provided by Section 1 of Article I of the Third Supplemental Indenture prior to the amendments thereto made by this Sixth Supplemental Indenture. The principal of, and the premium, if any, and the interest on, the Bonds of the Fourth Series shall be payable in such coin or currency of the United States of America as at the time of payment shall be legal tender for public and private debts, at the office or agency of the Company in the Borough of Manhattan, City of New York, or the office of the Company in Superior, Wisconsin.

(b) The Bonds of the Fourth Series may be redeemed prior to maturity, in whole at any time or in part (in multiples of $500,000) from time to time, at the option of the Company, or by the application (either at the option of the Company or pursuant to the requirements of the Mortgage) of cash delivered to or deposited with the Corporate Trustee pursuant to the provisions of Section 39, Section 61, Section 64 or Section 118 of the Mortgage or with the Proceeds of Released Property, in any such case at 100% of the principal amount of the bonds being redeemed plus interest accrued

thereon to the date of redemption, together with a premium equal to the Yield Maintenance Amount, if any, with respect to the bonds being redeemed. Any Bond of the Fourth Series redeemed pursuant to this paragraph may not be delivered to the Corporate Trustee in full or partial satisfaction of the sinking fund requirement contained in Section 2 of the Third Supplemental Indenture and shall not reduce the amount of the Bonds of the Fourth Series to be redeemed pursuant to such Section 2.

Notice of any redemption of the Bonds of the Fourth Series shall be given by mail, postage prepaid, at least 30 days prior to the date of redemption, to the registered owners of all Bonds to be so redeemed at their respective addresses appearing on the books maintained by the Company pursuant to Section 13 of the Mortgage. Any notice which is mailed as herein provided shall be conclusively presumed to have been properly and sufficiently given on the date of such mailing, whether or not the registered owner receives the notice. In any case, failure to give notice by mail, or any defect in such notice, to the registered owner of any Bond of the Fourth Series designated for redemption in whole or in part shall not affect the validity of the proceedings for the redemption of any other Bond of the Fourth Series.

The provisions of this clause (b) shall apply in lieu of the provisions of subdivision (I) of Section 1 of Article I of the Third Supplemental Indenture, which subdivision (I) is hereby deleted in its entirety, and in lieu of the provisions of subdivision (II) of Section 1 of Article I of the Third Supplemental Indenture insofar as such provisions of such subdivision (II) relate to any redemption of the Bonds of the Fourth Series by application of cash delivered to or deposited with the Corporate Trustee pursuant to the provisions of Section 39 or Section 64 of the Mortgage, which provisions of such subdivision (II) are hereby deleted in their entirety.

(c) Subdivision (II) of Section 1 of Article I of the Third Supplemental Indenture is hereby further amended by amending the first proviso thereof, in lines nine through sixteen thereof, in its entirety to read as follows:

> "provided, however, that in the case of application of cash delivered to the Corporate Trustee pursuant to the provisions of Section 2 hereof, If the date fixed for such redemption shall be prior to January 1 of the calendar year in which such delivery of cash shall become due under the provisions of Section 2 hereof, they shall be redeemed in accordance with the provisions of clause (b) of the Sixth Supplemental Indenture at a price equal to 100% of the principal amount of the bonds being redeemed plus interest accrued thereon to the date of redemption together with a premium equal to the Yield-

Maintenance Amount, if any, with respect to the bonds being redeemed."

(d) All partial redemptions of Bonds of the Fourth Series shall be made ratably among all registered owners thereof in the proportions which the principal amount of the Bonds held by each registered owner bears to the aggregate principal amount of all Bonds of the Fourth Series then outstanding, computed to the nearest $1,000 principal amount of the Bonds.

(e) In the event that the principal amount of the Bonds of the Fourth Series is declared due and payable upon the occurrence of a Default or becomes due and payable pursuant to Section 73 of the Mortgage, there shall then become due and payable, together with the principal amount of the Bonds of the Fourth Series and interest accrued thereon, a premium equal to the amount of the Yield Maintenance Amount which would have been payable with respect to such Bonds of the Fourth Series, if they had been redeemed at the option of the Company pursuant to Section 1 in this Sixth Supplemental Indenture on the date on which the Bonds of the Fourth Series became due and payable; provided that such premium, if any, with respect to the Bonds of the Fourth Series shall become due and payable only if such Default is, or such sale is made following a Default, other than one specified in any of clauses (ix), (x) and (xi) of the definition of the term "Event of Default" contained in this Sixth Supplemental Indenture or subsections (e) or (f) of Section 65 of the Mortgage.

SECTION 2. Except to the extent expressly set forth in this Sixth Supplemental Indenture, the Third Supplemental Indenture and the terms of the Bonds, as provided in the Third Supplementa1 Indenture, remain unchanged.

ARTICLE II.

Covenants and Restrictions.

The following covenants and restrictions are added to the Third Supplemental Indenture effective upon the date of this Sixth Supplemental Indenture:

SECTION 3. The Company covenants that, so long as any Bonds of the Fourth Series are outstanding, it will not merge or consolidate with any other Person or sell, lease or transfer or otherwise dispose of all or a Substantial Part of its assets, or assets which shall have contributed a Substantial Part of net income of the Company for any of the three fiscal years then most recently ended, to any Person; provided, however, that the Company may merge or consolidate with, or sell or transfer all or substantially all of its assets to, Minnesota Power, but only if (a) in the event that Minnesota Power is the continuing or surviving corporation or the acquiring corporation, Minnesota Power shall be a solvent

corporation and shall expressly assume in writing all of the obligations of the Company under the Mortgage, the Third Supplementa1 Indenture, as amended by this Sixth Supplemental Indenture, the Bonds of the Fourth Series and the Bond Purchase Agreement, including all covenants therein and herein contained, and Minnesota Power shall succeed to and be substituted for the Company with the same effect as if it had been named herein as a party hereto, and (b) the Company as the continuing or surviving corporation or Minnesota Power as the continuing or surviving corporation or acquiring corporation, as the case may be, shall not, immediately after such merger or consolidation, or such sale or other disposition, be in default under any of such obligations.

SECTION 4. The Company covenants that, so long as any Bonds of the Fourth Series shall remain outstanding, the Company will not issue, sell or otherwise dispose of any of its shares of capital stock to any Person other than Minnesota Power.

SECTION 5. The Company covenants that, so long as any of the Bonds of the Fourth Series are outstanding, the Company shall not have any Subsidiaries.

SECTION 6. A default by the Company in the observance of any covenant or agreement contained in Sections 3 through 5, inclusive, of this Sixth Supplemental Indenture or the occurrence of an Event of Default (as defined herein) shall be deemed to constitute an additional and independent Default under, and defined in, Section 65 of the Mortgage; provided that the Trustees shall not be charged with knowledge of any such default or Event of Default unless a Responsible Officer assigned to its Corporate Trustee Administration Department shall have actual knowledge thereof or shall have received written notice thereof from a registered owner of any Bond of the Fourth Series or from the Company. None of the additional Defaults provided for pursuant to this Section 6 are intended or shall be deemed to limit any of the Defaults currently expressed in the Mortgage and none of the Defaults currently expressed in the Mortgage are intended or shall be deemed to limit any of the additional Defaults provided for pursuant to this Section 6.

ARTICLE III.

Miscellaneous Provisions.

SECTION 7. For purposes of the Third Supplemental Indenture and this Sixth Supplemental Indenture, the following terms shall have the meanings indicated below:

"Bond Purchase Agreement" shall mean the Bond Purchase Agreement dated as of September 22, 1976, between the Company, Bankers Life Company and Lutheran Mutual Life Insurance Company, as amended by the Amendment to Purchase Agreement, dated the date of

this Sixth Supplemental Indenture, between the Company and the Purchaser.

"Business Day" shall mean any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

"Called Principal" shall mean, with respect to any Bond, the principal of such Bond that is to be redeemed.

"Capitalized Lease Obligation" shall mean with respect to any Person any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of such Person, taken at the amount thereof accounted for as indebtedness (net of interest expense in accordance with such principles).

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Discounted Value" shall mean, with respect to the Called Principal of any Bond, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Bonds is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of section 414(b) of the Code, or any trade or business which is under common control with the Company within the meaning of section 414(c) of the Code.

"Event of Default" shall mean any of the following events which shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal of or premium, if any, or sinking fund payment payable with respect to any Bond of the Fourth Series when the same shall become due, either by the terms thereof or otherwise as provided in the Mortgage, the Third Supplemental Indenture, as amended by this Sixth Supplemental Indenture, or the Bond Purchase Agreement; or

(ii) the Company defaults in the payment of any interest on any Bond of the Fourth Series for more than 5 days after the due date; or

(iii) the Company, Minnesota Power or any Significant Subsidiary defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto, or the Company, Minnesota Power or any Significant Subsidiary fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligation is created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due (or to be repurchased by the Company, Minnesota Power or any Significant Subsidiary) prior to any stated maturity; or

(iv) any representation or warranty made by the Company in the Third Supplemental Indenture, this Sixth Supplemental Indenture or the Bond Purchase Agreement or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Sixth Supplemental Indenture or the Bond Purchase Agreement shall be false in any material respect on the date as of which made; or

(v) any representation or warranty made by Minnesota Power in the Guaranty or by Minnesota Power or any of its officers in any writing furnished in connection with or pursuant to the Guaranty shall be false in any material respect on the date as of which made; or

(vi) the Company fails to perform or observe any agreement, term or condition contained in the Mortgage, the Third Supplemental Indenture, as amended by the Sixth Supplemental Indenture, or the Bond Purchase Agreement; or

(vii) Minnesota Power fails to perform or observe any agreement, term or condition contained in the Guaranty or the Guaranty shall cease to be in full force

and effect or otherwise shall not be enforceable in accordance with its terms or a proceeding shall be commenced by any governmental agency or authority having jurisdiction over Minnesota Power seeking to establish the invalidity or unenforceability of the Guaranty or Minnesota Power shall deny that it has any other liability or obligation under the Guaranty; or

(viii) the Company, Minnesota Power or any Significant Subsidiary makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(ix) any decree or order for relief in respect of the Company, Minnesota Power or any Significant Subsidiary is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the Bankruptcy Law), of any jurisdiction; or

(x) the Company, Minnesota Power or any Significant Subsidiary petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company, Minnesota Power or any Significant Subsidiary, or of any Substantial Part of the assets of the Company, Minnesota Power or any Significant Subsidiary, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Significant Subsidiary) relating to the Company, Minnesota Power or any Significant Subsidiary under the Bankruptcy Law of any other jurisdiction; or

(xi) any such petition or application is filed, or any such proceedings are commenced, against the Company, Minnesota Power or any Significant Subsidiary and the Company, Minnesota Power or such Significant Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings; or

(xii) any order, judgment or decree is entered in any proceedings against the Company or Minnesota Power decreeing the dissolution of the Company or Minnesota Power and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xiii) any order, judgment or decree is entered in any proceedings against the Company decreeing a split-up of the Company which requires the divestiture of assets representing a Substantial Part of the assets of the Company or which requires the divestiture of assets which shall have contributed a Substantial Part of the net income of the Company for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xiv) any order, judgment or decree is entered in any proceedings against Minnesota Power or any Significant Subsidiary decreeing a split-up of Minnesota Power or such Significant Subsidiary which requires the divestiture of assets representing a Substantial Part, or the divestiture of the stock of a MP-Subsidiary whose assets represent a Substantial Part of the consolidated assets of Minnesota Power and its MP-Subsidiaries (determined in accordance with generally accepted accounting principles) or which requires the divestiture of assets, or stock of a MP-Subsidiary, which shall have contributed a Substantial Part of the consolidated net income of Minnesota Power and its MP-Subsidiaries (determined in accordance with generally accepted accounting principles) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xv) a final judgment in an amount in excess of $100,000 is rendered against the Company or a final judgment in an amount in excess of $5,000,000 is rendered against Minnesota Power or any Significant Subsidiary and, within 60 days after entry thereof, such judgment is not discharged or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

(xvi) the Company or any ERISA Affiliate, in its capacity as an employer under a Multiemployer Plan, makes a complete or partial withdrawal from such Multiemployer Plan resulting in the incurrence by such withdrawing employer of a withdrawal liability in an amount exceeding $100,000;

(xvii) Minnesota Power shall cease to own of record and beneficially 100% of the outstanding shares of capital stock of the Company.

"Guaranty" shall mean that certain Guarantee Agreement dated as of October 8, 1976, made by Minnesota Power in favor of the holders of the Bonds of the Fourth Series.

"MP-Subsidiary" shall mean any corporation at least 51% of the total combined voting power of all classes of Voting Stock of which shall, at the time as of which any determination is being made, be owned by Minnesota Power either directly or through MP-Subsidiaries.

"Minnesota Power" means Minnesota Power & Light Company, a Minnesota corporation.

"Multiemployer Plan" shall mean any Plan which is a "multi employer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"Payment Default" shall mean any default in the payment of any principal, interest, premium or sinking fund payment with respect to any Bond of the Fourth Series when the same shall become due.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

"Plan" shall mean any "employee pension benefit plan" (as such term is defined in section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made by the Company or any ERISA Affiliate.

"Proceeds of Released Property" shall mean the aggregate of the cash deposited with or received by the Corporate Trustee pursuant to the provisions of Section 59, Section 60, Section 61 (except such cash as is to be paid over to the Company under the provisions of Section 61), or Section 62 of the Mortgage.

"Purchaser" means Principal Mutual Life Insurance Company, successor to Bankers Life Company, and Century Life of America by Century Investment Management Company, successor to Lutheran Mutual Life Insurance Company.

"Reinvestment Yield" shall mean, with respect to the Called Principal of any Bond, the yield to maturity implied by (i) the yields reported, as of 10:00 a.m. (New York City time) on the Business Day next preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Service (or such other display as may replace Page 678 on the Telerate Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant

Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H. 15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities.

"Remaining Average Life" shall mean, with respect to the Called Principal of any Bond, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" shall mean, with respect to the Called Principal of any Bond, all redemption payments of such Called Principal and interest thereon that would be due on or after the Settlement Date from the sinking fund established pursuant to the Third Supplemental Indenture with respect to such Called Principal if no such redemption payment of such Called Principal were made prior to its scheduled due date.

"Settlement Date" shall mean, with respect to the Called Principal of any Bond, the date on which such Called Principal is to be redeemed.

"Significant Subsidiary" shall mean any MP-Subsidiary (other than the Company) with consolidated revenues for its most recently ended fiscal year, as shown on its statement of income, which are greater than 15% of consolidated revenues of Minnesota Power and its MP-Subsidiaries for such fiscal year.

"Subsidiary" shall mean any corporation at least 51% of the total combined voting power of all classes of Voting Stock of which shall, at the time as of which any determination is being made, be owned by the Company either directly or through Subsidiaries.

"Substantial Part" shall mean when used with respect to assets or net income 10% or more of such assets or net income, respectively.

"Voting Stock" shall mean, with respect to any corporation, any shares of stock of such corporation whose holders are entitled

under ordinary circumstances to vote for the election of directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

"Yield Maintenance Amount" shall mean, in connection with any of the Bonds of the Fourth Series, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Bond over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield Maintenance Amount shall in no event be less than zero.

SECTION 8. Unless otherwise defined herein, the terms defined in the Mortgage, as heretofore supplemented, shall for all purposes of this Sixth Supplemental Indenture have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 9. The Trustees hereby accept the trust herein declared, provided and created and agree to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions.

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Sixth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Sixth Supplemental Indenture with the same force and effect as if the same were herein set forth in full, with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Sixth Supplemental Indenture.

SECTION 10. Subject to the provisions of Article XVI and Article XVII of the Mortgage and Section 3 of this Sixth Supplemental Indenture, whenever in this Sixth Supplemental Indenture any of the parties hereto is named or referred to, this shall be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Sixth Supplemental Indenture contained by or on behalf of the Company or by or on behalf of the Trustees shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

SECTION 11. Nothing in this Sixth Supplemental Indenture, express or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds Outstanding under the Mortgage, any right, remedy or claim under or by reason of this

Sixth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements of this Sixth Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 12. This Sixth Supplemental Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Superior Water, Light and Power Company, party hereto of the first part, has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and on its behalf, and Chemical Bank, one of the parties hereto of the second part, has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents and its corporate seal to be attested by one of its Trust Officers, and Peter Morse, one of the parties hereto of the second part, has hereunto set his hand and affixed his seal, all as of the day and year first written above.

SUPERIOR WATER, LIGHT AND POWER COMPANY

By: E.G. McGillis

E.G. McGillis, President

Attest:

G.A. Hoffman
- ---
Gary A. Hoffman, Secretary

[SEAL]

Executed, sealed and delivered by
Superior Water, Light, and Power
Company in the presence of:

Janet A. Blake
- ---

- ---

Chemical Bank, as Trustee

By: P.J. Gilkeson

P.J. GILKESON, Vice President

[SEAL]

Attest:

M. B. Johnston
- ---
M. B. Johnston, Trust Officer

Executed, sealed and delivered by
Chemical Bank in the presence of:

Gregory P. Shea
- ---

- ---

Peter Morse

Peter Morse, as Trustee

Executed, sealed and delivered by
Peter Morse in the presence of:

Gregory P. Shea
- ---

- ---

STATE OF WISCONSIN)
) SS.
COUNTY OF DOUGLAS)

Personally came before me this 21st day of Mar, 1994, E. G. McGILLIS, to me known to me the President, and GARY A. HOFFMAN, to me known to be the Secretary of the above-named SUPERIOR WATER, LIGHT AND POWER COMPANY, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively the President and Secretary of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said E. G. McGILLIS and GARY A. HOFFMAN, then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 21st day of Mar, 1994.

Janet A. Blake

Notary Public, State of Wisconsin
My Commission: 2/16/97
[SEAL]

STATE OF NEW YORK)
) SS.
COUNTY OF NEW YORK)

Personally came before me this 23 day of March 1994, P. J. GILKESON, to me known to be a Vice President, and M. B. Johnston, to me known to be a Trust Officer, of the above-named Chemical Bank, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively a Vice President and a Trust Officer of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Vice President and Trust Officer then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 23 day of March, 1994.

Annabelle DeLuca

Notary Public, State of New York
My Commission:
ANNABELLE DeLUCA
Notary Public, State of New York
NO. 01DE5013759
Qualified in Kings County
Certificate Filed in New York County
Commission Expires July 15, 1995
[SEAL]

STATE OF NEW YORK)
) SS.
COUNTY OF NEW YORK)

Personally came before me this 23 day of March, 1994 the above-named Peter Morse, to me known to be the person who executed the foregoing instrument, and acknowledged the same.

Annabelle DeLuca

Notary Public, State of New York
My Commission:
ANNABELLE DeLUCA
Notary Public, State of New York
NO. 01DE5013759
Qualified in Kings County
Certificate Filed in New York County
Commission Expires July 15, 1995
[SEAL]

THIS INSTRUMENT DRAFTED BY:
- ---
Attorney William C. Williams
Bell, Metzner, Gierhart & Moore, S. C.
44 East Mifflin Street
P. O. Box 1807
Madison, WI 53701-1807
(608) 257-3764

Exhibit 4(b)2

Executed in 7 Counterparts
of which this is
Counterpart No. 3

SUPERIOR WATER, LIGHT AND POWER COMPANY

TO

CHEMICAL BANK

and

PETER MORSE

As Trustees Under Superior Water, Light
and Power Company's Mortgage and Deed of Trust,
Dated as of March 1, 1943

SEVENTH SUPPLEMENTAL INDENTURE

Dated as of November 1, 1994

SEVENTH SUPPLEMENTAL INDENTURE

INDENTURE, dated as of the 1st day of November, 1994, made and entered into by and between SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin, whose post office address is 1230 Tower Avenue, Superior, Wisconsin 54880 (hereinafter sometimes called the Company), party of the first part, and CHEMICAL BANK (successor to Chemical Bank & Trust Company), a corporation of the State of New York, whose principal corporate trust office at the date hereof is 450 West 33rd Street, New York, New York 10001 (hereinafter called the Corporate Trustee) , and PETER MORSE (successor to Howard B. Smith, Russell H. Sherman, Richard G. Pintard, Steven F. Lasher, and C. G. Martens), whose post office address is 84-26 115th Street, Richmond Hill, New York 11418 (hereinafter sometimes called the Co-Trustee), parties of the second part (the Corporate Trustee and the Co-Trustee being hereinafter together sometimes called the Trustees) , as Trustees under the Mortgage and Deed of Trust dated as of March 1, 1943 (hereinafter called the Mortgage), which Mortgage was executed and delivered by Superior Water, Light and Power Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which Mortgage is hereby made, this Indenture (hereinafter sometimes called the Seventh Supplemental Indenture) being supplemental thereto;

WHEREAS, said Mortgage was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 3, 1943, in Volume 191 of Mortgages at page 1, Document No. 362844; and

WHEREAS, an instrument dated as of September 15, 1949, was executed by the Company appointing Russell H. Sherman as Co-Trustee in succession to said Howard B. Smith, resigned, under said Mortgage and by Russell H. Sherman accepting the appointment as Co-Trustee under said Mortgage in succession to the said Howard B. Smith, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 8, 1949, in Volume 196 of Mortgages at page 510, Document No. 398649; and

WHEREAS, by the Mortgage, the Company covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectively the purposes of the Mortgage and to make subject to the lien of the Mortgage any property acquired after the date of the execution of the Mortgage and intended to be subject to the lien thereof; and

WHEREAS, the Company executed and delivered to the Trustees its First Supplemental Indenture, dated as of March 1, 1951 (hereinafter called its First Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas

County, Wisconsin, on March 30, 1951, in Volume 205 of Mortgages at page 73, Document No. 405297; and

WHEREAS, an instrument dated as of May 16, 1961, was executed by the Company appointing Richard G. Pintard as Co-Trustee in succession to said Russell H. Sherman, resigned, under said Mortgage and by Richard G. Pintard accepting the appointment as Co-Trustee under said Mortgage in succession to said Russell H. Sherman, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 31, 1961, in Volume 256 of Mortgages at page 423, Document No. 453857; and

WHEREAS, the Company executed and delivered to the Trustees its Second Supplemental Indenture, dated as of March 1, 1962 (hereinafter called its Second Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 26, 1962, in Volume 261 of Mortgages at page 81, Document No. 457662; and

WHEREAS, an instrument dated as of June 23, 1976, was executed by the Company appointing Steven F. Lasher as Co-Trustee in succession to said Richard G. Pintard, resigned, under said Mortgage and by Steven F. Lasher accepting the appointment as Co-Trustee under said Mortgage in succession to said Richard G. Pintard, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on July 16, 1976, in Volume 353 of Records at page 274, Document No. 532495; and

WHEREAS, the Company executed and delivered to the Trustees its Third Supplemental Indenture, dated as of July 1, 1976 (hereinafter called its Third Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 1, 1976, in Volume 355 of Records at page 683, Document No. 534332; and

WHEREAS, an instrument dated as of December 30, 1977, was executed by the Company appointing C. G. Martens as Co-Trustee in succession to said Steven F. Lasher, resigned, under said Mortgage and by C. G. Martens accepting the appointment as Co-Trustee under said Mortgage in succession to said Steven F. Lasher, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on February 13, 1985, in Volume 436 of Records at page 264, Document No. 589308; and

WHEREAS, the Company executed and delivered to the Trustees its Fourth Supplemental Indenture, dated as of March 1, 1985 (hereinafter called its Fourth Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 19, 1985, in Volume 436 of Records at page 910, Document No. 589776; and

WHEREAS, an instrument dated as of October 26, 1992, was executed by the Company appointing Peter Morse as Co-Trustee in succession to said C. G. Martens, resigned, under said Mortgage and by Peter Morse accepting the appointment as Co-Trustee under said mortgage in succession to said C. G. Martens, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on November 13, 1992, in Volume 539 of Records at page 9, Document No. 649056; and

WHEREAS, the Company executed and delivered to the Trustees its Fifth Supplemental Indenture, dated as of December 1, 1992 (hereinafter called its Fifth Supplemental Indenture) , which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on December 28, 1992, in Volume 541 of Records at page 229, Document No. 650104; and

WHEREAS, the Company executed and delivered to the Trustees its Sixth Supplemental Indenture, dated as of March 24, 1994 (hereinafter called its Sixth Supplemental Indenture), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 29, 1994, in Volume 568 of Records at page 757, Document No. 662228; and

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, bonds of a series entitled and designated First Mortgage Bonds, 3 3/8% Series due 1973 (hereinafter called the bonds of the First Series), in the aggregate principal amount of Two Million Five Hundred Thousand Dollars ($2,500,000), none of which bonds of the First Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 3 1/10% Series due 1981 (hereinafter called the bonds of the Second Series), in the aggregate principal amount of Five Million Dollars ($5,000,000), none of which bonds of the Second Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 5% Series due 1992 (hereinafter called the bonds of the Third Series), in the aggregate principal amount of Two Million Seven Hundred Thousand Dollars ($2,700,000), none of which bonds of the Third Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 9 5/8% Series due 2001 (hereinafter called the bonds of the Fourth Series) , the interest rate of which bonds were modified to 6.10% by the Sixth Supplemental Indenture, in the aggregate principal amount of Three Million Dollars ($3,000,000), of which One Million, Fifty Thousand Dollars ($1,050,000) aggregate principal amount is now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 12 1/2% Series due 1992 (hereinafter called the bonds of the Fifth Series), in the aggregate principal amount of Three Million Five Hundred Thousand Dollars ($3,500,000), none of

which bonds of the Fifth Series are now Outstanding; and bonds of a series entitled and designated First Mortgage Bonds, 7.91% Series due 2013 (hereinafter called the bonds of the Sixth Series) , in the aggregate principal amount of Five Million Dollars ($5, 000, 000) , of which Four Million, Seven Hundred Fifty Thousand Dollars ($4,750,000) aggregate principal amount is now Outstanding; and

WHEREAS, Sections 101 and 102 of the Mortgage provide, among other things, that the holders of a majority in principal amount of the bonds then Outstanding may remove and replace any Trustee, and such bondholders, at the request of the Company, wish to replace the Trustees with a Trustee with its principal office and place of business located outside of the borough of Manhattan in the city of New York; and

WHEREAS, Section 35 of the Mortgage provides, among other things, that the Corporate Trustee shall have its principal office and place of business located within the borough of Manhattan in the city of New York; and

WHEREAS, the Company now desires to modify the Mortgage to remove the restrictions on the location of the principal office of the Corporate Trustee, and to modify other provisions of the Mortgage related to the location of the Trustee's principal office; and

WHEREAS, the execution and delivery by the Company of this Seventh Supplemental Indenture, and the modifications of the Mortgage hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors;

WHEREAS, the amendments to the Mortgage contained in this Seventh Supplemental Indenture have been duly approved by the holders of one hundred per centum (100%) in principal amount of the bonds outstanding and entitled to vote thereon.

NOW, THEREFORE, THIS INDENTURE WITNESSETH: That Superior Water, Light and Power Company, in consideration of the premises and of One Dollar ($l) to it duly paid by the Trustees at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Trustees and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, according to their tenor and effect, and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto Peter Morse and (to the

extent of its legal capacity to hold the same for the Purposes ,hereof) to Chemical Bank, as Trustees under the Mortgage, and to their successor or successors in said trust, and to said Trustees and their successors and assigns forever, all and singular the permits, franchises, rights, privileges, grants and property, real, personal and mixed, now owned or which may be hereafter acquired by the Company (except any of the character herein or in the Mortgage expressly excepted), including (but not limited to) its electric light and power works, gas works, water works, buildings, structures, machinery, equipment, mains, pipes, lines, poles, wires, easements, rights of way, permits, franchises, rights, privileges, grants and all property of every kind and description, situated in the City of Superior, Douglas County, Wisconsin, or elsewhere in Douglas County, Wisconsin, in Washburn County, Wisconsin, or in any other place or places, now owned by the Company, or that may be hereafter acquired by it, including, but not limited to, the following described properties of the Company--that is to say:

All property, real, personal and mixed, acquired by the Company after the date of the execution and delivery of the Mortgage (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) , now owned or hereafter acquired by the Company and wheresoever situated, including (without in any way limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Seventh Supplemental Indenture) all lands, power sites, flowage rights, water rights, water franchises, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants, works, reservoirs and tanks for the pumping and purification of water; all water works; all plants for the generation of electricity by water, steam and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, street and interurban railway systems, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, water, electric, gas and other machines, regulators, meters, transformers, generators, motors, water, electrical, gas and mechanical appliances, conduits, cables, water, steam, heat, gas or other mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture, chattels and choses in action; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of water, electric current, gas, steam heat or hot water for any purpose, including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands,

easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property herein before or in the Mortgage, as heretofore supplemented, described.

Together with all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

It is hereby agreed by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) shall be and are as fully granted and conveyed hereby and as fully embraced within the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

Provided that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed hereunder and are hereby expressly excepted from the lien and operation of the Mortgage, via: (1) cash, shares of stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business and fuel, oil and similar materials and supplies consumable in the operation of any properties of the Company; rolling stock, buses, motor coaches, automobiles and other vehicles; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the last day of the term of any lease or leasehold which may heretofore have or hereafter may become subject to the lien of the Mortgage; (4) water, electric energy, gas, ice and other materials or products pumped, stored, generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; (5) the Company's franchise to be a corporation; and (6) all permits, franchises, rights, privileges, grants and property in the state of Minnesota now owned or hereafter acquired unless such permits, franchises, rights, privileges, grants and property in the

state of Minnesota shall have been subjected to the lien of the Mortgage by an indenture or indentures supplemental to the Mortgage, pursuant to authorization of the Board of Directors of the Company, whereupon all the permits, franchises, rights, privileges, grants and property then owned or thereafter acquired the Company in the state of Minnesota (except property of the character expressly excepted from the lien of the Mortgage in clauses (1) to (5) above, inclusive), shall become and be subject to the lien of the Mortgage as part of the Mortgaged and Pledged property and may be released, funded and otherwise dealt with on the same terms and subject to the same conditions and restrictions as though not theretofore excepted from the lien of the Mortgage; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that either or both of the Trustees or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 of the Mortgage.

To have and to hold all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto Peter Morse and (to the extent of its legal capacity to hold the same for the purposes hereof) to Chemical Bank, as Trustees, and their successors and assigns forever.

In trust nevertheless, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as heretofore supplemented, this Seventh Supplemental Indenture being supplemental thereto.

And it is hereby covenanted by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property herein before described and conveyed and to the estate, rights, obligations and duties of the Company and the Trustees and the beneficiaries of the trust with respect to said property, and to the Trustees and their successors as Trustees of said property, in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to the Trustees by the Mortgage as part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustees and their successors in said trust under the Mortgage as follows:

ARTICLE I.
Amendments to the Mortgage.

SECTION 1. Effective upon the date of this Seventh Supplemental Indenture, the Mortgage shall be amended as follows:

(A) subdivision (a) of Section 35 of Article VIII of the Mortgage is amended to read as follows--

> (a) That, whenever necessary to avoid or fill a vacancy in the office of the Corporate Trustee, the Company will in the manner provided in Section 102 hereof appoint a Corporate Trustee so that there shall at all times be a Corporate Trustee hereunder which shall at all times be a corporation organized and doing business under the laws of the United States or of any State or Territory or the District of Columbia, with its principal office and place of business within the United States, and with a combined capital and surplus of at least One Hundred Million Dollars ($100,000,000) (unless such trustee is First Bank (N.A.), with its principal office and place of business in Milwaukee, Wisconsin, in which case such trustee shall have a combined capital and surplus of at least Thirty Million Dollars ($30,000,000)), and authorized under such laws to exercise corporate trust powers and subject to supervision or examination by Federal, State, Territorial or District of Columbia authority.

(B) wherever the Mortgage refers to providing notice in a Daily Newspaper, printed in the English language, and of general circulation in the Borough of Manhattan, The City of New York, such reference is amended to refer to a Daily Newspaper, printed in the English language, and of general circulation in the City of Milwaukee, Wisconsin.

(C) subdivision (a) of Section 82 of Article XIV and Section 110 of Article XIX of the Mortgage are amended by replacing the references therein to "New York" with "Wisconsin".

(D) Section 108 of Article XIX of the Mortgage is amended by replacing the references therein to "the Borough of Manhattan, The City of New York" with "the City of Milwaukee, Wisconsin".

SECTION 2. Except to the extent expressly set forth in this Seventh Supplemental Indenture, the Mortgage remains unchanged.

ARTICLE II.
Amendments to the Third, Fifth and Sixth Supplemental Indentures and the Terms of the Bonds of the Fourth and Sixth Series.

SECTION 3. Effective upon the date of this Seventh Supplemental Indenture, the Third Supplemental Indenture, as amended by the Sixth Supplemental Indenture, and the terms of the Bonds of the Fourth Series shall be amended by replacing the references therein to the "office or agency of the Company in the Borough of Manhattan, The City of New York" with the "Office or agency of the Company at the principal office of the Corporate Trustee".

SECTION 4. Effective upon the date of this Seventh Supplemental Indenture, the Fifth Supplemental Indenture and the terms of the Bonds of the Sixth Series shall be amended by replacing the references therein to the "office or agency of the Company in the Borough of Manhattan, The City of New York" with the "office or agency of the Company at the principal office of the Corporate Trustee".

SECTION 5. Effective upon the date of this Seventh Supplemental Indenture, the definition of "Business Day" in the Fifth Supplemental Indenture and the Sixth Supplemental Indenture shall be amended by replacing the references therein to "New York City" with "the state of Wisconsin".

SECTION 6. Except to the extent expressly set forth in this Seventh Supplemental Indenture, the Third Supplemental Indenture, as amended by the Sixth Supplemental Indenture, the Fifth Supplemental Indenture, and the Sixth Supplemental Indenture, and the terms of the Bonds of the Fourth and Sixth Series, remain unchanged.

ARTICLE III.
Miscellaneous Provisions.

SECTION 7. Unless otherwise defined herein, the terms defined in the Mortgage, as heretofore supplemented, shall for all purposes of this Seventh Supplemental Indenture have the meanings specified in the Mortgage, as heretofore supplemented.

SECTION 8. The Trustees hereby accept the trust herein declared, provided and created and agree to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions.

The Trustees shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Seventh Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company

solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Seventh Supplemental Indenture with the same force and effect as if the same were herein set forth in full, with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Seventh Supplemental Indenture.

SECTION 9. Subject to the provisions of Article XVI and Article XVII of the Mortgage, whenever in this Seventh Supplemental Indenture any of the parties hereto is named or referred to, this shall be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Seventh Supplemental Indenture contained by or on behalf of the Company or by or on behalf of the Trustees shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

SECTION 10. Nothing in this Seventh Supplemental Indenture, express or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds Outstanding under the Mortgage, any right, remedy or claim under or by reason of this Seventh Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements of this Seventh Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

SECTION 11. This Seventh Supplemental Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Superior Water, Light and Power Company, party hereto of the first part, has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and on its behalf, and Chemical Bank, one of the parties hereto of the second part, has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by one of its Vice Presidents and its corporate seal to be attested by one of its _____, and Peter Morse, one of the parties hereto of the second part, has hereunto set his hand and affixed his seal, all as

of the day and year first written above.

SUPERIOR WATER, LIGHT AND POWER COMPANY

By: E.G. McGillis

E.G. McGillis, President

Attest:

G.A. Hoffman
- ---
Gary A. Hoffman, Secretary

Executed, sealed and delivered by
Superior Water, Light and Power
Company in the presence of:

Janet A. Blake
- ---

Brenda L. Jahr
- ---

Chemical Bank, as Trustee

By: P.J. Gilkeson

P.J. GILKESON, Vice President

Attest:

L. O'Brien
- ---
L. O'Brien, Assistant Secretary
- ---

Executed, sealed and delivered by
Chemical Bank in the presence of:

Gregory P. Shea
- ---

P. Morabito
- ---

Peter Morse

Peter Morse, as Trustee

Executed, and delivered by
Peter Morse in the presence of:

/s/ Illegible
- ---

/s/ Illegible
- ---

STATE OF WISCONSIN)
) SS.
COUNTY OF DOUGLAS)

Personally came before me this 15th day of November 1994, E. G. McGILLIS, to me known to be the President, and GARY A. HOFFMAN, to me known to be the Secretary of the above-named SUPERIOR WATER, LIGHT AND POWER COMPANY, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively the President and Secretary of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said E. G. MCGILLIS and GARY A. HOFFMAN, then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 15th day of November, 1994.

Janet A. Blake

Notary Public, State of Wisconsin
My Commission expires 2/16/97

STATE OF NEW YORK)
) SS.
COUNTY OF NEW YORK)

Personally came before me this 6th day of January, 1995, P. J. Gilkeson, to me known to be a Vice President, and L. O'Brien, to me known to be a Assistant Secretary, of the above-named Chemical Bank, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively a Vice President and a Assistant Secretary of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Vice President and Assistant Secretary then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 6th day of January, 1995.

Annabelle DeLuca

Notary Public, State of New York
My Commission:
ANNABELLE DeLUCA
Notary Public, State of New York
NO. 01DE5013759
Qualified in Kings County
Certificate Filed in New York County
Commission Expires July 15, 1995

AUTHENTICATION OF EXECUTION BY PETER MORSE

THIS INSTRUMENT DRAFTED BY:
- --------------------------
Attorney William C. Williams
Bell, Metzner, Gierhart & Moore, S. C.
44 East Mifflin Street
P. O. Box 1807
Madison, WI 53701-1807
(608) 257-3764

UNITED KINGDOM OF GREAT BRITIAN)

CITY OF LONDON ENGLAND) SS.

On this ninth day of December One thousand nine hundred and ninety-four, personally came before me PETER MORSE, to me known to be the person described in and who executed the foregoing Instrument, and acknowledged that he executed the same.

Richard Graham Rosser

RICHARD GRAHAM ROSSER
NOTARY PUBLIC, LONDON

My commission expires with life

[SEAL] [SEAL]

Exhibit 4(b)3

SUPERIOR WATER, LIGHT AND POWER COMPANY
1230 Tower Avenue, Superior, WI 54880

To

FIRST BANK (N.A.)

As Corporate Trustee Under Superior Water, Light
and Power Company's Mortgage and Deed of Trust,
Dated as of March 1, 1943

EIGHTH SUPPLEMENTAL INDENTURE

Dated as of January 1, 1997

This instrument drafted by
James E. Jenz
CHAPMAN AND CUTLER
Chicago, Illinois

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EIGHTH SUPPLEMENTAL INDENTURE

INDENTURE, dated as of the 1st day of January 1997, made and entered into by and between SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin, whose address is 1230 Tower Avenue, Superior, Wisconsin 54880 (the "Company") and FIRST BANK (N.A.) (successor to Chemical Bank, as Corporate Trustee, and Peter Morse, as Co-Trustee), a national banking association, whose principal trust office at the date hereof is 201 West Wisconsin Avenue, Milwaukee, Wisconsin 53259 (the "Corporate Trustee"), as Corporate Trustee under the Mortgage and Deed of Trust dated as of March 1, 1943 (hereinafter called the "Mortgage"), which Mortgage was executed and delivered by the Company to secure the payment of bonds issued or to be issued under and in accordance with the provisions of the Mortgage, reference to which Mortgage is hereby made, this Eighth Supplemental Indenture (the "Eighth Supplemental Indenture") being supplemental thereto;

WHEREAS, said Mortgage was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 3, 1943, in Volume 191 of Mortgages at page 1, Document No. 362844; and

WHEREAS, an instrument dated as of September 15, 1949, was executed by the Company appointing Russell H. Sherman as Co-Trustee in succession to said Howard B. Smith, resigned, under said Mortgage, and by Russell H. Sherman accepting the appointment as Co-Trustee under said Mortgage in succession to the said Howard B. Smith, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 8, 1949, in Volume 196 of Mortgages at page 510, Document No. 398649; and

WHEREAS, by the Mortgage, the Company covenanted that it would execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as might be necessary or proper to carry out more effectively the purposes of the Mortgage and to make subject to the lien of the Mortgage any property acquired after the date of the execution of the Mortgage and intended to be subject to the lien thereof; and

WHEREAS, the Company executed and delivered its First Supplemental Indenture, dated as of March 1, 1951 (hereinafter called its "First Supplemental Indenture"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 30, 1951, in Volume 205 of Mortgages at page 73, Document No. 405297; and

WHEREAS, an instrument dated as of May 16, 1961, was executed by the Company appointing Richard G. Pintard as Co-Trustee in succession to said Russell H. Sherman, resigned, under said Mortgage and by Richard G. Pintard accepting the appointment as Co-Trustee under said Mortgage in succession to said Russell H. Sherman, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on May 31, 1961, in Volume 256 of Mortgages at page 423, Document No. 453857; and

WHEREAS, the Company executed and delivered its Second Supplemental Indenture, dated as of March 1, 1962 (hereinafter called its "Second Supplemental Indenture"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 26, 1962, in Volume 261 of Mortgages at page 81, Document No. 457662; and

WHEREAS, an instrument dated as of June 23, 1976, was executed by the Company appointing Steven F. Lasher as Co-Trustee in succession to said Richard G. Pintard, resigned, under said Mortgage and by Steven F. Lasher accepting the appointment as Co-Trustee under said Mortgage in succession to said Richard G. Pintard, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on July 16, 1976, in Volume 353 of Records at page 274, Document No. 532495; and

WHEREAS, the Company executed and delivered its Third Supplemental Indenture, dated as of July 1, 1976 (hereinafter called its "Third Supplemental Indenture"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on October 1, 1976, in Volume 355 of Records at page 683, Document No. 534332; and

WHEREAS, an instrument dated as of December 30, 1977, was executed by the Company appointing C. G. Martens as Co-Trustee in succession to said Steven F. Lasher, resigned, under said Mortgage and by C. G. Martens accepting the appointment as Co-Trustee under said Mortgage in succession to said Steven F. Lasher, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on February 13, 1985, in Volume 436 of Records at page 264, Document No. 589308; and

WHEREAS, the Company executed and delivered its Fourth Supplemental Indenture, dated as of March 1, 1985 (hereinafter called its "Fourth Supplemental Indenture"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 19, 1985, in Volume 436 of Records at page 910, Document No. 589776; and

WHEREAS, an instrument dated as of October 26, 1992, was executed by the Company appointing Peter Morse as Co-Trustee in succession to said C. G. Martens, resigned, under said Mortgage and by Peter Morse accepting the appointment as Co-Trustee under said Mortgage in succession to said C. G. Martens, which instrument was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on November 13, 1992, in Volume 539 of Records at page 9, Document No. 649056; and

WHEREAS, the Company executed and delivered its Fifth Supplemental Indenture, dated as of December 1, 1992, (hereinafter called its "Fifth Supplemental Indenture"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on December 28, 1992, in Volume 541 of Records at page 229, Document No. 650104; and

WHEREAS, the Company executed and delivered its Sixth Supplemental Indenture, dated as of March 24, 1994 (hereinafter called its "Sixth Supplemental Indenture"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on March 29, 1994, in Volume 568 of Records at page 757, Document No. 662228; and

WHEREAS, the Company executed and delivered its Seventh Supplemental Indenture, dated as of November 1, 1994 (hereinafter called its "Seventh Supplemental Indenture"), which was recorded in the office of the Register of Deeds in and for Douglas County, Wisconsin, on January 18, 1995, in Volume 583 of Records at page 242, Document No. 669350; and

WHEREAS, an instrument dated as of January 20, 1995, was executed by The Prudential Insurance Company pursuant to Section 102 of the Mortgage appointing First Bank (N.A.) as Corporate Trustee in succession to Chemical Bank as Corporate Trustee and Peter Morse as Co-Trustee under said Mortgage and by First Bank (N.A.), accepting the appointment as Corporate Trustee under such Mortgage in succession to said Chemical Bank and said Peter Morse, which instrument was recorded in the Office of the Register of Deeds in and for Douglas County, Wisconsin on April 6, 1995 in Volume 585 of Records at page 953, Document No. 670717; and

WHEREAS, in addition to the property described in the Mortgage, as heretofore supplemented, the Company has acquired certain other property, rights and interests in property; and

WHEREAS, the Company has heretofore issued, in accordance with the provisions of the Mortgage, bonds of a series entitled and designated First Mortgage Bonds, 3 3/8% Series due 1973 (the "Bonds of the First Series"), in the aggregate principal amount of Two Million Five Hundred Thousand Dollars ($2,500,000), none of which Bonds of the First Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 3 1/10% Series due 1981 (the "Bonds of the Second Series"), in the aggregate principal amount of Five Million Dollars ($5,000,000), none of which Bonds of the Second Series are now Outstanding; bonds of a series entitled and designated First Mortgage Bonds, 5% Series due 1992 (the "Bonds of the Third Series"), in the aggregate principal amount of Two Million Seven Hundred Thousand Dollars ($2,700,000), none of which Bonds of the Third Series are now outstanding; bonds of a series entitled and designated First Mortgage Bonds, 9 5/8% Series due 2001 (the "Bonds of the Fourth Series"), the interest rate for which bonds was modified to 6.10% by the Sixth Supplemental Indenture, in the aggregate principal amount of Three Million Dollars ($3,000,000), of which $750,000 aggregate principal amount is now outstanding; bonds of a series entitled and designated First Mortgage Bonds, 12 1/2% Series due 1992 (the "Bonds of the Fifth Series"), in the aggregate principal amount of Three Million Five Hundred Thousand Dollars ($3,500,000), none of which Bonds of the Fifth Series are now outstanding; and Bonds of a series entitled and designated First Mortgage Bonds, 7.91% Series due 2013 (the "Bonds of the Sixth Series"), in the aggregate principal amount of Five Million Dollars ($5,000,000) of which $4,250,000 aggregate principal amount is now outstanding; and

WHEREAS, Section 8 of the Mortgage provides that the form of each series of bonds (other than the First Series) issued thereunder shall be established by Resolution of the Board of Directors of the Company and that the form of such series, as established by said Board of Directors, shall specify the descriptive title of the bonds and various other terms

thereof, and may also contain such provisions not inconsistent with the provisions of the Mortgage as the Board of Directors may, in its discretion, cause to be inserted therein; and

WHEREAS, Section 120 of the Mortgage provides, among other things, that the Company may enter into any further covenants, limitations or restrictions for the benefit of any one or more series of bonds issued thereunder, or the Company may establish the terms and provisions of any series of bonds other than said First Series, by an instrument in writing executed and acknowledged by the Company in such manner as would be necessary to entitle a conveyance of real estate to be of record in all of the states in which any property at the time subject to the lien of the Mortgage shall be situated; and

WHEREAS, the Company now desires to create a new series of bonds and to add to the covenants, limitations or restrictions contained in the Mortgage certain other covenants, limitations or restrictions to be observed by it and to amend the Mortgage; and

WHEREAS, the execution and delivery by the Company of this Eighth Supplemental Indenture, and the terms of the Bonds of the Seventh Series hereinafter referred to, have been duly authorized by the Board of Directors of the Company by appropriate resolutions of said Board of Directors.

Now, THEREFORE, THIS INDENTURE WITNESSETH: That Superior Water, Light and Power Company, in consideration of the premises and of One Dollar ($1) to it duly paid by the Corporate Trustee at or before the ensealing and delivery of these presents, the receipt whereof is hereby acknowledged, and in further evidence of assurance of the estate, title and rights of the Corporate Trustee and in order further to secure the payment both of the principal of and interest and premium, if any, on the bonds from time to time issued under the Mortgage, according to their tenor and effect, and the performance of all the provisions of the Mortgage (including any instruments supplemental thereto and any modification made as in the Mortgage provided) and of said bonds, hereby grants, bargains, sells, releases, conveys, assigns, transfers, mortgages, pledges, sets over and confirms (subject, however, to Excepted Encumbrances as defined in Section 6 of the Mortgage) unto First Bank (N.A.), as Corporate Trustee under the Mortgage, and to its successor or successors in said trust, and to said Corporate Trustee and its successors and assigns forever, all and singular the permits, franchises, rights, privileges, grants and property, real, personal and mixed, now owned or which may be hereafter acquired by the Company (except any of the character herein or in the Mortgage expressly excepted), including (but not limited to) its electric light and power works, gas works, water works, buildings, structures, machinery, equipment, mains, pipes, lines, poles, wires, easements, rights of way, permits, franchises, rights, privileges, grants and all property of every kind and description, situated in the City of Superior, Douglas County, Wisconsin, or elsewhere in Douglas County, Wisconsin, in Washburn County, Wisconsin, or in any other place or places now owned by the Company, or that may be hereafter acquired by it, including, but not limited to, the following described properties of the Company--that is to say:

All property, real, personal and mixed, acquired by the Company after the date of the execution and delivery of the Mortgage (except any herein or in the Mortgage, as heretofore

supplemented, expressly excepted), now owned or hereafter acquired by the Company and wheresoever situated, including (without in any wise limiting or impairing by the enumeration of the same the scope and intent of the foregoing or of any general description contained in this Eighth Supplemental Indenture) all lands, power sites, flowage rights, water rights, water franchises, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, and all other rights or means for appropriating, conveying, storing and supplying water; all rights of way and roads; all plants, works, reservoirs and tanks for the pumping and purification of water; all water works; all plants for the generation of electricity by water, steam and/or other power; all power houses, gas plants, street lighting systems, standards and other equipment incidental thereto, telephone, radio and television systems, air-conditioning systems and equipment incidental thereto, water systems, steam heat and hot water plants, substations, lines, service and supply systems, bridges, culverts, tracks, street and interurban railway systems, offices, buildings and other structures and the equipment thereof; all machinery, engines, boilers, dynamos, water, electric, gas and other machines, regulators, meters, transformers, generators, motors, water, electrical, gas and mechanical appliances, conduits, cables, water, steam, heat, gas or other mains and pipes, service pipes, fittings, valves and connections, pole and transmission lines, wires, cables, tools, implements, apparatus, furniture, chattels and choses in action; all municipal and other franchises, consents or permits; all lines for the transmission and distribution of water, electric current, gas, steam heat or hot water for any purpose, including towers, poles, wires, cables, pipes, conduits, ducts and all apparatus for use in connection therewith; all real estate, lands, easements, servitudes, licenses, permits, franchises, privileges, rights of way and other rights in or relating to real estate or the occupancy of the same and (except as herein or in the Mortgage, as heretofore supplemented, expressly excepted) all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore or in the Mortgage, as heretofore supplemented, described.

Together with all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders and (subject to the provisions of Section 57 of the Mortgage) the tolls, rents, revenues, issues, earnings, income, product and profits thereof, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid property and franchises and every part and parcel thereof.

It is hereby agreed by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any herein or in the Mortgage, as heretofore supplemented, expressly excepted) shall be and are as fully granted and conveyed hereby and as fully embraced within the lien of the Mortgage as if such property, rights and franchises were now owned by the Company and were specifically described herein and conveyed hereby.

Provided that the following are not and are not intended to be now or hereafter granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set

over or confirmed hereunder and are hereby expressly excepted from the lien and operation of the Mortgage, viz: (1) cash, shares of' stock, bonds, notes and other obligations and other securities not hereafter specifically pledged, paid, deposited, delivered or held under the Mortgage or covenanted so to be; (2) merchandise, equipment, materials or supplies held for the purpose of sale in the usual course of business and fuel, oil and similar materials and supplies consumable in the operation of any properties of the Company; rolling stock, buses, motor coaches, automobiles and other vehicles; (3) bills, notes and accounts receivable, and all contracts, leases and operating agreements not specifically pledged under the Mortgage or covenanted so to be; the last day of the term of any lease or leasehold which may heretofore have or hereafter may become subject to the lien of the Mortgage; (4) water, electric energy, gas, ice and other materials or products pumped, stored, generated, manufactured, produced or purchased by the Company for sale, distribution or use in the ordinary course of its business; (5) the Company's franchise to be a corporation; and (6) all permits, franchises, rights, privileges, grants and property in the state of Minnesota now owned or hereafter acquired unless such permits, franchises, rights, privileges, grants and property in the state of Minnesota shall have been subjected to the lien of the Mortgage by an indenture or indentures supplemental to the Mortgage, pursuant to authorization of the Board of Directors of the Company, whereupon all the permits, franchises, rights, privileges, grants and property then owned or thereafter acquired by the Company in the state of Minnesota (except property of the character expressly excepted from the lien of the Mortgage in clauses (1) to (5) above, inclusive), shall become and be subject to the lien of the Mortgage as part of the Mortgaged and Pledged Property and may be released, funded and otherwise dealt with on the same terms and subject to the same conditions and restrictions as though not theretofore excepted from the lien of the Mortgage; provided, however, that the property and rights expressly excepted from the lien and operation of the Mortgage in the above subdivisions (2) and (3) shall (to the extent permitted by law) cease to be so excepted in the event and as of the date that the Corporate Trustee or a receiver or trustee shall enter upon and take possession of the Mortgaged and Pledged Property in the manner provided in Article XIII of the Mortgage by reason of the occurrence of a Default as defined in Section 65 of the Mortgage.

To have and to hold all such properties, real, personal and mixed, granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged pledged, set over or confirmed by the Company as aforesaid, or intended so to be, unto First Bank (N.A.) as Corporate Trustee, and its successors and assigns forever.

In trust nevertheless, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Mortgage, as heretofore supplemented, this Eighth Supplemental Indenture being supplemental thereto.

And it is hereby covenanted by the Company that all the terms, conditions, provisos, covenants and provisions contained in the Mortgage, as heretofore supplemented, shall affect and apply to the property hereinbefore described and conveyed and to the estate, rights, obligations and duties of the Company and the Corporate Trustee and the beneficiaries of the trust with respect to said property, and to the Corporate Trustee and its successors as

Corporate Trustee of said property, in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Mortgage, and had been specifically and at length described in and conveyed to the Corporate Trustee by the Mortgage as part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Corporate Trustee and its successors in said trust under the Mortgage as follows:

ARTICLE I
BONDS OF THE SEVENTH SERIES

Section 1.1. There shall be a seventh series of bonds designated "First Mortgage Bonds, 7.27% Series due December 15, 2008" (the "Bonds of the Seventh Series"), which shall be limited to $6,000,000 aggregate principal amount, shall mature on December 15, 2008, and shall be issued as fully registered bonds without coupons in the denominations of $1,000 or any multiple thereof. The Bonds of the Seventh Series shall bear interest (computed on the basis of a 360-day year of twelve 30-day months) at the rate of seven and twenty-seven hundredths percent (7.27%) per annum, payable semi-annually on June 15 and December 15 of each year, commencing June 15, 1997 and at the rate of nine and twenty-seven hundredths percent (9.27%) per annum on any overdue payment of principal or premium, if any, and, to the extent enforceable under applicable law, on any overdue payment of interest. The Bonds of the Seventh Series shall be numbered R-1 and upward and otherwise shall be substantially in the form attached hereto as Exhibit A. Except as hereinafter provided, the principal of, and the premium, if any, and the interest on, the Bonds of the Seventh Series shall be payable in such coin or currency of the United States of America as at the time of payment shall be legal tender for public and private debts, at the office or agency of the Company in the City of Milwaukee, Wisconsin or the office of the Company in Superior, Wisconsin.

Notwithstanding any provision to the contrary in the Mortgage or the Bonds of the Seventh Series, the first paragraph of Section 9 of the Bond Purchase Agreement shall govern the method of payment of principal, premium, if any, and interest on the Bonds of the Seventh Series to the holders thereof; provided, however, that the Corporate Trustee shall have no obligation to comply with the provisions of Section 9 with respect to any transferee of the Purchaser or any other holder of the Bonds of the Seventh Series until such transferee or holder shall have made the agreement described in Section 9. Subject to such proviso, the Corporate Trustee hereby consents to the method of payment described in Section 9. The Corporate Trustee shall not be liable or responsible to any holder of Bonds of the Seventh Series entitled to the benefits of Section 9 or to any transferee thereof or to the Company for any act or omission to act on the part of the Company or any such holder of Bonds of the Seventh Series in connection with Section 9. The Company hereby indemnifies the Corporate Trustee against all liabilities, if any, resulting from acts or omissions on its part or on the part of the Company in connection with Section 9.

The Bonds of the Seventh Series shall be dated as of the date of authentication thereof by the Corporate Trustee (except that if any Bond of the Seventh Series shall be

authenticated on an interest payment date for the Bonds of the Seventh Series to which interest has been paid, such Bond shall be dated as of the day following) and shall bear interest from the fifteenth day of June or December, as the case may be, next preceding the date of such Bond to which interest has been paid; provided, however, that if any such Bond shall be authenticated before June 15, 1997, such Bond shall bear interest from the date of the original issue of the Bonds of the Seventh Series; and provided further that if the Company shall at the time of the authentication of any Bond of the Seventh Series be in default in the payment of interest upon the Bonds of the Seventh Series, such Bond shall be dated as of, and shall bear interest from, the date of the beginning of the period for which such interest is so in default.

Upon notice as provided in the following paragraph, the Bonds of the Seventh Series may be redeemed prior to maturity, in whole at any time or in part (in multiples of $500,000) from time to time, at the option of the Company, or by the application (either at the option of the Company or pursuant to the requirements of the Mortgage) of cash delivered to or deposited with the Corporate Trustee pursuant to the provisions of Section 39, Section 55, Section 61, Section 64 or Section 118 of the Mortgage or with the Proceeds of Released Property, in any such case at 100% of the principal amount of the Bonds being redeemed plus interest accrued thereon to the date of redemption, together with a premium equal to the Make-Whole Amount, if any, with respect to the Bonds of the Seventh Series being redeemed determined five Business Days prior to the date of such redemption.

Notice of any redemption of the Bonds of the Seventh Series shall be given by mail, postage prepaid, at least 30 but not more than 60 days prior to the date of redemption, to the registered owners of all Bonds of the Seventh Series to be so redeemed at their respective addresses appearing on the books maintained by the Company pursuant to Section 13 of the Mortgage. Any notice which is mailed as herein provided shall be conclusively presumed to have been properly and sufficiently given on the date of such mailing, whether or not the registered owner receives the notice. In any case, failure to give notice by mail, or any defect in such notice, to the registered owner of any Bond of the Seventh Series designated for redemption in whole or in part shall not affect the validity of the proceedings for the redemption of any other Bond of the Seventh Series. Two Business Days prior to the redemption date specified in such notice, the Company shall provide each registered owner of Bonds of the Seventh Series to be redeemed with written notice of the premium, if any, payable with respect thereto and a reasonably detailed computation of the Make-Whole Amount.

All partial redemptions of Bonds of the Seventh Series shall be made ratably among all registered owners thereof in the proportion which the principal amount of the Bonds held by each registered owner bears to the aggregate principal amount of all Bonds of the Seventh Series then outstanding, computed to the nearest $1,000 principal amount of the Bonds of the Seventh Series.

In the event that the principal amount of the Bonds of the Seventh Series is declared due and payable upon the occurrence of a Default or becomes due and payable pursuant to Section 73 of the Mortgage, there shall then become due and payable, together with the

principal amount of the Bonds of the Seventh Series and interest accrued thereon, a premium equal to the amount of the Make-Whole Amount which would have been payable with respect to such Bonds of the Seventh Series, if they had been redeemed at the option of the Company pursuant to Section 1.1 in this Eighth Supplemental Indenture on the date on which the Bonds of the Seventh Series became due and Payable; provided that such premium, if any, with respect to the Bonds of the Seventh Series shall become due and payable only of such Default is, or such sale is made following a Default, other than one specified in subsections (e) or (f) of Section 65 of the Mortgage.

Any Bond of the Seventh Series shall be transferable by the registered owner thereof in person, or by its attorney duly authorized in writing, at the office or agency of the company in the City of Milwaukee, Wisconsin, or at its office in Superior, Wisconsin, upon surrender thereof for cancellation, together with a written instrument of transfer in form approved by the Company duly executed by such registered owner or by its duly authorized attorney. Upon any such transfer, a new Bond or Bonds of the Seventh Series for the same aggregate principal amount will be issued to the transferee in exchange therefor. Any Bond of the Seventh Series may, at the option of the registered owner thereof and upon surrender thereof for cancellation at such office or agency, be exchanged as prescribed in the Mortgage for another Bond or Bonds of the Seventh Series of other authorized denominations having the same aggregate principal amount. In the event any written instrument of transfer is required in connection with any transfer or exchange of any Bond of the Seventh Series, an instrument in the form attached hereto as Exhibit B is hereby approved by the Company for the purposes of Section 12 of the Mortgage.

Notwithstanding any provision of Section 12 or Section 16 of the Mortgage, (a) no charge will be made by the Company for any transfer or exchange of any Bond or the Seventh Series or, in the case of any lost, destroyed or mutilated Bond, the issuance, authentication and delivery of a new Bond of the Seventh Series in substitution thereof, whether for any stamp tax or other governmental charge, if any applicable thereto or otherwise, and the Company shall reimburse the Corporate Trustee for all expenses incurred in connection therewith and (b) in the event of any loss, destruction or mutilation of any Bond of the Seventh Series, and a request by the holder for issuance of a new Bond of the Seventh Series in substitution therefor, the holder's unsecured indemnity agreement shall be deemed to be satisfactory to the Company and the Corporate Trustee for purposes of Section 16 of the Mortgage.

Notwithstanding any provision of Section 15 of the Mortgage, Bonds of the Seventh Series shall be authenticated, issued and delivered only as definitive bonds. Bonds of the Seventh Series so authenticated, issued and delivered may be in the form of fully engraved bonds, bonds printed or lithographed on engraved borders, bonds printed or bonds typewritten.

ARTICLE II
COVENANTS AND RESTRICTIONS

Section 2.1. The Company covenants that, so long as any Bonds of the Seventh Series are outstanding, it will not merge or consolidate with any other Person or sell, lease or transfer or otherwise dispose of all or a Substantial Part of its assets, or assets which shall have contributed a Substantial Part of net income of the Company for any of the three fiscal years then most recently ended, to any Person; provided, however, that the Company may merge or consolidate with, or sell or transfer all or substantially all of its assets to, Minnesota Power, but only if (a) in the event that Minnesota Power is the continuing or surviving corporation or the acquiring corporation, Minnesota Power shall be a solvent corporation and shall expressly assume in writing all of the obligations of the Company under the Mortgage, this Eighth Supplemental Indenture, the Bonds of the Seventh Series and the Bond Purchase Agreement, including all covenants therein and herein contained, and Minnesota Power shall succeed to and be substituted for the Company with the same effect as if it had been named herein as a party hereto, and (b) the Company as the continuing or surviving corporation or Minnesota Power as the continuing or surviving corporation or acquiring corporation, as the case may be, shall not, immediately after such merger or consolidation, or such sale or other disposition, be in default under any of such obligations.

Section 2.2. The Company covenants that, so long as any Bonds of the Seventh Series shall remain outstanding, the Company will not issue, sell or otherwise dispose of any of its shares of capital stock to any Person other than Minnesota Power.

Section 2.3. The Company covenants that, so long as any of the Bonds of the Seventh Series are outstanding, the Company shall not have any subsidiaries.

Section 2.4. A default by the Company in the observance of any covenant or agreement contained in Sections 2.1 through 2.3, inclusive, of this Eighth Supplemental Indenture or the occurrence of an Event of Default (as defined herein) shall be deemed to constitute an additional and independent Default under, and defined in, Section 65 of the Mortgage. None of the additional Defaults provided for pursuant to this Section 2.4 are intended or shall be deemed to limit any of the Defaults currently expressed in the Mortgage and none of the Defaults currently expressed in the Mortgage are intended or shall be deemed to limit any of the additional Defaults provided for pursuant to this Section 2.4.

ARTICLE III
MISCELLANEOUS PROVISIONS

Section 3.1. For purposes of this Eighth Supplemental Indenture, the following terms have the following meanings indicated below:

"Bond Purchase Agreement" shall mean the Bond Purchase Agreement dated as of January 1, 1997, between the Company and the Purchaser.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which commercial banks in Chicago, Illinois, or Milwaukee, Wisconsin, are required or authorized to be closed.

"Capitalized Lease Obligation" shall mean with respect to any Person any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of such Person, taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

"Event of Default" shall mean any of the following events which shall occur and be continuing for any reason whatsoever at any time when any of the Bonds of the Seventh Series shall be outstanding (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal or premium, if any, payable with respect to any Bond of the Seventh Series when the same shall become due, either by the terms thereof or otherwise as provided in the Mortgage, this Eighth Supplemental Indenture or the Bond Purchase Agreement; or

(ii) the Company defaults in the payment of any interest on any Bond of the Seventh Series for more than 5 days after the due date; or

(iii) the Company defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto and as a result, the aggregate principal amount of all such defaulted obligations exceeds $100,000 or the Company fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligations are created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligations (or a trustee on behalf of such holder or holders) to cause, such obligations in the aggregate principal amount in excess of $100,000 to become due (or to be repurchased by the Company) prior to any stated maturity; or

(iv) any representation or warranty made by the Company in this Eighth Supplemental Indenture or the Bond Purchase Agreement or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Eighth Supplemental Indenture or the Bond Purchase Agreement shall be false in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any agreement, term or condition contained in the Mortgage, this Eighth Supplemental Indenture or the Bond Purchase Agreement; or

(vi) the Company makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(vii) any decree or order for relief in respect of the Company is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (herein called the Bankruptcy Law), of any jurisdiction; or

(viii) the Company petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company or of any Substantial Part of the assets of the Company or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings relating to the Company under the Bankruptcy Law of any other jurisdiction; or

(ix) any such petition or application is filed, or any such proceedings are commenced, against the Company, and the Company by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings; or

(x) any order, judgment or decree is entered in any proceeding against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing a split-up of the Company which requires the divestiture of assets representing a Substantial Part of the assets of the Company or which requires the divestiture of assets which shall have contributed a Substantial Part of the net income of the Company for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) a final judgment in an amount in excess of $100,000 is rendered against the Company and, within 60 days after entry thereof, such judgment is not discharged or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment is not discharged; or

(xiii) Minnesota Power shall cease to own of record and beneficially 100% of the outstanding shares of capital stock of the Company.

"Make-Whole Amount" shall mean, in connection with any redemption, the excess, if any, of (i) the aggregate present value as of the date of such redemption of each dollar of

principal being redeemed and the amount of interest (exclusive of interest accrued to the date of redemption) that would have been payable in respect of such dollar if such redemption had not been made, determined by discounting such amounts at the Reinvestment Rate from the respective dates on which they would have been payable, over (ii) 100% of the principal amount of the outstanding Bonds of the Seventh Series being redeemed. If the Reinvestment Rate is equal to or higher than the rate of interest borne by the Bonds of the Seventh Series, the Make-Whole Amount shall be zero.

"Minnesota Power" means Minnesota Power & Light Company, a Minnesota corporation.

"Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

"Proceeds of Released Property" shall mean the aggregate of the cash deposited with or received by the Corporate Trustee pursuant to the provisions of Section 59, Section 60, Section 61 (except such cash as is to be paid over to the Company under the provisions of Section 61), or Section 62 of the Mortgage.

"Purchaser" means Modern Woodmen of America.

"Reinvestment Rate" shall mean (A) the yield reported on the Bloomberg Financial Markets Services Screen (or, if not available, any other nationally recognized trading screen reporting on-line intraday trading in U.S. Government Securities) at 10:00 A.M. (New York, New York time) for the U.S. Government Securities having a maturity (rounded to the nearest month) corresponding to the Remaining Life to Maturity of the principal being redeemed or (B) in the event that no nationally recognized trading screen reporting on-line intraday trading in U.S. Government Securities is available, Reinvestment Rate shall mean the arithmetic mean of the yields for the two columns under the heading "Week Ending" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month) corresponding to the Remaining Life to Maturity of the principal being redeemed. If no maturity exactly corresponds to such Remaining Life to Maturity, yields for the two published maturities most closely corresponding to such Remaining Life to Maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to four decimals. For the purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount hereunder shall be used.

"Remaining Life to Maturity" of the principal amount of Bonds of the Seventh Series being redeemed shall mean, as of the time of any determination thereof, the number of years (calculated to the nearest one-twelfth) which will elapse between the date of determination and the maturity date of the Bonds of the Seventh Series.

"Statistical Release" shall mean the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. Government Securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination hereunder, then such other reasonably comparable index which shall be designated by the holders of sixty-six and two-thirds per cent (66-2/3%) in aggregate principal amount of the outstanding Bonds of the Seventh Series.

"Substantial Part" shall mean when used with respect to assets or net income 10% or more of such assets or net income, respectively.

Section 3.2. The terms defined in the Mortgage, as heretofore supplemented, shall for all purposes of this Eighth Supplemental Indenture have the meanings specified in the Mortgage, as heretofore supplemented.

Section 3.3. The Corporate Trustee hereby accepts the trust herein declared, provided and created and agrees to perform the same upon the terms and conditions herein and in the Mortgage, as heretofore supplemented, set forth and upon the following terms and conditions.

The Corporate Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Eighth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Mortgage shall apply to and form part of this Eighth Supplemental Indenture with the same force and effect as if the same were herein set forth in full, with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this Eighth Supplemental Indenture.

Section 3.4. Subject to the provisions of Article XVI and Article XVII of the Mortgage, whenever in this Eighth Supplemental Indenture any of the parties hereto is named or referred to, this shall be deemed to include the successors or assigns of such party, and all the covenants and agreements in this Eighth Supplemental Indenture contained by or on behalf of the Company or by or on behalf of the Corporate Trustee shall bind and inure to the benefit of the respective successors and assigns of such parties whether so expressed or not.

Section 3.5. Nothing in this Eighth Supplemental Indenture, express or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the holders of the bonds Outstanding under the Mortgage, any right, remedy or claim under or by reason of this Eighth Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements of this Eighth Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto, and of the holders of the bonds and of the coupons Outstanding under the Mortgage.

Section 3.6. This Eighth Supplemental Indenture may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Superior Water, Light and Power Company has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President or one of its Vice Presidents, and its corporate seal to be attested by its Secretary or one of its Assistant Secretaries for and in its behalf, and First Bank (N.A.) has caused its corporate name to be hereunto affixed, and this instrument to be signed and sealed by its President and its corporate seal to be attested by its Secretary, all as of the 1st day of January, 1997.

SUPERIOR WATER, LIGHT AND POWER COMPANY

By: Roger P. Engle

Roger P. Engle, President

ATTEST:

Susan M. Buxton
- ---
Susan M. Buxton, Secretary

Executed, sealed and delivered by
Superior Water, Light and Power
Company in the presence of:

Gary A. Hoffman
- ---

Paul M. Holt
- ---

FIRST BANK (N.A.) as Corporate Trustee

By Eve D. Kaplan

Its Vice President

ATTEST:

K. Barrett
- ---
Assistant Secretary

Executed, sealed and delivered by
First Bank (N.A.) in the presence of:

D. Garsteig
- ---

B. Schwintek
- ---

STATE OF WISCONSIN)
) SS.
COUNTY OF DOUGLAS)

Personally came before me this 2 day of January, 1997, Roger P. Engle, to me known to be the President, and Susan M. Buxton, to me known to be the Secretary of the above-named SUPERIOR WATER, LIGHT AND POWER COMPANY, the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively the President and Secretary of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said Roger P. Engle and Susan M. Buxton, then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 2 day of January, 1997.

Patricia L. Smith

Notary Public, State of Wisconsin
My Commission 7/2/2000

STATE OF MINNESOTA)
) SS.
COUNTY OF RAMSEY)

Personally came before me this 3rd day of January, 1997, EVE D. KAPLAN, to me known to be the VICE PRESIDENT, and KATHE BARRETT, of the above-named FIRST BANK (N.A.), the corporation described in and which executed the foregoing instrument, and to me personally known to be the persons who as such officers executed the foregoing instrument in the name and behalf of said corporation, who, being by me duly sworn, did depose and say and acknowledge that they are respectively the VICE PRESIDENT and Assistant Secretary of said corporation, that the seal affixed to said instrument is the corporate seal of said corporation, and that they signed, sealed and delivered said instrument in the name and on behalf of said corporation by authority of its Board of Directors, and said EVE D. KAPLAN and KATHE BARRETT, then and there acknowledged said instrument to be the free act and deed of said corporation and that such corporation executed the same.

Given under my hand and notarial seal this 3rd day of January, 1997.

Rick Prokosch

Richard Prokosch
Notary Public, State of Minnesota
My Commission 1-31-2000

[SEAL]

[FORM OF BOND OF THE SEVENTH SERIES]

SUPERIOR WATER, LIGHT AND POWER COMPANY

FIRST MORTGAGE BOND

7.27% Series due December 15, 2008

No. R- ___ $ ----------

SUPERIOR WATER, LIGHT AND POWER COMPANY, a corporation of the State of Wisconsin (hereinafter called the "Company"), for value received, hereby promises to pay to _____, or registered assigns, on December 15, 2008, _____ DOLLARS ($_____) in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts, and to pay to the registered owner hereof interest thereon in like coin or currency (computed on the basis of a 360-day year of twelve 30-day months) at the rate of seven and twenty-seven hundredths percent (7.27%) per annum semiannually on June 15 and December 15 of each year commencing June 15, 1997 until the principal thereof shall have become due and payable and at the rate of nine and twenty-seven hundredths percent (9.27%) per annum on any overdue payment of principal or premium, if any, and, to the extent enforceable under applicable law, on any overdue payment of interest. The principal hereof (and premium, if any) and interest hereon shall be paid at the office or agency of the Company in the City of Milwaukee, Wisconsin or the office of the Company in Superior, Wisconsin or as shall be otherwise agreed to pursuant to the provisions of the Eighth Supplemental Indenture hereinafter referred to.

This bond is one of an issue of bonds of the Company issuable in series and is one of a series designated the First Mortgage Bonds, 7.27% Series due December 15, 2008 (the "Bonds of the Seventh Series ") created by the Eighth Supplemental Indenture dated as of January 1, 1997 executed by the Company to First Bank (N.A.) (successor Corporate Trustee to Chemical Bank & Trust Company), as Corporate Trustee, all bonds of all series being issued and to be issued under and equally secured by a Mortgage and Deed of Trust (herein, together with any indentures supplemental thereto, called the "Mortgage"), dated as of March 1, 1943, executed by the Company to Chemical Bank & Trust Company (First Bank (N.A.), successor Corporate Trustee) and Howard B. Smith, as Trustees. Reference is made to the Mortgage for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders of the bonds and of the Corporate Trustee in respect thereof, the duties and immunities of the Corporate Trustee and terms and conditions upon which the bonds are and are to be secured and the circumstances under which additional bonds may be issued.

With the consent of the Company and to the extent permitted by and as provided in the Mortgage, the rights and obligations of the Company and/or the rights of the holders of the bonds and/or coupons and/or the terms and provisions of the Mortgage may be modified or altered by affirmative vote of the holders of at least seventy per centum (70%) in principal

amount of the bonds then outstanding under the Mortgage and, if the rights of the holders of one or more, but less than all, series of bonds then outstanding are to be affected, then also by affirmative vote of the holders of at least seventy per centum (70%) in principal amount of the bonds then outstanding of each series of bonds so to be affected (excluding in any case bonds disqualified from voting by reason of the Company's interest therein as provided in the Mortgage); provided that, without the consent of the holder hereof, no such modification or alteration shall, among other things, impair or affect the right of the holder to receive payment of the principal of (and premium, if any) and interest on this bond, on or after the respective due dates and at the places and in the respective amounts expressed herein, or permit the creation of any lien equal or prior to the lien of the Mortgage or deprive the holder of the benefit of a lien on the mortgaged and pledged property, or give any bond or bonds secured by the Mortgage any preference over any other bond or bonds so secured, or reduce the percentage in principal amount of the bonds required to authorize or consent to any such modification or alteration of the Mortgage.

The Bonds of the Seventh Series may be redeemed prior to maturity, in whole at any time or in part (in multiples of $500,000) from time to time, at the option of the Company, or by the application (either at the option of the Company or pursuant to the requirements of the Mortgage) of cash delivered to or deposited with the Corporate Trustee pursuant to the provisions of Section 39, Section 55, Section 61, Section 64 or Section 118 of the Mortgage or with the Proceeds of Released Property (as defined in said Eighth Supplemental Indenture), in any such case at 100% of the principal amount to be so redeemed, plus accrued interest thereon to the redemption date together with a premium equal to the Make-Whole Amount (as defined in said Eighth Supplemental Indenture), if any, with respect to the Bonds of the Seventh Series, being redeemed.

Notice of any redemption of the Bonds of the Seventh Series shall be given by mail at least 30 days prior to the redemption date, all as more fully provided in said Eighth Supplemental Indenture and the Mortgage. Notice of redemption having been duly given, the Bonds of the Seventh Series called for redemption shall become due and payable upon the redemption date, and if the redemption price shall have been deposited with the Corporate Trustee, interest thereon shall cease to accrue on and after the redemption date (unless such bonds shall have been properly presented for payment on, or within one year after, the redemption date and shall not have been paid) and on the redemption date or whenever thereafter the redemption price thereof shall have been deposited with the Corporate Trustee such bonds shall no longer be entitled to the lien of the Mortgage.

The principal hereof may be declared or may become due prior to the maturity date hereinbefore named on the conditions, in the manner and at the time set forth in the Mortgage, upon the occurrence of a default as in the Mortgage provided.

This bond is transferable as prescribed in the Mortgage by the registered owner hereof in person, or by its duly authorized attorney, at the office or agency of the Company in the City of Milwaukee, Wisconsin or the office of the Company in Superior, Wisconsin upon surrender hereof for cancellation, together with a written instrument of transfer in form approved by the Company duly executed by the registered owner hereof or by its duly

authorized attorney, and thereupon a new fully registered bond or bonds of the same series for a like principal amount will be issued to the transferee in exchange herefor as provided in the Mortgage. This bond may, at the option of the registered owner hereof and upon surrender hereof for cancellation at such office or agency, be exchanged as prescribed in the Mortgage for other registered bonds of the same series of other authorized denominations having a like aggregate principal amount. No charge will be made by the Company for any transfer or exchange of this bond or, in case this bond shall be lost, destroyed or mutilated, the issuance, authentication and delivery of a new bond in substitution hereof. The Company and the Corporate Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment and for all other purposes and neither the Company nor the corporate Trustee shall be affected by any notice to the contrary.

As provided in the Mortgage, the Company shall not be required to make transfers or exchanges of bonds of any series for a period of ten (10) days next preceding any interest payment date for bonds of said series, or next preceding any designation of bonds of said series to be redeemed, and the Company shall not be required to make transfers or exchanges of any bonds designated in whole or in part for redemption.

This bond shall not become obligatory until First Bank (N.A.), the Corporate Trustee under the Mortgage, or its successor thereunder, shall have signed the form of authentication certificate endorsed hereon.

IN WITNESS WHEREOF, SUPERIOR WATER, LIGHT AND POWER COMPANY has caused this bond to be signed in its corporate name by its President or one of its Vice-Presidents and its Treasurer and its corporate seal to be impressed or imprinted hereon and attested by its Secretary or one of its Assistant Secretaries on

----------, ----------.

SUPERIOR WATER, LIGHT AND POWER COMPANY

By:

Roger P. Engle
President

By:

Gary A. Hoffman
Treasurer

ATTEST:

- ---
Susan M. Buxton, Secretary

[FORM OF CORPORATE TRUSTEE'S AUTHENTICATION CERTIFICATE]

This bond is one of the bonds, of the series herein designated, described or provided for in the within-mentioned Mortgage.

FIRST BANK (N.A.), as Corporate Trustee

By:

Authorized Officer

ASSIGNMENT AND IRREVOCABLE BOND POWER
FOR
SUPERIOR WATER, LIGHT AND POWER COMPANY
FIRST MORTGAGE BOND
7.27% SERIES DUE DECEMBER 15, 2008

FOR VALUE RECEIVED, _____
do ____ hereby sell, assign and transfer unto _____
_____
one First Mortgage Bond, 7.27% Series due December 15, 2008, of Superior Water, Light and Power Company (the "Company") for _____ ($_____), No. _____, standing in _____ name _____ on the books of the Company and do _____ hereby irrevocably constitute and appoint _____
_____
attorney to transfer the said bond on the books of the Company, with full power of substitution in the premises.

IN WITNESS WHEREOF, _____ have hereunto set _____ hand _____ [and seal _____] at _____ this _____ day of _____, 19__.

Signed, [Sealed] and Delivered in the Presence of

[(SEAL)]
- ----------   ----------

[(SEAL)]
- ----------   ----------

STATE OF)

) SS.

COUNTY OF)

I, _____, a notary public in and for said County, in the State aforesaid, do hereby certify, that _____
_____
who _____ personally known to me to be the same person _____ whose name _____ subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that _____ signed, sealed and delivered the said instrument as _____ free and voluntary act for the uses and purposes therein set forth.

Given under my hand and official seal this ___day of _____, A.D.___.

Notary Public
My Commission Expires

EXHIBIT B
(to Eighth Supplemental Indenture)

Exhibit 4(c)1

This Instrument was prepared by:
Karla Olson Teasley, Esq.
SOUTHERN STATES UTILITIES, INC.
1000 COLOR PLACE, APOPKA, FLORIDA 32703

- ---

SOUTHERN STATES UTILITIES, INC.

to

NATIONSBANK OF GEORGIA,
NATIONAL ASSOCIATION,

As Trustee under Southern States Utilities, Inc.
Indenture dated as of March 1, 1993

First Supplemental Indenture

Relating to up to $45,000,000 Principal Amount
of First Mortgage Bonds, Variable Rate Series, due
December 31, 1993 and up to $45,000,000 Principal Amount of
First Mortgage Bonds, 8.73% Series due January 31, 2013

Dated as of March 1, 1993

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FIRST SUPPLEMENTAL INDENTURE

SUPPLEMENTAL INDENTURE dated as of March 1, 1993 between SOUTHERN STATES UTILITIES, INC., a Florida corporation (hereinafter called the "Company"), and NATIONSBANK OF GEORGIA, NATIONAL ASSOCIATION, a national banking association (hereinafter called the "Trustee"), as Trustee under the Indenture, dated as of March 1, 1993 (hereinafter called the "Original Indenture"), which Original Indenture was executed and delivered by the Company to secure the payment of Securities issued or to be issued under and in accordance with the provisions thereof, this Supplemental Indenture (hereinafter sometimes called the "First Supplemental Indenture") being supplemental thereto (the Original Indenture, as supplemented by this First Supplemental Indenture, and as it may hereafter be supplemented, being herein called the "Indenture");

WHEREAS, Section 1701 of the Original Indenture provides that the Company and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental to the Original Indenture, for various purposes including to add one or more covenants of the Company and to establish the terms of Securities of any series as contemplated by Section 201 of the Original Indenture;

WHEREAS, the Company now desires to create two series of Securities and to add to its covenants contained in the Original Indenture certain other covenants to be observed by it;

WHEREAS, the execution and delivery by the Company of this First Supplemental Indenture, and the terms of the two series of Securities, have been duly authorized by the Company as provided in the Original Indenture;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH, that, in consideration of the premises and of Ten Dollars ($10) to it duly paid by the Trustee at or before the ensealing and delivery of this First Supplemental Indenture, the receipt whereof is hereby acknowledged, and to secure the payment of the principal of (and premium, if any) and interest on the Securities and the performance of the covenants therein and herein contained and in consideration of the premises and of the purchase of the Securities by the Holders thereof, the Company by these presents does grant, bargain, sell, alien, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over and confirm to the Trustee, and grant a security interest in, all of the Trust Estate;

TO HAVE AND TO HOLD all said Trust Estate unto the Trustee and its successors and assigns forever.

SUBJECT, HOWEVER, to Permitted Liens and, to the extent permitted by Section 704 of the Indenture, as to property hereafter acquired, Prior Liens existing on the date of acquisition or purchase money mortgages.

BUT IN TRUST, NEVERTHELESS, for the same purposes and upon the same terms, trusts and conditions and subject to and with the same provisos and covenants as are set forth in the Indenture, this First Supplemental Indenture being supplemental thereto.

AND IT IS HEREBY COVENANTED by the Company that all terms, conditions, provisos, covenants and provisions contained in the Original Indenture shall affect and apply to the Trust Estate and to the estate, rights, obligations and duties of the Company and the Trustee and the beneficiaries of the trust with respect to said property, and to the Trustee and its successors as Trustee of said property in the same manner and with the same effect as if said property had been owned by the Company at the time of the execution of the Indenture, and had been specifically and at length described in and conveyed to said Trustee, by the Indenture as a part of the property therein stated to be conveyed.

The Company further covenants and agrees to and with the Trustee, and its successors in said trust under the Indenture, as follows:

ARTICLE FIRST

Securities of the First Series

SECTION 1.01. Description of Series.

There shall be a series of Securities designated "Variable Rate Series, due December 31, 1993" (herein sometimes referred to as the "First Series"), each of which shall also bear the descriptive title "First Mortgage Bond," and the form thereof, which shall be established in an Officer's Certificate as provided in the Indenture, shall contain suitable provisions with respect to the matters hereinafter in this Article specified. The aggregate principal amount of Securities of the First Series which may be authenticated and delivered is limited to $45,000,000, except as provided in Sections 205 and 206 of the Indenture. Securities of the First Series shall mature on December 31, 1993 and shall be issued as fully registered Securities in denominations of One Thousand Dollars and, at the option of the Company, in any integral multiple or multiples thereof (the exercise of such option to be evidenced by the execution and delivery thereof). At the option of the Company, Securities of the First Series may, from time to time, be grouped into one or more Tranches each having an aggregate principal amount of no less than $10,000,000. The period of time each such Tranche remains Outstanding shall be divided into one or more Interest Rate Periods, determined as provided below. Each such Tranche shall bear interest during each applicable Interest Rate Period at an annual interest rate equal to the LIBOR rate for such period plus 1.25 per centum (1.25%), or such other rate as may from time to time be agreed upon in writing by the Company and the Holders of the Securities of such Tranche with notice to the Trustee, payable on the last day of the applicable Interest Rate Period; the principal, premium, if any, and interest on each said Security to be payable at the office or agency of the Company in Apopka, Florida, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. Securities of the First Series shall be dated as in the Indenture provided. Interest on the Securities of the First Series shall be computed for each Interest Rate Period on the actual number of days elapsed on the basis of a year consisting of 360 days.

If the Company shall default in the payment of the principal of, or premium or interest on, any Security of the First Series, then the Company shall pay to the Holder of such Security such overdue principal, premium or interest, together with interest on such overdue principal and (to the extent permitted by law) on such overdue premium or interest at the at a default rate equal to the LIBOR rate for each Interest Rate Period, determined as provided in this paragraph, plus 1.25 per centum (1.25%) plus two per centum (2%) per annum. For purposes of calculating such default rate,

there shall be deemed to exist successive Interest Rate Periods, each for the term of one month (as defined in paragraph (2) below), the first such Interest Rate Period beginning on the day on which such default occurs and each subsequent Interest Rate Period beginning on the last day of the preceding Interest Rate Period. The Holders of such Securities shall notify the Trustee of the default rate promptly after the beginning of each such Interest Rate Period after default.

For purposes of this Section 1.01:

(1) "LIBOR rate" shall mean the rate indicated by Reuters (screen LIBO) as having been quoted by Bankers Trust Company at 11:00 a.m. London time on the first day of the applicable Interest Rate Period for the offering of U.S. dollar deposits in the London interbank market for the Interest Rate Period. The LIBOR rate for any Interest Rate Period with which a LIBOR period does not coincide will be interpolated between the next shortest and the next longest maturity LIBOR rates as quoted by Reuters.

(2) "Interest Rate Period" shall mean, with respect to any Tranche of Securities of the First Series, any period of one month, two months, three months, six months, nine months and a final period of any number of days no longer than ten months determined by the Company and specified in a notice to the Holders of such Tranche and the Trustee delivered on or before either the date of first authentication of the Securities of the First Series or the first day of an Interest Rate Period; provided that no Interest Rate Period shall extend beyond December 31, 1993. If upon the expiration of an Interest Rate Period for a particular Tranche the Company has not determined a subsequent Interest Rate Period, then such subsequent Interest Rate Period shall be for the term of the lesser of one month or the days remaining to Maturity. For purposes of this paragraph (2), the term "month" or "months" shall mean a period consisting of 30 days or integral multiples thereof; provided, however, that in the event any Interest Rate Period expires on a day which is not a Business Day, such period shall be extended to the next Business Day. Promptly after the determination of any Interest Rate Period, the Company and the Holders of the Securities affected by such Interest Rate Period shall agree upon the applicable Original Estimated Cost of Funds, calculated as provided in Section 1.02 hereof, and the applicable annual interest rate for such Interest Rate Period; the Company shall promptly thereafter notify the Trustee of such Original Estimated Cost of Funds and annual interest rate.

The Regular Record Date referred to in Section 207 of the Indenture for the payment of the interest on the Securities of the First Series payable on any Interest Payment Date shall be the first Business Day next preceding such Interest Payment Date.

The Company shall be exempt from filing the Cash Flow Certificate provided in Section 301(d) of the Indenture with respect to the issuance of Securities of the First Series.

SECTION 1.02. Optional Redemption of Securities of the First Series.

(I) Securities of the First Series shall be redeemable on any Business Day, at the option of the Company, in whole or in part in accordance with Section 903 of the Indenture from time to time, prior to maturity, upon notice delivered to each Holder at its last address appearing on the Security Register not less than one Business Day prior to the date fixed for redemption, at a Redemption Price ("First Series General Redemption Price") (expressed as a percentage of the principal amount of the Securities to be redeemed) equal to the sum of (i) one hundred per centum (100%) plus (ii) a "First Series Prepayment Surcharge" calculated as hereinafter provided, in each case together with accrued

interest to the date fixed for redemption. For purposes of calculating the First Series General Redemption Price, the First Series Prepayment Surcharge shall be calculated as follows:

(A) Determine the difference between: (1) Original Estimated Cost of Funds minus (2) the Discount Rate, as hereinafter defined, as of the Redemption Date.

(B) Add one half (1/2) of one per centum (1%) to such difference (such that the minimum result shall at all times be 1/2 of 1%).

(C) Multiply the amount described in (B) above by the portion of the principal amount redeemed.

(D) Multiply the amount described in (C) above by the number of days between the Redemption Date and the end of the current Interest Rate Period for the applicable Tranche of such Securities and divide by 360.

(E) Determine the present value of the calculation made under (D) above based upon the end of the current Interest Rate Period for the applicable Tranche of such Securities and the Discount Rate as of the Redemption Date.

(F) Add an amount equal to a Second Series Prepayment Surcharge, as it would be calculated pursuant to Section 2.02 hereof, for a principal amount of Securities of the Second Series equal to the principal amount of Securities of the First Series then being redeemed, as if such Securities of the Second Series were being redeemed as of December 31, 1993 for purposes of calculating such Prepayment Surcharge except for establishing the Discount Rate with respect thereto. The Discount Rate, for purposes of such calculation, shall be determined by reference to the yields and interest rates in effect on the Business Day immediately prior to the Redemption Date for such Securities of the First Series. The result shall be the First Series Prepayment Surcharge.

(II) A notice containing the calculation of the First Series General Redemption Price shall be prepared by the Company and delivered to the Trustee and the Holders of the Securities of the First Series to be redeemed on the Business Day next preceding the Redemption Date. The calculation set forth in such notice shall be final unless the Holders of the Securities so redeemed notify the Company and the Trustee of an error in such calculation within thirty days after notice of such calculation. If it is determined that the Company has made an error in such calculation and the Company pays the difference to such Holders promptly after such determination, then the Company shall not be deemed to be in default under the Indenture by reason of late payment of such difference.

(III) As pertains to Securities of the First Series, the "Discount Rate" shall mean an interest rate equal to the yield to maturity of Farm Credit discount notes having a weighted average life equal to the applicable Interest Rate Period for the Securities to be redeemed plus the estimated dealer concession for placing Farm Credit discount notes, obtained by a polling of Farm Credit Funding Corporation dealers on the Business Day prior to the Redemption Date. The yield of Farm Credit discount notes shall be determined by a polling of Farm Credit Funding Corporation dealers on the Business Day prior to the Redemption Date. This yield will then be converted to a semi-annual bond equivalent yield basis for purposes of any calculations hereunder.

(IV) As pertains to Securities of the First Series, the "Original Estimated Cost of Funds" shall mean an interest rate equal to the yield to maturity of Farm Credit discount notes having a weighted average life equal to the applicable Interest Rate Period for the Securities to be redeemed plus the estimated dealer concession for placing Farm Credit discount notes, obtained by a polling of Farm Credit Funding Corporation dealers on the date the interest rate for a particular Interest Rate Period is determined. The yield of Farm Credit discount notes shall be determined by a polling of Farm Credit Funding Corporation dealers on the same day that the interest rate for a particular Interest Rate Period is determined. This yield will then be converted to a semi-annual bond equivalent yield basis for purposes of any calculations hereunder.

ARTICLE SECOND

Securities of the Second Series

SECTION 2.01. Description of Series.

There shall be a series of Securities designated "8.73% Series due January 31, 2013" (herein sometimes referred to as the "Second Series"), each of which shall also bear the descriptive title "First Mortgage Bond", and the form thereof, which shall be established in an Officer's Certificate as provided in the Indenture, shall contain suitable provisions with respect to the matters hereinafter in this Article specified. The aggregate principal amount of Securities of the Second Series which may be authenticated and delivered is limited to $45,000,000, except as provided in Sections 205 and 206 of the Indenture. Securities of the Second Series shall mature on January 31, 2013 and shall be issued as fully registered Securities in denominations of One Thousand Dollars and, at the option of the Company, in any integral multiple or multiples thereof (the exercise of such option to be evidenced by the execution and delivery thereof); they shall bear interest at the rate of 8.73% per annum, payable on July 31, 1994 for the period from December 31, 1993 to July 31, 1994 and semi-annually on January 31 and July 31 of each year thereafter until Maturity; the principal of, premium, if any, and interest on each said Security to be payable at the office or agency of the Company in Apopka, Florida, in such coin or currency of the United States of America as at the time of payment is legal tender for public and private debts. Securities of the Second Series shall be dated as in the Indenture provided. Interest on the Securities of the Second Series shall be computed on the actual number of days elapsed on the basis of a year consisting of 360 days. If the Company shall default in the payment of the principal of, or premium or interest on, any Security of the Second Series, then the Company shall pay to the Holder of such Security such overdue principal, premium or interest, together with interest on such overdue principal and (to the extent permitted by law) on such overdue premium or interest at the rate borne by such Security immediately prior to such default plus two per centum (2%) per annum.

The Regular Record Date referred to in Section 207 of the Indenture for the payment of the interest on the Securities of the Second Series payable on any Interest Payment Date shall be the first Business Day next preceding such Interest Payment Date.

The Company shall be exempt from filing the Cash Flow Certificate provided in section 301(d) of the Indenture with respect to the issuance of Securities of the Second Series.

SECTION 2.02. Optional Redemption of Securities of the Second Series.

(I) Securities of the Second Series shall be redeemable on any Business Day, at the option of the Company, in whole or in part in accordance with Section 903 of the Indenture from time to time, prior to maturity, upon notice delivered to each Holder at its last address appearing on the Security Register not less than one Business Day prior to the date fixed for redemption, at a Redemption Price ("Second Series General Redemption Price") (expressed as a percentage of the principal amount of the Securities to be redeemed) equal to the sum of (i) one hundred per centum (100%) plus (ii) a "Second Series Prepayment Surcharge" calculated as hereinafter provided, in each case together with accrued interest to the date fixed for redemption. For purposes of calculating the Second Series General Redemption Price, the Second Series Prepayment Surcharge shall be calculated as follows:

(A) Determine the difference between: (1) seven and 32/100 per centum (7.32%) minus (2) the Discount Rate, as hereinafter defined, as of the Redemption Date.

(B) Add one half (1/2) of one per centum (1%) to such difference (such that the minimum result shall at all times be 1/2 of 1% if the redemption occurs prior to March 31, 1996; thereafter, no amount shall be added in this step (B) provided that, in any event, the minimum result shall be at least zero).

(C) Divide the result determined in (B) above by 2.

(D) For each semi-annual period or portion thereof during which the principal amount redeemed was scheduled to have been Outstanding, multiply the amount described in (C) above by the portion of the principal amount redeemed that was scheduled to have been Outstanding on the last day of such semi-annual period (such that there is a calculation for each semi-annual period during which the principal amount redeemed was scheduled to have been Outstanding).

(E) Determine the present value of each semi-annual calculation made under (D) above based upon the scheduled time that interest on the principal amount redeemed would have been payable and the Discount Rate as of the Redemption Date.

(F) Add all of the calculations made under (E) above. The result shall be the Second Series Prepayment Surcharge.

Unless otherwise agreed with a majority of the Holders of the Securities of the Second Series to be Outstanding after a redemption under this Section, the Securities redeemed under this Section may not be used as a credit for the redemption of Securities provided for in Section 2.03 of this First Supplemental Indenture.

(II) A notice containing the calculation of the Second Series General Redemption Price shall be prepared by the Company and delivered to the Trustee and the Holders of the Securities of the Second Series to be redeemed on the Business Day next preceding the Redemption Date. The calculation set forth in such notice shall be final unless the Holders of the Securities so redeemed notify the Company and the Trustee of an error in such calculations within thirty days after notice of such calculation. If it is determined that the Company has made an error in such calculation and the Company pays the difference to such Holders promptly after such determination, then the Company shall not be deemed to be in default under the Indenture by reason of late payment of such difference.

(III) As pertains to Securities of the Second Series, the "Discount Rate" shall mean an interest rate determined by adding to the yield on treasury bonds having maturities equal to the weighted average life to maturity of the Securities to be redeemed, determined as necessary by interpolation of treasury bonds having the next longer and next shorter maturities ("Treasury Yield"), as reported on the "MMKS" Reuters monitor screen for the Business Day prior to the Redemption Date for such Securities, the following:

(A) the estimated spread of Farm Credit Securities over the Treasury Yield for such day, as reported in a Farm Credit Funding Corporation Interest Rate Summary report, and

(B) the estimated dealer concession, obtained by a polling of Farm Credit Funding Corporation dealers on the Business Day next preceding the Redemption Date, for issuing Farm Credit Securities having a weighted average life equal to the number of days between the Redemption Date and Maturity for Securities of the Second Series to be redeemed.

In the event any fact required for such calculation is not available, the computation of Discount Rate shall be made on the basis of a reasonably equivalent method of determination.

SECTION 2.03. Sinking Fund for Securities of the Second Series.

So long as any Securities of the Second Series shall remain Outstanding, the Company shall redeem One Million Six Hundred Sixty-Seven Thousand Dollars ($1,667,000) aggregate principal amount of Securities of the Second Series on or before January 31, 2000 and semi-annually on or before each July 31 and January 31 thereafter to and including July 31, 2012 at a Redemption Price equal to par plus interest accrued to the Redemption Date.

ARTICLE THIRD

Additional Covenants for First and Second Series

SECTION 3.01. Asset Sale Restrictions for the First and Second Series.

(A) So long as any Securities of the First or Second Series remain Outstanding, if the Company requests the release of Property Additions pursuant to Section 1003 or 1004 of the Indenture (other than for purposes of sales of property pursuant to or under threat, reasonably believed by the Company to be genuine, of the exercise of a power of eminent domain or for tax exempt financing pursuant to Section 1009 of the Indenture), the Officer's Certificate filed in connection with such release shall identify the Property Additions that are to be so released.

(B) So long as any Securities of the First or Second Series remain Outstanding, if the aggregate amount of Property Additions released upon such basis during any calendar year shall exceed ten per centum (10%) of the amount of Net Property Additions shown in the most recent Property Additions Certificate filed with the Trustee, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall within forty-five days thereafter redeem or have otherwise retired (other than pursuant to Section 2.03 of this First

Supplemental Indenture), except to the extent waived, an aggregate principal amount of Securities of such Series equal to the amount of such excess.

(C) So long as any Securities of the First or Second Series remain Outstanding, if the aggregate amount of Property Additions released upon such basis shall exceed twenty five per centum (25%) of the amount of Net Property Additions shown in the most recent Property Additions Certificate filed with the Trustee, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall within forty-five days thereafter redeem or have otherwise retired (other than pursuant to Section 2.03 of this First Supplemental Indenture), except to the extent waived, an aggregate principal amount of Securities of such Series equal to the amount of such excess.

(D) With respect to the redemptions described in paragraphs (B) and (C) above, the Company shall receive a credit for any Securities (excluding Securities redeemed pursuant to Section 2.03 of this First Supplemental Indenture) of the First or Second Series retired prior to the respective Redemption Date. With respect to the redemptions described in paragraphs (B) and (C) above, the Redemption Price shall be the First or Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date. Such redemption shall be prorated among Holders of Securities of the First or Second Series except to the extent waived; any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(E) Unless otherwise agreed with a majority of the Holders of the Securities of the First or Second Series to be Outstanding after a redemption under this Section, the Securities redeemed under this Section may not be used as a credit for the redemption of Securities provided for in Section 2.03 of this First Supplemental Indenture.

SECTION 3.02. Ownership by Minnesota Power & Light Company.

So long as any Securities of the First or Second Series remain Outstanding, if the Company's entire common stock shall cease to be owned, directly or indirectly, by Minnesota Power & Light Company, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, all of the Securities of such Series then Outstanding at the First or Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date. Any Holder of such Series may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

SECTION 3.03. Additional Debt Covenants.

(A) So long as any Securities of the First or Second Series shall remain Outstanding, the Company shall file a Cash Flow Certificate with the Trustee on or before March 31 of each calendar year after 1993 for the period of twelve consecutive calendar months ending January 31 of such calendar year and stating the ratio of its Total Debt divided by its Cash Flow, determined in accordance with generally accepted accounting principles existing as of the date of this First Supplemental Indenture, as shown by such certificate ("Annual Total Debt/Cash Flow Ratio"). If the Annual Total Debt/Cash Flow Ratio shall exceed the maximums specified below for the corresponding period:

Twelve Month Period Ending January 31,	Maximum Total Debt/ Cash Flow Ratio
1994	25:1
1995	18:1
1996 and thereafter	15:1

then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, a principal amount of the Securities of such Series then Outstanding sufficient to cause the Annual Total Debt/Cash Flow Ratio, determined in accordance with generally accepted accounting principles existing as of the date of this First Supplemental Indenture, to equal the appropriate maximum. The Redemption Price shall be the First or Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of such Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(B) So long as any Securities of the First or Second Series shall remain Outstanding, the Company shall file with the Trustee, on or before March 31 of each calendar year, an Accountant's Certificate showing as of January 31 of such calendar year (1) the aggregate principal amount of Securities then Outstanding and (2) the net book value of property, plant and equipment, determined in accordance with generally accepted accounting principles existing as of the date of this First Supplemental Indenture, which constitute Property Additions. If such aggregate principal amount of Securities then Outstanding exceeds sixty per centum (60%) of the net book value of such property, plant and equipment then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of the First or Second Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, a principal amount of the Securities of such Series then Outstanding sufficient to cause the aggregate principal amount of Securities then Outstanding to equal sixty per centum (60%) of the net book value of such property, plant and equipment. The Redemption Price shall be the First or Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of such Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(C) So long as any Securities of the First or Second Series shall remain Outstanding, the Company shall file with the Trustee, on or before March 31 of each calendar year, an Accountant's Certificate showing as of January 31 of such calendar year (1) the Total Debt of the Company, and (2) the Company's Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of this First Supplemental Indenture. If such Total Debt exceeds sixty-five per centum (65%) of Capitalization, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days thereafter and upon at least thirty days' notice, a principal amount of the Securities of such Series then Outstanding sufficient to cause Total Debt to equal not more than sixty-five per centum (65%) of Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of this First Supplemental Indenture. The Redemption Price shall be the First or Second Series

General Redemption Price, respectively, plus interest accrued to the Redemption Date. The Holders of a majority of the Securities of such Series then Outstanding may waive such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

(D) So long as any Securities of the First or Second Series shall remain Outstanding, the Holders of a majority of the Securities of such Series then Outstanding may, from time to time but not more than once during any calendar year, upon thirty days notice, request that the Company file with the Trustee, as of the end of any calendar month other than December, within sixty days after the end of such month, the Cash Flow Certificate provided in Section 3.03(A) and the Accountant's Certificates provided in Section 3.03(B) and 3.03(C) of this First Supplemental Indenture. The same redemption provisions shall apply as if such Cash Flow Certificate and Accountant's Certificates had been delivered pursuant to such Section 3.03(A), 3.03(B) or 3.03(C) of this First Supplemental Indenture, using with respect to Section 3.03(A) the maximum for the period ending on the January 31 next preceding such calendar month, or if such calendar month is before January 31, 1994, then the maximum for the period ending January 31, 1994.

(E) Unless otherwise agreed by a majority of the Holders of the Securities of the First or Second Series to be Outstanding after a redemption under this Section, the Securities redeemed under this Section may not be used as a credit for the redemption of Securities provided for in Section 2.03 of this First Supplemental Indenture.

SECTION 3.04. Restricted Payments.

So long as any Securities of the First or Second Series shall remain Outstanding, the Company shall not declare or pay any Restricted Payments unless the Company files an Accountant's Certificate with the Trustee and, if there is only one Holder of Securities of such Series, sends a copy to such Holder, within thirty days prior to such declaration or payment stating that (A) the amount of such payment shall not exceed cumulative net additions to or deductions from Surplus, determined in accordance with generally accepted accounting principles existing as of the date of this First Supplemental Indenture, made after December 31, 1992 (excluding any gains on sale of Property Additions during the immediately preceding 12 months in excess of twenty per centum (20%) of the net additions to Surplus made during such 12 month period); and (B) that after such payment Capital plus Surplus shall equal at least thirty-five per centum (35%) of Capitalization, determined in accordance with generally accepted accounting principles existing as of the date of this First Supplemental Indenture.

SECTION 3.05. Redemption Upon Taking of Property by Eminent Domain, etc.

So long as any Securities of the First or Second Series shall remain Outstanding, any Officer's Certificate provided under Section 1006 of the Indenture shall also state the net book value of the Mortgaged Property described therein as taken or sold, and shall also state the net book value of such Mortgaged Property that does not constitute Property Additions. Notwithstanding anything to the contrary contained in Section 1006 of the Indenture, should the aggregate net book value of Mortgaged Property taken by the exercise of the power of eminent domain or sold to an entity possessing the power of eminent domain, or to its designee, under a threat, reasonably believed by the Company to be genuine, to exercise the same, be in excess of Fifteen Million Dollars ($15,000,000), the Company, shall redeem, within ninety days of such taking or sale and upon at least thirty days notice, or have otherwise retired, except to the extent waived, a pro-rata amount of Securities of such Series then Outstanding at the

Redemption Price of par plus interest accrued to the Redemption Date. Such pro-rata amount shall be calculated by dividing (1) the aggregate amount of Property Additions so taken or sold plus the aggregate net book value of all Mortgaged Property so taken or sold which are not Property Additions by (2) the amount of Net Property Additions shown on the most recent Property Additions Certificate filed with the Trustee and multiplying such ratio by the aggregate principal amount of Securities of such Series then Outstanding. Such redemption shall be prorated among Holders of Securities of such Series except to the extent waived; any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption; such waiver shall not cause a recalculation of the proration.

SECTION 3.06. Maintenance of Business.

So long as any Securities of the First or Second Series remain Outstanding, if the Company ceases to continue substantially in the business of providing water and waste water utility service in the State of Florida, then the Company shall promptly notify the Trustee and, if there is only one Holder of Securities of such Series, such Holder; and the Company shall redeem, within ninety days and upon at least thirty days notice, all of the Securities of such Series then Outstanding at the First or Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date. Any Holder may waive its right to such redemption by delivering a written waiver to the Trustee, in such form as the Trustee shall deem acceptable, with a copy to the Company, within ten days after the date of such notice of redemption.

SECTION 3.07. Return of Redemption Moneys upon Waiver.

Upon receipt of any waiver of redemption by any Holder, the Trustee shall return to the Company the redemption money, if any, held by the Trustee for the redemption of such Holder's Securities.

SECTION 3.08. Special Merger Provisions.

(A) So long as any Securities of the First or Second Series remain Outstanding, the Company shall not merge or consolidate with another entity unless the Company shall have filed with the Trustee, and, if there is only one Holder of Securities of such Series, such Holder, an Officer's Certificate stating that (1) the Company or an entity directly or indirectly owned one hundred per centum (100%) by Minnesota Power & Light Company shall be the continuing and surviving corporation and, (2) after such merger or consolidation, there shall exist no Event of Default or event which, with the lapse of time or giving of notice, or both, would constitute an Event of Default, and the Company shall be able to issue at least One Dollar ($1) of Securities under the provisions of Section 401 or 501 of the Indenture, in each case, using a Cash Flow Certificate stating an Annual Total Debt/Cash Flow Ratio not to exceed the maximums specified in Section 3.03(A) hereof (using the maximum for the period ending on the January 31 next preceding such merger, or if such merger is before January 31, 1994, then the maximum for the period ending January 31, 1994) rather than the Cash Flow Certificate provided in Section 301(d) of the Indenture.

(B) Notwithstanding the foregoing, the Company may consolidate or merge with Lehigh Utilities, Inc. So long as any Securities of the First or Second Series remain Outstanding, if the Company shall not have merged or consolidated with Lehigh Utilities, Inc. by April 30, 1993, then the Company

shall cause, within ninety days thereafter, all of the outstanding common stock of Lehigh Utilities, Inc. to be subjected to the Lien of the Indenture. When all such Securities cease to be Outstanding or upon such merger or consolidation, the Trustee shall release such stock upon receipt of a Company Order requesting such release and stating the basis therefor.

SECTION 3.09. Additional Property.

(A) So long as any Securities of the First or Second Series remain Outstanding, the Deltona System Assets shall be released from the Lien of the Mortgage and Deed of Trust described in paragraph J of the Excepted Property Clause of the Original Indenture, on or before December 31, 1994; and the Company and the Trustee, upon the request of the Company, shall, as soon as practicable, by supplemental indenture, delete such paragraph J and subject such property, other than Excepted Property, to the Lien of the Indenture.

(B) So long as any Securities of the First or Second Series remain Outstanding, when the Marco Island System Assets shall be released from the Lien of the Mortgage and Security Agreements described in paragraph K of the Excepted Property Clause of the Original Indenture, the Company and the Trustee, upon the request of the Company, shall, as soon as practicable, by supplemental indenture, delete such paragraph K and subject such property, other than Excepted Property, to the Lien of the Indenture.

(C) So long as any Securities of the First or Second Series remain Outstanding, when the Lehigh Assets shall be released from the Lien of the Mortgage, Security Agreement and Assignment of Rents described in paragraph L of the Excepted Property Clause of the Original Indenture, and the Company, upon the request of the Company, shall have consolidated or merged with Lehigh Utilities, Inc., the Company and the Trustee shall, as soon as practicable, by supplemental indenture, delete such paragraph L and subject such property, other than Excepted Property, to the Lien of the Indenture.

SECTION 3.10. Refinancing of the Deltona Debt.

The Company shall be exempt from filing the Cash Flow Certificate provided in Section 301(d) of the Indenture with respect to Securities issued to refinance Fifteen Million Dollars ($15,000,000) in debt due December 1, 1994 pursuant to the Mortgage and Deed of Trust dated as of December 1, 1984 from Deltona Utilities, Inc. (Southern States Utilities, Inc., successor in interest) to Southeast Bank, N.A. (First Union National Bank of Florida, successor in interest) as trustee. The Company shall instead file with the Trustee an Officer's Certificate stating that the proceeds of the Securities to be authenticated and delivered will be used to refinance the debt secured by such Mortgage and Deed of Trust and that the Deltona System Assets, other than Excepted Property, will be subjected to the Lien of the Indenture reasonably contemporaneously with the delivery of such Securities.

SECTION 3.11. Bond Purchase Agreement.

So long as National Bank for Cooperatives ("CoBank") shall be the sole owner of all Securities of the First or Second Series then Outstanding, the Company shall redeem, within ten days, an aggregate principal amount of Securities of such Series, the redemption of which is demanded, in a certificate, signed by the President, any Vice President or any Assistant Vice President of CoBank, stating that CoBank is entitled to such redemption under the Bond Purchase Agreement dated March 31, 1993 between CoBank and the Company, describing the event giving CoBank such right of redemption, and

stating that such redemption is required by terms of such Bond Purchase Agreement. The Redemption Price shall be the First or Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date.

SECTION 3.12. Property Additions Certificates.

So long as any Securities of the First or Second Series shall remain Outstanding, the Company shall file a Property Additions Certificate with the Trustee at least once during each calendar year.

SECTION 3.13. Amendment to Indenture: Acceleration.

So long as the aggregate principal amount of Securities of the First or Second Series then Outstanding exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding, the words "twenty-five per centum (25%)" shall be substituted for the words "thirty-three and one-third per centum (33 1/3%)" in Section 1102 of the Original Indenture. In case any Securities of the First or Second Series are paid by reason of a declaration of acceleration pursuant to Section 1102 of the Original Indenture, the Company shall pay to the Holders of such Securities a premium equal to the Prepayment Surcharge, calculated as provided in Section 1.02 of this First Supplemental Indenture with respect to the First Series and Section 2.02 of this First Supplemental Indenture with respect to the Second Series, multiplied by the aggregate principal amount of such Securities so accelerated, provided that the payment of such premium does not render the Company insolvent. If the aggregate principal amount of Securities of the First or Second Series then Outstanding exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding and an Event of Default shall exist, then the Holders of the Securities of the First or Second Series may demand the redemption of such Securities of the First or Second Series held by them upon ten days written notice to the Company and the Trustee. The Redemption Price shall be the First or Second Series General Redemption Price, respectively, plus interest accrued to the Redemption Date.

SECTION 3.14. Amendment to Indenture; Gains from the Sale of Property.

The Company may include gains from the sale or other disposition of property, in an amount not to exceed twenty per centum (20%) of its net income after tax, in calculating Cash Flow under the Indenture.

SECTION 3.15. Redemptions on a Business Day

In the event any Redemption Date for a redemption required by Section 2.03 hereof shall not be a Business Day, interest on the principal amount then due shall accrue to and be paid on the next Business Day; provided that the Company may, at its option, upon ten (10) days prior notice to the Trustee and the Holders, satisfy a redemption required by Section 2.03 on the Business Day prior to the applicable Redemption Date at a Redemption Price equal to par plus interest accrued to such prior Business Day. Any other Redemption Date for Securities of the First Series or the Second Series shall be on a Business Day.

SECTION 3.16. Amendment or Waiver of Covenants.

The provisions of this Article Third may be waived or amended, at the request of the Company, with the written consent of the Holders of at least a majority of the aggregate principal amount of the Securities of the First or Second Series then Outstanding. So long as the aggregate principal amount of Securities of the First or Second Series then Outstanding exceeds twenty-five per centum (25%) of the aggregate principal amount of Securities of all series then Outstanding, the provisions of this Article Third may not be waived nor amended without the written consent of the Holders of at least a majority of the aggregate principal amount of Securities of the First or Second Series then Outstanding, except as otherwise specifically provided herein.

SECTION 3.17. Clarification of Permitted Liens.

The Permitted Liens described in Clause (1) of the definition of Permitted Liens in the Original Indenture shall not include any Liens securing indebtedness for borrowed money, whether or not set forth or referred to in the descriptions of the property specifically described in Granting Clause First.

Clause (18) of the definition of Permitted Liens in the Original Indenture is hereby amended to read as follows:

> "(18) Liens which have been bonded for the full amount of such Liens or for the payment of which the Company has deposited with the Trustee or with an escrow agent cash or other property with a value equal to the full amount of such Liens;"

ARTICLE FOURTH
Miscellaneous

SECTION 4.01. Definitions.

Subject to the amendments provided for in this First Supplemental Indenture, the terms defined in the Original Indenture shall, for all purposes of this First Supplemental Indenture, have the meanings specified in the Original Indenture.

SECTION 4.02. Acceptance of Trust.

The Trustee hereby accepts the trust herein created and agrees to perform the same upon the terms and conditions herein and in the Indenture set forth and upon the following terms and conditions:

> The Trustee shall not be responsible in any manner whatsoever for or in respect to the validity or sufficiency of this First Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company alone. In general each and every term and condition contained in Article Sixteen of the Indenture shall apply to and form part of this First Supplemental Indenture with the same force and effect as if the same were

herein set forth in full with such omissions, variations and insertions, if any, as may be appropriate to make the same conform to the provisions of this First Supplemental Indenture.

SECTION 4.03. Successors and Assigns.

Whenever in this First Supplemental Indenture either of the parties hereto is named or referred to, this shall, subject to the provisions of Articles Fifteen and Sixteen the Indenture, be deemed to include the successors and assigns of such party, and all the covenants and agreements in this First Supplemental Indenture contained by or on behalf of the Company, or by or on behalf of the Trustee, or either of them, shall, subject as aforesaid, bind and inure to the respective benefits of the respective successors and assigns of such parties, whether so expressed or not.

SECTION 4.04. Benefit of the Parties.

Nothing in this First Supplemental Indenture, expressed or implied, is intended, or shall be construed, to confer upon, or to give to, any person, firm or corporation, other than the parties hereto and the Holders of the Securities Outstanding under the Indenture, any right, remedy or claim under or by reason of this First Supplemental Indenture or any covenant, condition, stipulation, promise or agreement hereof, and all the covenants, conditions, stipulations, promises and agreements in this First Supplemental Indenture contained by or on behalf of the Company shall be for the sole and exclusive benefit of the parties hereto and of the Holders of the Securities Outstanding under the Indenture.

SECTION 4.05. Counterparts.

This First Supplemental Indenture shall be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Southern States Utilities, Inc. has caused this Supplemental Indenture to be executed in its corporate name by its President or one of its Vice Presidents and its corporate seal to be hereunto affixed and to be attested by its Secretary or one of its Assistant Secretaries, and NationsBank of Georgia, National Association, to evidence its acceptance hereof, has caused this Supplemental Indenture to be executed in its corporate name by its President or one of its Vice Presidents or Assistant Vice Presidents and its corporate seal to be hereunto affixed and to be attested by one of its Vice Presidents, its Secretary or one of its Assistant Secretaries, in several counterparts, all as of the day and year first above written.

SOUTHERN STATES UTILITIES, INC.

By: Scott W. Vierima

Scott W. Vierima, Vice President

Attest:

Karla Olson Teasley
- ---
Karla Olson Teasley, Secretary

In the presence of:

Richard P. Ausman
- ---
Richard P. Ausman

Alan C. Roline
- ---
Alan C. Roline

NATIONSBANK OF GEORGIA,
NATIONAL ASSOCIATION, as Trustee

By: Sandra Carreker

Vice President
Sandra Carreker

Attest:

Harry Evans
- ---
Vice President
Harry Evans

In the presence of:

Sabrina Fuller
- ---
Sabrina Fuller

Kathy E. Knapp
- ---
Kathy E. Knapp

STATE OF GEORGIA)
) SS.:
COUNTY OF FULTON)

The foregoing instrument was acknowledged before me this 29th day of March, 1993, by SANDRA G. CARREKER as Vice President and HARRY G. EVANS as Vice President of NationsBank of Georgia, National Association, a national banking association, on behalf of the company. They are both personally known to me and each did take an oath.

Jeannette S. Belt

Jeannette S. Belt
Notary Public, DeKalb County, Georgia
My Commission Expires March 26, 1994

STATE OF FLORIDA)
) SS.:
COUNTY OF ORANGE)

The foregoing instrument was acknowledged before me this 31 day of March, 1993, by SCOTT W. VIERIMA as Vice President and KARLA OLSON TEASLEY as Secretary of Southern States Utilities, Inc., a Florida corporation, on behalf of the company. They are both personally known to me and each did take an oath.

Lisa Freeman Schutz

Lisa Freeman Schutz
Notary Public, State of Florida at Large
Commission Number CC123276
My Commission Expires July 22, 1995

[SEAL] LISA FREEMAN SCHUTZ
MY COMMISSION EXPIRES
JULY 22, 1995
BONDED THRU TROY FAIN INSURANCE, INC.

Minnesota Power & Light Company

OFFICER'S CERTIFICATE

James K. Vizanko, the Treasurer of Minnesota Power & Light Company (the "Company"), pursuant to the authority granted in the Board Resolutions of the Company dated March 20, 1996, and Sections 201 and 301 of the Indenture defined herein, does hereby certify to The Bank of New York (the "Trustee"), as Trustee under the Indenture of the Company (For Unsecured Subordinated Debt Securities relating to Trust Securities) dated as of March 1, 1996 (the "Indenture") that:

1. The securities of the first series to be issued under the Indenture shall be designated "8.05% Junior Subordinated Debentures, Series A, Due 2015" (the "Debentures of the First Series"). The Debentures of the First Series are to be issued to MP&L Capital I, a Delaware statutory business trust (the "Trust"). All capitalized terms used in this certificate which are not defined herein but are defined in the Indenture shall have the meanings set forth in the Indenture;

2. The Debentures of the First Series shall be limited in aggregate principal amount to $77,500,000 at any time Outstanding, except as contemplated in Section 301(b) of the Indenture;

3. The Debentures of the First Series shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on December 31, 2015;

4. The Debentures of the First Series shall bear interest from, and including, the date of original issuance, at the rate of 8.05% per annum payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year (each, an "Interest Payment Date") commencing March 31, 1996. The amount of interest payable for any such period will be computed on the basis of a 360-day year of twelve 30-day months and for any period shorter than a full month, on the basis of the actual number of days elapsed in such period. Interest on the Debentures of the First Series will accrue from, and including, the date of original issuance and will accrue to, and including, the first Interest Payment Date, and thereafter will accrue from, and excluding, the last Interest Payment Date through which interest has been paid or duly provided for. In the event that any Interest Payment Date is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such Interest Payment Date;

5. Each installment of interest on a Debenture of the First Series shall be payable to the Person in whose name such Debenture of the First Series is registered at the close of business on the Business Day 15 days preceding the corresponding Interest Payment

Date (the "Regular Record Date") for the Debentures of the First Series; provided, however, that if the Debentures of the First Series are held neither by the Trust nor by a securities depositary, the Company shall have the right to change the Regular Record Date by one or more Officer's Certificates. Any installment of interest on the Debentures of the First Series not punctually paid or duly provided for shall forthwith cease to be payable to the Holders of such Debentures of the First Series on such Regular Record Date, and may be paid to the Persons in whose name the Debentures of the First Series are registered at the close of business on a Special Record Date to be fixed by the Trustee for the payment of such Defaulted Interest. Notice of such Defaulted Interest and Special Record Date shall be given to the Holders of the Debentures of the First Series not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Debentures of the First Series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture;

6. The principal and each installment of interest on the Debentures of the First Series shall be payable at, and registration and registration of transfers and exchanges in respect of the Debentures of the First Series may be effected at, the office or agency of the Company in The City of New York; provided that payment of interest may be made at the option of the Company by check mailed to the address of the persons entitled thereto under the Indenture. Notices, demands to or upon the Company in respect of the Debentures of the First Series may be served at the office or agency of the Company in The City of New York. The Trustee will initially be the agency of the Company for such service of notices and demands; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates any such office or agency. The Company will be the Security Registrar and the Paying Agent for the Debentures of the First Series;

7. The Debentures of the First Series will be redeemable on or after March 20, 2001 at the option of the Company, at any time and from time to time, in whole or in part, at a redemption price equal to 100% of the principal amount of the Debentures of the First Series being redeemed, together with any accrued interest, including Additional Interest, if any, to the redemption date, upon not less than 30 nor more than 60 days' notice given as provided in the Indenture. The Company, however, may not redeem less than all Outstanding Debentures of the First Series unless the conditions specified in the last paragraph of this item are met;

The Debentures of the First Series will also be redeemable at any time at the option of the Company upon the occurrence and during the continuation of a Tax Event or an Investment Company Event in whole but not in part, at a redemption price equal to 100% of the principal amount of the Debentures of the First Series then Outstanding plus any accrued and unpaid interest, including Additional Interest, if any, to the redemption date, upon not less than 30 nor more than 60 days' notice given as provided in the Indenture. "Tax Event" means the receipt by the Trust of an opinion of counsel (which may be counsel to the Company or an affiliate but not an employee thereof and which must be acceptable to the Property Trustee under the Trust

Agreement) experienced in such matters to the effect that, as a result of any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or as a result of any official administrative or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or such pronouncement or decision is announced on or after the date of original issuance of the 8.05% Cumulative Quarterly Income Preferred Securities of the Trust (the "Preferred Securities"), there is more than an insubstantial risk that (i) the Trust is, or will be within 90 days of the date thereof, subject to United States federal income tax with respect to income received or accrued on the Debentures of the First Series, (ii) interest payable by the Company on the Debentures of the First Series, is not, or within 90 days of the date thereof will not be, deductible, in whole or in part, for United States federal income tax purposes, or (iii) the Trust is, or will be within 90 days of the date thereof, subject to more than a de minimis amount of other taxes, duties or other governmental charges. "Investment Company Event" means the occurrence of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority to the effect that the Trust is or will be considered an "investment company" that is required to be registered under the Investment Company Act of 1940, as amended, which change in law becomes effective on or after the date of original issuance of the Preferred Securities.

The Debentures of the First Series will also be redeemable, in whole but not in part, at the option of the Company upon the termination and liquidation of the Trust pursuant to an order for the dissolution, termination or liquidation of the Trust entered by a court of competent jurisdiction at a redemption price equal to 100% of the principal amount of the Debentures of the First Series then Outstanding plus any accrued and unpaid interest, including Additional Interest, if any, to the redemption date, upon not less than 30 nor more than 60 days' notice given as provided in the Indenture.

The Company may not redeem less than all the Debentures of the First Series Outstanding unless all accrued and unpaid interest (including any Additional Interest) has been paid in full on all Debentures of the First Series Outstanding under the Indenture for all quarterly interest periods terminating on or prior to the date of redemption or if a partial redemption of the Preferred Securities would result in a delisting of such securities by any national securities exchange on which they are then listed;

8. So long as any Debentures of the First Series are Outstanding, the failure of the Company to pay interest on any Debentures of the First Series within 30 days after the same becomes due and payable (whether or not payment is prohibited by the provisions of Article Fifteen of the Indenture) shall constitute an Event of Default; provided, however, that a valid extension of the interest payment period by the Company as contemplated in Section 311 of the Indenture and paragraph (9) of this Certificate shall not constitute a failure to pay interest for this purpose;

9. Pursuant to Section 311 of the Indenture, the Company shall have the right, at any time and from time to time during the term of the Debentures of the First Series, to extend the interest payment period to a period not exceeding 20 consecutive quarters (an "Extension Period") during which period interest will be compounded quarterly. At the end of the Extension Period, the Company shall pay all interest accrued and unpaid (together with interest thereon at the rate specified for the Debentures of the First Series, compounded quarterly, to the extent permitted by applicable law). However, during any such Extension Period, the Company shall not declare or pay any dividend or distribution (other than a dividend or distribution in common stock of the Company) on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, or make any payment of principal, interest or premium , if any, on or repay, repurchase or redeem any indebtedness that is pari passu with the Debentures of the First Series (including other Securities issued under the Indenture), or make any guarantee payments with respect to the foregoing. Prior to the termination of any such Extension Period, the Company may further extend the interest payment period, provided that such Extension Period together with all such previous and further extensions thereof shall not exceed 20 consecutive quarters at any one time or extend beyond the maturity date of the Debentures of the First Series. Upon the termination of any such Extension Period and the payment of all amounts then due, the Company may select a new Extension Period, subject to the above requirements. No interest shall be due and payable during an Extension Period, except at the end thereof. The Company will give the Trust or other Holders and the Trustee notice of its election of an Extension Period prior to the earlier of (i) one Business Day prior to the record date for the distribution which would occur but for such election or (ii) the date the Company is required to give notice to the New York Stock Exchange or other applicable self-regulatory organization of the record date;

10. In the event that, at any time subsequent to the initial authentication and delivery of the Debentures of the First Series, the Debentures of the First Series are to be held by a securities depositary, the Company may at such time establish the matters contemplated in clause (r) in the second paragraph of Section 301 of the Indenture in an Officer's Certificate supplemental to this Certificate;

11. No service charge shall be made for the registration of transfer or exchange of the Debentures of the First Series; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange or transfer;

12. The Debentures of the First Series shall have such other terms and provisions as are provided in the form set forth in Exhibit A hereto, and shall be issued in substantially such form;

13. In the event that the Debentures of the First Series are distributed to holders of the Preferred Securities as a result of the occurrence of (i) a Tax Event or (ii) an Investment Company Event or (iii) at any time during which the Trust is not or will not be taxed as a grantor trust but a Tax Event has not occurred, the Company will

use its best efforts to list the Debentures of the First Series on the New York Stock Exchange or on such other exchange as the Preferred Securities are then listed;

14. The undersigned has read all of the covenants and conditions contained in the Indenture relating to the issuance of the Debentures of the First Series and the definitions in the Indenture relating thereto and in respect of which this certificate is made;

15. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein;

16. In the opinion of the undersigned, he has made such examination or investigation as is necessary to express an informed opinion whether or not such covenants and conditions have been complied with; and

17. In the opinion of the undersigned, such conditions and covenants and conditions precedent, if any (including any covenants compliance with which constitutes a condition precedent) to the authentication and delivery of the Debentures of the First Series requested in the accompanying Company Order have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this Officer's Certificate this 20th day of March, 1996.

James K. Vizanko

James K. Vizanko
Treasurer

No. R-1

EXHIBIT A

MINNESOTA POWER & LIGHT COMPANY

8.05% JUNIOR SUBORDINATED DEBENTURES, SERIES A,
DUE 2015

MINNESOTA POWER & LIGHT COMPANY, a corporation duly organized and existing under the laws of the State Minnesota (herein referred to as the "Company", which term includes any successor Person under the Indenture), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on December 31, 2015, and to pay interest on said principal sum, from and including, March 20, 1996 or from, and excluding, the most recent Interest Payment Date through which interest has been paid or duly provided for, quarterly on March 31, June 30, September 30 and December 31 of each year, commencing March 31, 1996 at the rate of 8.05% per annum until the principal hereof is paid or made available for payment. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Securities of this series will accrue from, and including, March 20, 1996 through the first Interest Payment Date, and thereafter will accrue, from, and excluding, the last Interest Payment Date through which interest has been paid or duly provided for. In the event that any Interest Payment Date is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of such delay), except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on the Interest Payment Date. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the Business Day 15 days preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture referred to on the reverse hereof.

Payment of the principal of and premium, if any, and interest on this Security will be made at the office or agency of the Company maintained for that purpose in The City of New York, the State of New York in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, provided, however, that, at the

option of the Company, interest on this Security may be paid by check mailed to the address of the person entitled thereto, as such address shall appear on the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

MINNESOTA POWER & LIGHT COMPANY

By:

ATTEST:

- ---

CERTIFICATE OF AUTHENTICATION

Dated: March 20, 1996

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK, as Trustee

By:

Authorized Signatory

REVERSE OF JUNIOR SUBORDINATED DEBENTURE

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of March 1, 1996 (herein, together with any amendments thereto, called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and The Bank of New York, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture, including the Board Resolutions and Officer's Certificate filed with the Trustee on March 20, 1996 creating the series designated on the face hereof, for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, limited in aggregate principal amount to $77,500,000.

The Securities of this series are subject to redemption upon not less than 30 nor more than 60 days' notice by mail, at any time on or after March 20, 2001 as a whole or in part, at the election of the Company, at a Redemption Price equal to 100% of the principal amount, together in the case of any such redemption with accrued interest to, but not including, the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holder of such Security, or one or more Predecessor Securities, of record at the close of business on the related Regular Record Date referred to on the face hereof, all as provided in the Indenture.

The Securities of this series will also be redeemable at the option of the Company if a Tax Event or an Investment Company Event shall occur and be continuing, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Securities of this series then Outstanding plus any accrued and unpaid interest, including Additional Interest, if any, to the redemption date, upon not less than 30 nor more than 60 days' notice given as provided in the Indenture. "Tax Event" means the receipt by MP&L Capital I, a Delaware statutory business trust (the "Trust") of an opinion of counsel (which may be counsel to the Company or an affiliate but not an employee thereof and which must be acceptable to the Property Trustee under the Trust Agreement) experienced in such matters to the effect that, as a result of any amendment to, or change (including any announced prospective change) in, the laws (or any regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein affecting taxation, or as a result of any official administrative or judicial decision interpreting or applying such laws or regulations, which amendment or change is effective or such pronouncement or decision is announced on or after the date of original issuance of the 8.05% Cumulative Quarterly Income Preferred Securities of the Trust (the "Preferred Securities"), there is more than an insubstantial risk that (i) the Trust is, or will be within 90 days of the date thereof, subject to United States federal income tax with respect to income received or accrued on the Securities, (ii) interest payable by the Company on the Securities, is not, or within 90 days of the date thereof will not be, deductible, in whole or in part, for United States federal income tax purposes, or (iii) the Trust is, or will be within 90 days of the date thereof, subject to more than a de minimis amount of other taxes, duties or other governmental charges. "Investment Company Event" means the occurrence of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, court, governmental agency or regulatory authority to the effect that the Trust is or will be considered an "investment company" that is required to be registered under the Investment Company Act of 1940, as amended, which change in law becomes effective on or after the date of original issuance of the Preferred Securities.

The Securities of this series will also be redeemable, in whole but not in part, at the option of the Company upon the termination and liquidation of the Trust pursuant to an order for the dissolution, termination or liquidation of the Trust entered by a court of competent jurisdiction at a redemption price equal to 100% of the principal amount of the Securities of this series then Outstanding plus any accrued and unpaid interest, including Additional Interest, if any, to the redemption date, upon not less than 30 nor more than 60 days' notice given as provided in the Indenture.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinated and subject in right of payment to the prior payment in full of all Senior Indebtedness, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each Holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his attorney-in-fact for any and all such purposes. Each Holder hereof, by his acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such Holder upon said provisions.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the time Outstanding of all series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than a majority in aggregate principal amount of the Securities of all series at the time Outstanding in respect of which an Event of Default shall have occurred and be continuing shall have made written request to the Trustee to institute proceedings in

respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in aggregate principal amount of Securities of all series at the time Outstanding in respect of which an Event of Default shall have occurred and be continuing a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

The Company has the right at any time and from time to time during the term of the Securities of this series to extend the interest payment period to a period not exceeding 20 consecutive quarters (an "Extended Interest Payment Period"), and at the end of such Extended Interest Payment Period, the Company shall pay all interest then accrued and unpaid (together with interest thereon at the same rate as specified for the Securities of this series, compounded quarterly, to the extent permitted by applicable law); provided, however, that during such Extended Interest Payment Period the Company shall not declare or pay any dividend or distribution (other than a dividend or distribution in common stock of the Company) on, or redeem, purchase, acquire or make a liquidation payment with respect to, any of its capital stock, or make any payment of principal on, interest or premium if any, on or repay, repurchase or redeem any indebtedness that is pari passu with the Securities of this series (including other Securities issued under the Indenture), or make any guarantee payments with respect to the foregoing. Prior to the termination of any such Extended Interest Payment Period, the Company may further extend the interest payment period, provided that such Extended Interest Payment Period, together with all such previous and further extensions thereof, may not exceed 20 consecutive quarters or extend beyond the Stated Maturity of the Securities of this series. Upon the termination of any such Extended Interest Payment Period and the payment of all amounts then due, the Company may select a new Extended Interest Payment Period, subject to the above requirements. No interest during the Extended Interest Payment Period, except at the end thereof, shall be due and payable. The Company shall give the Holder of this Security notice of its selection of such Extended Interest Payment Period as provided in or pursuant to the Indenture.

The Securities of this series are issuable only in registered form without coupons in denominations of $25 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor and of authorized denominations, as requested by the Holder surrendering the same.

As provided in the Indenture, the Company shall not be required to make transfers or exchanges of Securities of this series for a period of 15 days immediately preceding the date of the mailing of any notice of redemption of such Securities and the Company shall not be required to make transfers or exchanges of any Securities of this series so selected for redemption in whole or in part (except the unredeemed portion of thereof).

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the absolute owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Exhibit 4(k)

ADESA Corporation

TO

THE BANK OF NEW YORK,

Trustee

Indenture
(For Unsecured Debt Securities)

Dated as of May 15, 1996

TABLE OF CONTENTS

Note: This table of contents shall not, for any purpose, be deemed to be part of the Indenture.

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INDENTURE, dated as of May 15, 1996, between ADESA Corporation, a corporation duly organized and existing under the laws of the State of Indiana (herein called the "Company"), having its principal office at 1919 S. Post Road, Indianapolis, Indiana 46239, and THE BANK OF NEW YORK, a corporation of the State of New York, having its principal corporate trust office at 101 Barclay Street, New York, New York 10286, as Trustee (herein called the "Trustee").

RECITAL OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), in an unlimited aggregate principal amount to be issued in one or more series as contemplated herein; and all acts necessary to make this Indenture a valid agreement of the Company have been performed.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires, capitalized terms used herein shall have the meanings assigned to them in Article One of this Indenture.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Securities or of any series thereof, as follows:

ARTICLE ONE

Definitions and Other Provisions of General Application

SECTION 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(b) all terms used herein without definition which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States at the date of such computation or, at the election of the Company from time to time, at the date of the execution and delivery of this Indenture; provided, however, that in determining generally accepted

accounting principles applicable to the Company, the Company shall, to the extent required, conform to any order, rule or regulation of any administrative agency, regulatory authority or other governmental body having jurisdiction over the Company; and

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

Certain terms, used principally in Article Nine, are defined in that Article.

"Act", when used with respect to any Holder of a Security, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or through one or more intermediaries, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person (other than the Company or an Affiliate of the Company) authorized by the Trustee pursuant to Section 915 to act on behalf of the Trustee to authenticate one or more series of Securities.

"Authorized Officer" means the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer, or any other officer or agent of the Company duly authorized by the Board of Directors to act in respect of matters relating to this Indenture.

"Board of Directors" means either the board of directors of the Company or any committee thereof duly authorized to act in respect of matters relating to this Indenture.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to a Place of Payment or any other particular location specified in the Securities or this Indenture, means any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in such Place of Payment or other location are generally authorized or required by law, regulation or executive order to remain closed, except as may be otherwise specified as contemplated by Section 301.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Securities Exchange Act of 1934, as amended, or, if at any time after the date of execution and delivery of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body, if any, performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this Indenture until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by an Authorized Officer and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date of execution and delivery of this Indenture is located at 101 Barclay Street, New York, New York 10286.

"corporation" means a corporation, association, company, limited liability company, joint stock company or business trust.

"Defaulted Interest" has the meaning specified in Section 307.

"Dollar" or "$" means a dollar or other equivalent unit in such coin or currency of the United States as at the time shall be legal tender for the payment of public and private debts.

"Event of Default" has the meaning specified in Section 801.

"Governmental Authority" means the government of the United States or of any State or Territory thereof or of the District of Columbia or of any county, municipality or other political subdivision of any of the foregoing, or any department, agency, authority or other instrumentality of any of the foregoing.

"Goverment Obligations" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States and entitled to the benefit of the full faith and credit thereof; and

(b) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations described in clause (a) above or in any specific interest or principal payments due in respect thereof; provided, however, that the custodian of such obligations or specific interest or principal payments shall be a bank or trust company (which may include the Trustee or any Paying Agent) subject to Federal or state supervision or examination with a combined capital and surplus of at least $50,000,000; and provided, further, that except as may be otherwise required by law, such custodian shall be obligated to pay to the holders of such certificates, depositary receipts or other instruments the full amount received by such custodian in respect of such obligations or specific payments and shall not be permitted to make any deduction therefrom.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed and delivered and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof and shall include the terms of a particular series of Securities established as contemplated by Section 301.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as provided in such Security or in this Indenture, whether at the Stated Maturity, by declaration of acceleration, upon call for redemption or otherwise.

"Officer's Certificate" means a certificate signed by an Authorized Officer and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company, or other counsel acceptable to the Trustee.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(a) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Securities deemed to have been paid in accordance with Section 701; and

(c) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it and the Company that such Securities are held by a bona fide purchaser or purchasers in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether or not the Holders of the requisite principal amount of the Securities Outstanding under this Indenture, or the Outstanding Securities of any series, have given any request, demand, authorization, direction, notice, consent or waiver hereunder or whether or not a quorum is present at a meeting of Holders of Securities, Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor (unless the Company, such Affiliate or such obligor owns all Securities Outstanding under this Indenture, or all Outstanding Securities of each such series, as the case may be, determined without regard to this provision) shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver or upon any such

determination as to the presence of a quorum, only Securities which the Trustee knows to be so owned shall be so disregarded; provided, however, that Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor; and provided, further, that, in the case of any Security the principal of which is payable from time to time without presentment or surrender, the principal amount of such Security that shall be deemed to be Outstanding at any time for all purposes of this Indenture shall be the original principal amount thereof less the aggregate amount of principal thereof theretofore paid.

"Paying Agent" means any Person, including the Company, authorized by the Company to pay the principal of, and premium, if any, or interest, if any, on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust or unincorporated organization or any Governmental Authority.

"Place of Payment", when used with respect to the Securities of any series, means the place or places, specified as contemplated by Section 301, at which, subject to Section 602, principal of and premium, if any, and interest, if any, on the Securities of such series are payable.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed (to the extent lawful) to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer", when used with respect to the Trustee, means any officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any securities authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest on the Securities of any series means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any obligation or any installment of principal thereof or interest thereon, means the date on which the principal of such obligation or such installment of principal or interest is stated to be due and payable (without regard to any provisions for redemption, prepayment, acceleration, purchase or extension).

"Trust Indenture Act" means, as of any time, the Trust Indenture Act of 1939, or any successor statute, as in effect at such time.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this Indenture until a successor Trustee shall have become such with respect to one or more series of Securities pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"United States" means the United States of America, its Territories, its possessions and other areas subject to its political jurisdiction.

SECTION 102. Compliance Certificates and Opinions.

Except as otherwise expressly provided in this Indenture, upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall, if requested by the Trustee, furnish to the Trustee an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action (including any covenants compliance with which constitutes a condition precedent) have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(a) a statement that each Person signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of each such Person, such Person has made such examination or investigation as is necessary to enable such Person to

express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such Person, such condition or covenant has been complied with.

SECTION 103. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which such Officer's Certificate or opinion are based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever, subsequent to the receipt by the Trustee of any Board Resolution, Officer's Certificate, Opinion of Counsel or other document or instrument, a clerical, typographical or other inadvertent or unintentional error or omission shall be discovered therein, a new document or instrument may be substituted therefor in corrected form with the same force and effect as if originally filed in the corrected form and, irrespective of the date or dates of the actual execution and/or delivery thereof, such substitute document or instrument shall be deemed to have been executed and/or delivered as of the date or dates required with respect to the document or instrument for which it is substituted. Anything in this Indenture to the contrary notwithstanding, if any such corrective document or instrument indicates that action has been taken by or at the request of the Company which could not have been taken had the original document or instrument not contained such error or omission, the action so taken shall not be invalidated or otherwise rendered ineffective but shall be and remain in full force and effect, except to the extent that such action was a result of willful misconduct or bad faith. Without limiting the generality of the foregoing, any Securities issued under the authority of such defective document or instrument shall nevertheless be the valid obligations of the

Company entitled to the benefits of this Indenture equally and ratably with all other Outstanding Securities, except as aforesaid.

SECTION 104. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, election, waiver or other action provided by this Indenture to be made, given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing or, alternatively, may be embodied in and evidenced by the record of Holders voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders duly called and held in accordance with the provisions of Article Thirteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments and so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and (subject to Section 901) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section. The record of any meeting of Holders shall be proved in the manner provided in Section 1306.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof or may be proved in any other manner which the Trustee and the Company deem sufficient. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority.

(c) The principal amount and serial numbers of Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, election, waiver or other Act of a Holder shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(e) Until such time as written instruments shall have been delivered to the Trustee with respect to the requisite percentage of principal amount of Securities

for the action contemplated by such instruments, any such instrument executed and delivered by or on behalf of a Holder may be revoked with respect to any or all of such Securities by written notice by such Holder or any subsequent Holder, proven in the manner in which such instrument was proven.

(f) Securities of any series authenticated and delivered after any Act of Holders may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any action taken by such Act of Holders. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to such action may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

(g) If the Company shall solicit from Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on the record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of the Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of the record date.

SECTION 105. Notices, etc. to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, election, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with, the Trustee by any Holder or by the Company, or the Company by the Trustee or by any Holder, shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and delivered personally to an officer or other responsible employee of the addressee, or transmitted by facsimile transmission or other direct written electronic means to such telephone number or other electronic communications address as the parties hereto shall from time to time designate, or transmitted by certified or registered mail, charges prepaid, to the applicable

address set opposite such party's name below or to such other address as either party hereto may from time to time designate:

If to the Trustee, to:

The Bank of New York
101 Barclay Street, 21 West
New York, New York 10286

Attention: Vice President, Corporate Trust Administration
Telephone: (212) 815-5291
Telecopy: (212) 815-5915

If to the Company, to:

ADESA Corporation
1919 S. Post Road
Indianapolis, Indiana 46239

Attention: Chief Financial Officer
Telephone: (317)862-7220
Telecopy: (317)862-7307

Any communication contemplated herein shall be deemed to have been made, given, furnished and filed if personally delivered, on the date of delivery, if transmitted by facsimile transmission or other direct written electronic means, on the date of transmission, and if transmitted by registered mail, on the date of receipt.

SECTION 106. Notice to Holders of Securities; Waiver.

Except as otherwise expressly provided herein, where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given, and shall be deemed given, to Holders if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at the address of such Holder as it appears in the Security Register, not later than the latest date, if any, and not earlier than the earliest date, if any, prescribed for the giving of such notice.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to Holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

Any notice required by this Indenture may be waived in writing by the Person entitled to receive such notice, either before or after the event otherwise to be specified therein, and such waiver shall be the equivalent of such notice. Waivers of

notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 107. Conflict with Trust Indenture Act.

If any provision of this Indenture limits, qualifies or conflicts with another provision hereof which is required or deemed to be included in this Indenture by, or is otherwise governed by, any of the provisions of the Trust Indenture Act, such other provision shall control; and if any provision hereof otherwise conflicts with the Trust Indenture Act, the Trust Indenture Act shall control, if applicable to this Indenture.

SECTION 108. Effect of Headings and Table of Contents.

The Article and Section headings in this Indenture and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. Successors and Assigns.

All covenants and agreements in this Indenture by the Company and Trustee shall bind their respective successors and assigns, whether so expressed or not.

SECTION 110. Separability Clause.

In case any provision in this Indenture or the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 111. Benefits of Indenture.

Nothing in this Indenture or the Securities, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. Governing Law.

This Indenture and the Securities shall be governed by and construed in accordance with the internal laws of the State of New York, except to the extent that the law of any other jurisdiction shall be mandatorily applicable.

SECTION 113. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities other than a provision in Securities of any series, or in the Board Resolution or Officer's Certificate which establishes the terms of the Securities of such series, which specifically states that such provision shall apply in lieu of this Section) payment of interest or principal and premium, if any, need not be made at such Place of Payment on such date, but may be

made on the next succeeding Business Day at such Place of Payment, in each case with the same force and effect, and in the same amount, as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, as the case may be, and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be, to such Business Day.

ARTICLE TWO

Security Forms

SECTION 201. Forms Generally.

The definitive Securities of each series shall be in substantially the form or forms thereof established in the indenture supplemental hereto establishing such series or in a Board Resolution establishing such series, or in an Officer's Certificate pursuant to such supplemental indenture or Board Resolution, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution of the Securities. If the form or forms of Securities of any series are established in a Board Resolution or in an Officer's Certificate pursuant to a Board Resolution, such Board Resolution and Officer's Certificate, if any, shall be delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

Unless otherwise specified as contemplated by Section 301, the Securities of each series shall be issuable in registered form without coupons. The definitive Securities shall be produced in such manner as shall be determined by the officers executing such Securities, as evidenced by their execution thereof.

SECTION 202. Form of Trustee's Certificate of Authentication.

The Trustee's certificate of authentication shall be in substantially the form set forth below:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

---
as Trustee

By:

Authorized Signatory

ARTICLE THREE

The Securities

SECTION 301. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. Prior to the authentication and delivery of Securities of any series there shall be established by specification in a supplemental indenture or in a Board Resolution, or in an Officer's Certificate pursuant to a supplemental indenture or a Board Resolution:

(a) the title of the Securities of such series (which shall distinguish the Securities of such series from Securities of all other series);

(b) any limit upon the aggregate principal amount of the Securities of such series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of such series pursuant to Section 304, 305, 306, 406 or 1206 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(c) the Person or Persons (without specific identification) to whom interest on Securities of such series shall be payable on any Interest Payment Date, if other than the Persons in whose names such Securities (or one or more Predecessor Securities) are registered at the close of business on the Regular Record Date for such interest;

(d) the date or dates on which the principal of the Securities of such series is payable or any formulary or other method or other means by which such date or dates shall be determined, by reference or otherwise (without regard to any provisions for redemption, prepayment, acceleration, purchase or extension);

(e) the rate or rates at which the Securities of such series shall bear interest, if any (including the rate or rates at which overdue principal shall bear interest, if different from the rate or rates at which such Securities shall bear interest prior to Maturity, and, if applicable, the rate or rates at which overdue premium or interest shall bear interest, if any), or any formulary or other method or other means by which such rate or rates shall be determined, by reference or otherwise; the date or dates from which such interest shall accrue; the Interest Payment Dates on which such interest shall be payable and the Regular Record Date, if any, for the interest payable on such Securities on any Interest Payment Date; and the basis of computation of interest, if other than as provided in Section 310;

(f) the place or places at which or methods by which (1) the principal of and premium, if any, and interest, if any, on Securities of such series shall be payable, (2) registration of transfer of Securities of such series may be effected, (3) exchanges of Securities of such series may be effected and (4) notices and demands to or upon the Company in respect of the Securities of such series and this Indenture may be served; the Security Registrar for such series; and if such is the case, that the principal of such Securities shall be payable without presentment or surrender thereof;

(g) the period or periods within which, or the date or dates on which, the price or prices at which and the terms and conditions upon which the Securities of such series may be redeemed, in whole or in part, at the option of the Company and any restrictions on such redemptions, including but not limited to a restriction on a partial redemption by the Company of the Securities of any series, resulting in delisting of such Securities from any national exchange;

(h) the obligation or obligations, if any, of the Company to redeem or purchase the Securities of such series pursuant to any sinking fund or other mandatory redemption provisions or at the option of a Holder thereof and the period or periods within which or the date or dates on which, the price or prices at which and the terms and conditions upon which such Securities shall be redeemed or purchased, in whole or in part, pursuant to such obligation, and applicable exceptions to the requirements of Section 404 in the case of mandatory redemption or redemption at the option of the Holder;

(i) the denominations in which Securities of such series shall be issuable if other than denominations of One Thousand Dollars ($1,000) and any integral multiple thereof;

(j) the currency or currencies, including composite currencies, in which payment of the principal of and premium, if any, and interest, if any, on the Securities of such series shall be payable (if other than in Dollars);

(k) if the principal of or premium, if any, or interest, if any, on the Securities of such series are to be payable, at the election of the Company or a Holder thereof, in a coin or currency other than that in which the Securities are stated to be payable, the period or periods within which and the terms and conditions upon which, such election may be made;

(l) if the principal of or premium, if any, or interest, if any, on the Securities of such series are to be payable, or are to be payable at the election of the Company or a Holder thereof, in securities or other property, the type and amount of such securities or other property, or the formulary or other method or other means by which such amount shall be determined, and the period or periods within which, and the terms and conditions upon which, any such election may be made;

(m) if the amount payable in respect of principal of or premium, if any, or interest, if any, on the Securities of such series may be determined with reference to an index or other fact or event ascertainable outside this Indenture, the manner in which such amounts shall be determined to the extent not established pursuant to clause (e) of this paragraph;

(n) if other than the principal amount thereof, the portion of the principal amount of Securities of such series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 802;

(o) any Events of Default, in addition to those specified in Section 801, with respect to the Securities of such series, and any covenants of the Company for the benefit of the Holders of the Securities of such series, in addition to those set forth in Article Six;

(p) the terms, if any, pursuant to which the Securities of such series may be converted into or exchanged for shares of capital stock or other securities of the Company or any other Person;

(q) the obligations or instruments, if any, which shall be considered to be Government Obligations in respect of the Securities of such series denominated in a currency other than Dollars or in a composite currency, and any additional or alternative provisions for the reinstatement of the Company's indebtedness in respect of such Securities after the satisfaction and discharge thereof as provided in Section 701;

(r) if the Securities of such series are to be issued in global form, (i) any limitations on the rights of the Holder or Holders of such Securities to transfer or exchange the same or to obtain the registration of transfer thereof, (ii) any limitations on the rights of the Holder or Holders thereof to obtain certificates therefor in definitive form in lieu of temporary form and (iii) any and all other matters incidental to such Securities;

(s) if the Securities of such series are to be issuable as bearer securities, any and all matters incidental thereto which are not specifically addressed in a supplemental indenture as contemplated by clause (g) of Section 1201;

(t) to the extent not established pursuant to clause (r) of this paragraph, any limitations on the rights of the Holders of the Securities of such Series to transfer or exchange such Securities or to obtain the registration of transfer thereof; and if a service charge will be made for the registration of transfer or exchange of Securities of such series the amount or terms thereof;

(u) any exceptions to Section 113, or variation in the definition of Business Day, with respect to the Securities of such series;

(v) any collateral security, insurance or guarantee for the Securities of such series;

(w) any rights or duties of another Person to assume the obligations of the Company with respect to the Securities of such series (whether as joint obligor, primary obligor, secondary obligor or substitute obligor) and any rights or duties to discharge and release any obligor with respect to the Securities of such series or the Indenture to the extent related to such series;

(x) any rights to change or eliminate any provision of this Indenture or to add any new provision to this Indenture (by supplemental indenture or otherwise) without the consent of the Holders of the Securities of such series; and

(y) any other terms of the Securities of such series not inconsistent with the provisions of this Indenture.

SECTION 302. Denominations.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, the Securities of each series shall be issuable in denominations of One Thousand Dollars ($1,000) and any integral multiple thereof.

SECTION 303. Execution, Authentication, Delivery and Dating.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, the Securities shall be executed on behalf of the Company by an Authorized Officer and may have the corporate seal of the Company affixed thereto or reproduced thereon attested by any other Authorized Officer or by the Secretary or an Assistant Secretary of the Company. The signature of any or all of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at the time of execution Authorized Officers or the Secretary or an Assistant Secretary of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

The Trustee shall authenticate and deliver Securities of a series, for original issue, at one time or from time to time in accordance with the Company Order referred to below, upon receipt by the Trustee of:

(a) the instrument or instruments establishing the form or forms and terms of such series, as provided in Sections 201 and 301;

(b) a Company Order requesting the authentication and delivery of such Securities and, to the extent that the terms of such Securities shall not have been established in an indenture supplemental hereto or in a Board Resolution, or in an Officer's Certificate pursuant to a supplemental indenture or Board Resolution, all as contemplated by Sections 201 and 301, establishing such terms;

(c) the Securities of such series, executed on behalf of the Company by an Authorized Officer;

(d) an Opinion of Counsel to the effect that:

(i) the form or forms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture;

(ii) the terms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture; and

(iii) such Securities, when authenticated and delivered by the Trustee and issued and delivered by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will have been duly issued under this Indenture and will constitute valid and legally binding obligations of the Company, entitled to the benefits provided by this Indenture, and enforceable in accordance with their terms, subject, as to enforcement, to laws relating to or affecting generally the enforcement of creditors' rights, including, without limitation, bankruptcy and insolvency laws and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

If the form or terms of the Securities of any series have been established by or pursuant to a Board Resolution or an Officer's Certificate as permitted by Sections 201 or 301, the Trustee shall not be required to authenticate such Securities if the issuance of such Securities pursuant to this Indenture will materially or adversely affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Unless otherwise specified as contemplated by Section 301 with respect to any series of Securities, each Security shall be dated the date of its authentication.

Unless otherwise specified as contemplated by Section 301 with respect to any series of Securities, no Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee or an Authenticating Agent by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder to the Company, or any Person acting on its behalf, but shall never have been issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309 together with a written statement (which need not comply with Section 102 and need not be accompanied by an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, for all

purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits hereof.

SECTION 304. Temporary Securities.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued, with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities; provided, however, that temporary Securities need not recite specific redemption, sinking fund, conversion or exchange provisions.

Unless otherwise specified as contemplated by Section 301 with respect to the Securities of any series, after the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable, without charge to the Holder thereof, for definitive Securities of such series upon surrender of such temporary Securities at the office or agency of the Company maintained pursuant to Section 602 in a Place of Payment for such Securities. Upon such surrender of temporary Securities for such exchange, the Company shall, except as aforesaid, execute and the Trustee shall authenticate and deliver in exchange therefor definitive Securities of the same series, of authorized denominations and of like tenor and aggregate principal amount.

Until exchanged in full as hereinabove provided, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of the same series and of like tenor authenticated and delivered hereunder.

SECTION 305. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept in each office designated pursuant to Section 602, with respect to the Securities of each series, a register (all registers kept in accordance with this Section being collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities of such series and the registration of transfer thereof. The Company shall designate one Person to maintain the Security Register for the Securities of each series on a consolidated basis, and such Person is referred to herein, with respect to such series, as the "Security Registrar." Anything herein to the contrary notwithstanding, the Company may designate one or more of its offices as an office in which a register with respect to the Securities of one or more series shall be maintained, and the Company may designate itself the Security Registrar with respect to one or more of such series. The Security Register shall be open for inspection by the Trustee and the Company at all reasonable times.

Except as otherwise specified as contemplated by Section 301 with respect to the Securities of any series, upon surrender for registration of transfer of any Security

of such series at the office or agency of the Company maintained pursuant to Section 602 in a Place of Payment for such series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of authorized denominations and of like tenor and aggregate principal amount.

Except as otherwise specified as contemplated by Section 301 with respect to the Securities of any series, any Security of such series may be exchanged at the option of the Holder, for one or more new Securities of the same series, of authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at any such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities delivered upon any registration of transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company, the Trustee or the Security Registrar) be duly endorsed or shall be accompanied by a written instrument of transfer in form satisfactory to the Company, the Trustee or the Security Registrar, as the case may be, duly executed by the Holder thereof or his attorney duly authorized in writing.

Unless otherwise specified as contemplated by Section 301 with respect to Securities of any series, no service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 406 or 1206 not involving any transfer.

The Company shall not be required to execute or to provide for the registration of transfer of or the exchange of (a) Securities of any series during a period of 15 days immediately preceding the date of the mailing of any notice of redemption of such Securities called for redemption or (b) any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

SECTION 306. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series, and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (a) evidence to their satisfaction of the ownership of and the destruction, loss or theft of any Security and (b) such security or indemnity as may be reasonably required by them to save each of

them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security is held by a Person purporting to be the owner of such Security, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series, and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

Notwithstanding the foregoing, in case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone other than the Holder of such new Security, and any such new Security shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of such series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 307. Payment of Interest; Interest Rights Preserved.

Unless otherwise specified as contemplated by Section 301 with respect to the Securities of any series, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the related Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (a) or (b) below:

(a) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a date (herein called a "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security

of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall promptly cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities of such series at the address of such Holder as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date.

(b) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section and Section 305, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 308. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and premium, if any, and (subject to Sections 305 and 307) interest, if any, on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 309. Cancellation by Security Registrar.

All Securities surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Security Registrar, be delivered to the Security Registrar and, if not theretofore canceled, shall be promptly

canceled by the Security Registrar. The Company may at any time deliver to the Security Registrar for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever or which the Company shall not have issued and sold, and all Securities so delivered shall be promptly canceled by the Security Registrar. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Security Registrar shall be disposed of in accordance with a Company Order delivered to the Security Registrar and the Trustee, and the Security Registrar shall promptly deliver a certificate of disposition to the Trustee and the Company unless, by a Company Order, similarly delivered, the Company shall direct that canceled Securities be returned to it. The Security Registrar shall promptly deliver evidence of any cancellation of a Security in accordance with this Section 309 to the Trustee and the Company.

SECTION 310. Computation of Interest.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year consisting of twelve 30-day months and for any period shorter than a full month, on the basis of the actual number of days elapsed in such period.

ARTICLE FOUR

Redemption of Securities

SECTION 401. Applicability of Article.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Securities of such series) in accordance with this Article.

SECTION 402. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or an Officer's Certificate. The Company shall, at least 45 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of such Securities to be redeemed. In the case of any redemption of Securities (a) prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture or (b) pursuant to an election of the Company which is subject to a condition specified in the terms of such Securities, the Company shall furnish the Trustee with an Officer's Certificate evidencing compliance with such restriction or condition.

SECTION 403. Selection of Securities to Be Redeemed.

If less than all the Securities of any series are to be redeemed, the particular Securities to be redeemed shall be selected by the Trustee from the Outstanding Securities of such series not previously called for redemption, by such method as shall be provided for any particular series, or, in the absence of any such provision, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions (equal to the minimum authorized denomination for Securities of such series or any integral multiple thereof) of the principal amount of Securities of such series of a denomination larger than the minimum authorized denomination for Securities of such series; provided, however, that if, as indicated in an Officer's Certificate, the Company shall have offered to purchase all or any principal amount of the Securities then Outstanding of any series, and less than all of such Securities as to which such offer was made shall have been tendered to the Company for such purchase, the Trustee, if so directed by Company Order, shall select for redemption all or any principal amount of such Securities which have not been so tendered.

The Trustee shall promptly notify the Company and the Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected to be redeemed in part, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 404. Notice of Redemption.

Notice of redemption shall be given in the manner provided in Section 106 to the Holders of the Securities to be redeemed not less than 30 nor more than 60 days prior to the Redemption Date.

All notices of redemption shall state:

(a) the Redemption Date,

(b) the Redemption Price,

(c) if less than all the Securities of any series are to be redeemed, the identification of the particular Securities to be redeemed and the portion of the principal amount of any Security to be redeemed in part,

(d) that on the Redemption Date the Redemption Price, together with accrued interest, if any, to the Redemption Date, will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(e) the place or places where such Securities are to be surrendered for payment of the Redemption Price and accrued interest, if any, unless it shall have been specified as contemplated by Section 301 with respect to such Securities that such surrender shall not be required,

(f) that the redemption is for a sinking or other fund, if such is the case, and

(g) such other matters as the Company shall deem desirable or appropriate.

Unless otherwise specified with respect to any Securities in accordance with Section 301, with respect to any notice of redemption of Securities at the election of the Company, unless, upon the giving of such notice, such Securities shall be deemed to have been paid in accordance with Section 701, such notice may state that such redemption shall be conditional upon the receipt by the Paying Agent or Agents for such Securities, on or prior to the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Securities and that if such money shall not have been so received such notice shall be of no force or effect and the Company shall not be required to redeem such Securities. In the event that such notice of redemption contains such a condition and such money is not so received, the redemption shall not be made and within a reasonable time thereafter notice shall be given, in the manner in which the notice of redemption was given, that such money was not so received and such redemption was not required to be made, and the Paying Agent or Agents for the Securities otherwise to have been redeemed shall promptly return to the Holders thereof any of such Securities which had been surrendered for payment upon such redemption.

Notice of redemption of Securities to be redeemed at the election of the Company, and any notice of non-satisfaction of a condition for redemption as aforesaid, shall be given by the Company or, at the Company's request, by the Security Registrar in the name and at the expense of the Company. Notice of mandatory redemption of Securities shall be given by the Security Registrar in the name and at the expense of the Company.

SECTION 405. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, and the conditions, if any, set forth in such notice having been satisfied, the Securities or portions thereof so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless, in the case of an unconditional notice of redemption, the Company shall default in the payment of the Redemption Price and accrued interest, if any) such Securities or portions thereof, if interest-bearing, shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with such notice, such Security or portion thereof shall be paid by the Company at the Redemption Price, together with accrued interest, if any, to the Redemption Date; provided, however, that no such surrender shall be a condition to such payment if so specified as contemplated by Section 301 with respect to such Security; and provided, further, that except as otherwise specified as contemplated by Section 301 with

respect to such Security, any installment of interest on any Security the Stated Maturity of which installment is on or prior to the Redemption Date shall be payable to the Holder of such Security, or one or more Predecessor Securities, registered as such at the close of business on the related Regular Record Date according to the terms of such Security and subject to the provisions of Section 307.

SECTION 406. Securities Redeemed in Part.

Upon the surrender of any Security which is to be redeemed only in part at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities of the same series, of any authorized denomination requested by such Holder and of like tenor and in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE FIVE

Sinking Funds

SECTION 501. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of the Securities of any series, except as otherwise specified as contemplated by Section 301 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 502. Each sinking fund payment shall be applied to the redemption of Securities of the series in respect of which it was made as provided for by the terms of such Securities.

SECTION 502. Satisfaction of Sinking Fund Payments with Securities.

The Company (a) may deliver to the Trustee Outstanding Securities (other than any previously called for redemption) of a series in respect of which a mandatory sinking fund payment is to be made and (b) may apply as a credit Securities of such series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities or Outstanding Securities purchased by the Company, in each case in satisfaction of all or any part of such mandatory sinking fund payment with respect to the Securities of such series; provided, however, that no Securities shall be applied in satisfaction of a mandatory sinking fund payment if such

Securities shall have been previously so applied. Securities so applied shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such mandatory sinking fund payment shall be reduced accordingly.

SECTION 503. Redemption of Securities for Sinking Fund.

Not less than 45 days prior to each sinking fund payment date for the Securities of any series, the Company shall deliver to the Trustee an Officer's Certificate specifying:

(a) the amount of the next succeeding mandatory sinking fund payment for such series;

(b) the amount, if any, of the optional sinking fund payment to be made together with such mandatory sinking fund payment;

(c) the aggregate sinking fund payment;

(d) the portion, if any, of such aggregate sinking fund payment which is to be satisfied by the payment of cash; and

(e) the portion, if any, of such aggregate sinking fund payment which is to be satisfied by delivering and crediting Securities of such series pursuant to Section 502 and stating the basis for such credit and that such Securities have not previously been so credited, and the Company shall also deliver to the Trustee any Securities to be so delivered. If the Company shall not deliver such Officer's Certificate, the next succeeding sinking fund payment for such series shall be made entirely in cash in the amount of the mandatory sinking fund payment. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 403 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 404. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 405 and 406.

ARTICLE SIX

Covenants

SECTION 601. Payment of Principal, Premium and Interest.

The Company shall pay the principal of and premium, if any, and interest, if any, on the Securities of each series in accordance with the terms of such Securities and this Indenture.

SECTION 602. Maintenance of Office or Agency.

The Company shall maintain in each Place of Payment for the Securities of each series an office or agency where payment of such Securities shall be made, where the registration of transfer or exchange of such Securities may be effected and where notices and demands to or upon the Company in respect of such Securities and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of each such office or agency and prompt notice to the Holders of any such change in the manner specified in Section 106. If at any time the Company shall fail to maintain any such required office or agency in respect of Securities of any series, or shall fail to furnish the Trustee with the address thereof, payment of such Securities shall be made, registration of transfer or exchange thereof may be effected and notices and demands in respect thereof may be served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent for all such purposes in any such event.

The Company may also from time to time designate one or more other offices or agencies with respect to the Securities of one or more series, for any or all of the foregoing purposes and may from time to time rescind such designations; provided, however, that, unless otherwise specified as contemplated by Section 301 with respect to the Securities of such series, no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency for such purposes in each Place of Payment for such Securities in accordance with the requirements set forth above. The Company shall give prompt written notice to the Trustee, and prompt notice to the Holders in the manner specified in Section 106, of any such designation or rescission and of any change in the location of any such other office or agency.

Anything herein to the contrary notwithstanding, any office or agency required by this Section may be maintained at an office of the Company, in which event the Company shall perform all functions to be performed at such office or agency.

SECTION 603. Money for Securities Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to the Securities of any series, it shall, on or before each due date of the principal of and premium, if any, and interest, if any, on any of such Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and premium or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided. The Company shall promptly notify the Trustee of any failure by the Company (or any other obligor on such Securities) to make any payment of principal of or premium, if any, or interest, if any, on such Securities.

Whenever the Company shall have one or more Paying Agents for the Securities of any series, it shall, on or before each due date of the principal of and premium, if any, and interest, if any, on such Securities, deposit with such Paying Agents sums sufficient (without duplication) to pay the principal and premium or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such

principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company shall promptly notify the Trustee of any failure by it so to act.

The Company shall cause each Paying Agent for the Securities of any series, other than the Company or the Trustee, to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent shall:

(a) hold all sums held by it for the payment of the principal of and premium, if any, or interest, if any, on such Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(b) give the Trustee notice of any failure by the Company (or any other obligor upon such Securities) to make any payment of principal of or premium, if any, or interest, if any, on such Securities; and

(c) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent and furnish to the Trustee such information as it possesses regarding the names and addresses of the Persons entitled to such sums.

The Company may at any time pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent and, if so stated in a Company Order delivered to the Trustee, in accordance with the provisions of Article Seven; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of and premium, if any, or interest, if any, on any Security and remaining unclaimed for two years after such principal and premium, if any, or interest has become due and payable shall be paid to the Company on Company Request, or, if then held by the Company, shall be discharged from such trust; and, upon such payment or discharge, the Holder of such Security shall, as an unsecured general creditor and not as a Holder of an Outstanding Security, look only to the Company for payment of the amount so due and payable and remaining unpaid, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such payment to the Company, may at the expense of the Company cause to be mailed, on one occasion only, notice to such Holder that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such mailing, any unclaimed balance of such money then remaining will be paid to the Company.

SECTION 604. Corporate Existence.

Subject to the rights of the Company under Article Eleven, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

SECTION 605. Maintenance of Properties.

The Company shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) all its properties used or useful in the conduct of its business to be maintained and kept in good condition, repair and working order and shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Company, may be necessary so that the business carried on in connection therewith may be properly conducted; provided, however, that nothing in this Section shall prevent the Company from discontinuing, or causing the discontinuance of, the operation and maintenance of any of its properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business.

SECTION 606. Annual Officer's Certificate as to Compliance.

Not later than September 15 in each year, commencing September 15, 1996, the Company shall deliver to the Trustee an Officer's Certificate which need not comply with Section 102, executed by the principal executive officer, the principal financial officer or the principal accounting officer of the Company, as to such officer's knowledge of the Company's compliance with all conditions and covenants under this Indenture, such compliance to be determined without regard to any period of grace or requirement of notice under this Indenture.

SECTION 607. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in (a) Section 602 or any additional covenant or restriction specified with respect to the Securities of any series, as contemplated by Section 301, if before the time for such compliance the Holders of at least a majority in aggregate principal amount of the Outstanding Securities of all series with respect to which compliance with Section 602 or such additional covenant or restriction is to be omitted, considered as one class, shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition and (b) Section 604, 605 or Article Eleven if before the time for such compliance the Holders of at least a majority in principal amount of Securities Outstanding under this Indenture shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition; but, in the case of (a) or (b), no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

ARTICLE SEVEN

Satisfaction and Discharge

SECTION 701. Defeasance.

Any Security or Securities, or any portion of the principal amount thereof, shall be deemed to have been paid for all purposes of this Indenture, and the entire indebtedness of the Company in respect thereof shall be deemed to have been satisfied and discharged, if there shall have been irrevocably deposited with the Trustee or any Paying Agent (other than the Company), in trust:

(a) money in an amount which shall be sufficient, or

(b) in the case of a deposit made prior to the Maturity of such Securities or portions thereof, Government Obligations, which shall not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, the principal of and the interest on which when due, without any regard to reinvestment thereof, will provide moneys which, together with the money, if any, deposited with or held by the Trustee or such Paying Agent, shall be sufficient, or

(c) a combination of (a) or (b) which shall be sufficient,

to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof on or prior to Maturity; provided, however, that in the case of the provision for payment or redemption of less than all the Securities of any series, such Securities or portions thereof shall have been selected by the Trustee as provided herein and, in the case of a redemption, the notice requisite to the validity of such redemption shall have been given or irrevocable authority shall have been given by the Company to the Trustee to give such notice, under arrangements satisfactory to the Trustee; and provided, further, that the Company shall have delivered to the Trustee and such Paying Agent:

(x) if such deposit shall have been made prior to the Maturity of such Securities, a Company Order stating that the money and Government Obligations deposited in accordance with this Section shall be held in trust, as provided in Section 703; and

(y) if Government Obligations shall have been deposited, an Opinion of Counsel that the obligations so deposited constitute Government Obligations and do not contain provisions permitting the redemption or other prepayment at the option of the issuer thereof, and an opinion of an independent public accountant of nationally recognized standing, selected by the Company, to the effect that the requirements set forth in clause (b) above have been satisfied; and

(z) if such deposit shall have been made prior to the Maturity of such Securities, an Officer's Certificate stating the Company's intention that, upon delivery of such Officer's Certificate, its indebtedness in respect of such Securities or portions thereof will have been satisfied and discharged as contemplated in this Section.

Upon the deposit of money or Government Obligations, or both, in accordance with this Section, together with the documents required by clauses (x), (y) and (z) above, the Trustee shall, upon receipt of a Company Request, acknowledge in writing that the Security or Securities or portions thereof with respect to which such deposit was made are deemed to have been paid for all purposes of this Indenture and that the entire indebtedness of the Company in respect thereof has been satisfied and discharged as contemplated in this Section. In the event that all of the conditions set forth in the preceding paragraph shall have been satisfied in respect of any Securities or portions thereof except that, for any reason, the Officer's Certificate specified in clause (z) shall not have been delivered, such Securities or portions thereof shall nevertheless be deemed to have been paid for all purposes of this Indenture, and the Holders of such Securities or portions thereof shall nevertheless be no longer entitled to the benefits of this Indenture or of any of the covenants of the Company under Article Six (except the covenants contained in Sections 602 and 603) or any other covenants made in respect of such Securities or portions thereof as contemplated by Section 301, but the indebtedness of the Company in respect of such Securities or portions thereof shall not be deemed to have been satisfied and discharged prior to Maturity for any other purpose, and the Holders of such Securities or portions thereof shall continue to be entitled to look to the Company for payment of the indebtedness represented thereby; and, upon Company Request, the Trustee shall acknowledge in writing that such Securities or portions thereof are deemed to have been paid for all purposes of this Indenture.

If payment at Stated Maturity of less than all of the Securities of any series is to be provided for in the manner and with the effect provided in this Section, the Security Registrar shall select such Securities, or portions of principal amount thereof, in the manner specified by Section 403 for selection for redemption of less than all the Securities of a series.

In the event that Securities which shall be deemed to have been paid for purposes of this Indenture, and, if such is the case, in respect of which the Company's indebtedness shall have been satisfied and discharged, all as provided in this Section do not mature and are not to be redeemed within the 60 day period commencing with the date of the deposit of moneys or Government Obligations, as aforesaid, the Company shall, as promptly as practicable, give a notice, in the same manner as a notice of redemption with respect to such Securities, to the Holders of such Securities to the effect that such deposit has been made and the effect thereof.

Notwithstanding that any Securities shall be deemed to have been paid for purposes of this Indenture, as aforesaid, the obligations of the Company and the Trustee in respect of such Securities under Sections 304, 305, 306, 404, 503 (as to notice of redemption), 602, 603, 907 and 915 and this Article Seven shall survive.

The Company shall pay, and shall indemnify the Trustee or any Paying Agent with which Government Obligations shall have been deposited as provided in this Section against, any tax, fee or other charge imposed on or assessed against such Government Obligations or the principal or interest received in respect of such Government Obligations, including, but not limited to, any such tax payable by any entity deemed, for tax purposes, to have been created as a result of such deposit.

Anything herein to the contrary notwithstanding, (a) if, at any time after a Security would be deemed to have been paid for purposes of this Indenture, and, if such is the case, the Company's indebtedness in respect thereof would be deemed to have been satisfied or discharged, pursuant to this Section (without regard to the provisions of this paragraph), the Trustee or any Paying Agent, as the case may be, shall be required to return the money or Government Obligations, or combination thereof, deposited with it as aforesaid to the Company or its representative under any applicable Federal or State bankruptcy, insolvency or other similar law, such Security shall thereupon be deemed retroactively not to have been paid and any satisfaction and discharge of the Company's indebtedness in respect thereof shall retroactively be deemed not to have been effected, and such Security shall be deemed to remain Outstanding and (b) any satisfaction and discharge of the Company's indebtedness in respect of any Security shall be subject to the provisions of the last paragraph of Section 603.

SECTION 702. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as hereinafter expressly provided), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(a) no Securities remain Outstanding hereunder; and

(b) the Company has paid or caused to be paid all other sums payable hereunder by the Company;

provided, however, that if, in accordance with the last paragraph of Section 701, any Security, previously deemed to have been paid for purposes of this Indenture, shall be deemed retroactively not to have been so paid, this Indenture shall thereupon be deemed retroactively not to have been satisfied and discharged, as aforesaid, and to remain in full force and effect, and the Company shall execute and deliver such instruments as the Trustee shall reasonably request to evidence and acknowledge the same.

Notwithstanding the satisfaction and discharge of this Indenture as aforesaid, the obligations of the Company and the Trustee under Sections 304, 305, 306, 404, 503 (as to notice of redemption), 602, 603, 907 and 915 and this Article Seven shall survive.

Upon satisfaction and discharge of this Indenture as provided in this Section, the Trustee shall assign, transfer and turn over to the Company, subject to the lien provided by Section 907, any and all money, securities and other property then held

by the Trustee for the benefit of the Holders of the Securities other than money and Government Obligations held by the Trustee pursuant to Section 703.

SECTION 703. Application of Trust Money.

Neither the Government Obligations nor the money deposited pursuant to Section 701, nor the principal or interest payments on any such Government Obligations, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest, if any, on the Securities or portions of principal amount thereof in respect of which such deposit was made, all subject, however, to the provisions of Section 603; provided, however, that, so long as there shall not have occurred and be continuing an Event of Default any cash received from such principal or interest payments on such Government Obligations, if not then needed for such purpose, shall, to the extent practicable, be invested in Government Obligations of the type described in clause (b) in the first paragraph of Section 701 maturing at such times and in such amounts as shall be sufficient to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof on and prior to the Maturity thereof, and interest earned from such reinvestment shall be paid over to the Company as received, free and clear of any trust, lien or pledge under this Indenture except the lien provided by Section 907; and provided, further, that, so long as there shall not have occurred and be continuing an Event of Default, any moneys held in accordance with this Section on the Maturity of all such Securities in excess of the amount required to pay the principal of and premium, if any, and interest, if any, then due on such Securities shall be paid over to the Company free and clear of any trust, lien or pledge under this Indenture except the lien provided by Section 907; and provided, further, that if an Event of Default shall have occurred and be continuing, moneys to be paid over to the Company pursuant to this Section shall be held until such Event of Default shall have been waived or cured.

ARTICLE EIGHT

Events of Default; Remedies

SECTION 801. Events of Default.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events:

(a) failure to pay interest, if any, on any Security of such series within 30 days after the same becomes due and payable; or

(b) failure to pay the principal of or premium, if any, on any Security of such series when due and payable whether at Maturity, upon redemption or otherwise; or

(c) failure to perform or breach of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in the

performance of which or breach of which is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of one or more series of Securities other than such series) for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of such series, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder, unless the Trustee, or the Trustee and the Holders of a principal amount of Securities of such series not less than the principal amount of Securities the Holders of which gave such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee, or the Trustee and the Holders of such principal amount of Securities of such series, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Company within such period and is being diligently pursued; or

(d) the entry by a court having jurisdiction in the premises of (1) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (2) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition by one or more Persons other than the Company seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for the Company or for any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief or any such other decree or order shall have remained unstayed and in effect for a period of 90 consecutive days; or

(e) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the authorization of such action by the Board of Directors; or

(f) any other Event of Default specified with respect to Securities of such series.

SECTION 802. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default due to the default in payment of principal of, or interest on, any series of Securities or due to the default in the performance or breach of any other covenant or warranty of the Company applicable to the Securities of such series shall have occurred and be continuing, either the Trustee or the Holders of not less than 25% in principal amount of the Securities of such series may then declare the principal of all Securities of such series and interest accrued thereon to be due and payable immediately. If an Event of Default specified in Section 801(d) or (e) shall have occurred and be continuing, the principal of all Securities then Outstanding and interest accrued thereon shall become due and payable immediately.

At any time after such a declaration of acceleration with respect to Securities of any series shall have been made and before a judgment or decree for payment of the money due shall have been obtained by the Trustee as hereinafter in this Article provided, the Event or Events of Default giving rise to such declaration of acceleration may be waived by the Holders of a majority in aggregate principal amount of the Securities of such series then Outstanding, and such declaration and its consequences shall, without further act, be deemed to have been rescinded and annulled, if

(a) the Company shall have paid or deposited with the Trustee a sum sufficient to pay

(1) all overdue interest on all Securities of such series;

(2) the principal of and premium, if any, on any Securities of such series which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Securities;

(3) to the extent that payment of such interest is lawful, interest upon overdue interest, if any, at the rate or rates prescribed therefor in such Securities;

(4) all amounts due to the Trustee under Section 907;

and

(b) any other Event or Events of Default with respect to Securities of such series, other than the nonpayment of the principal of Securities of such series which shall have become due solely by such declaration of acceleration, shall have been cured or waived as provided in Section 813.

No such rescission shall affect any subsequent Event of Default or impair any right consequent thereon.

SECTION 803. Collection of Indebtedness and Suits for Enforcement by Trustee.

If an Event of Default described in clause (a) or (b) of Section 801 shall have occurred and be continuing, the Company shall, upon demand of the Trustee, pay to it, for the benefit of the Holders of the Securities of the series with respect to which such Event of Default shall have occurred, the whole amount then due and payable on such Securities for principal and premium, if any, and interest, if any, and, to the extent permitted by law, interest on premium, if any, and on any overdue principal and interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 907.

If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default with respect to Securities of any series shall have occurred and be continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 804. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of principal, premium, if any, and interest, if any, owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for amounts due to the Trustee under Section 907) and of the Holders allowed in such judicial proceeding, and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amounts due it under Section 907.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 805. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders in respect of which such judgment has been recovered.

SECTION 806. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or premium, if any, or interest, if any, upon presentation of the Securities in respect of which or for the benefit of which such money shall have been collected and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under Section 907;

Second: To the payment of the amounts then due and unpaid upon the Securities for principal of and premium, if any, and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal, premium, if any, and interest, if any, respectively; and

Third: To the payment of the remainder, if any, to the Company or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

SECTION 807. Limitation on Suits.

No Holder shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder shall have previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of such series;

(b) the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of such series in respect of which an Event of Default shall have occurred and be continuing shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) such Holder or Holders shall have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceeding; and

(e) no direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series in respect of which an Event of Default shall have occurred and be continuing, considered as one class;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

SECTION 808. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and premium, if any, and (subject to Section 307) interest, if any, on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 809. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, and Trustee and such Holder shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and such Holder shall continue as though no such proceeding had been instituted.

SECTION 810. Rights and Remedies Cumulative.

Except as otherwise provided in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 811. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 812. Control by Holders of Securities.

If an Event of Default shall have occurred and be continuing in respect of a series of Securities, the Holders of a majority in aggregate principal amount of the Outstanding Securities of such series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series; provided, however, that if an Event of Default shall have occurred and be continuing with respect to more than one series of Securities, the Holders of a majority in aggregate principal amount of the Outstanding Securities of all such series, considered as one class, shall have the right to make such direction, and not the Holders of the Securities of any one of such series; and provided, further, that such direction shall not be in conflict with any rule of law or with this Indenture. Before proceeding to exercise any right or power hereunder at the direction of such Holders, the Trustee shall be entitled to receive from such Holders reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with any such direction.

SECTION 813. Waiver of Past Defaults.

The Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

(a) in the payment of the principal of or premium, if any, or interest, if any, on any Security of such series, or

(b) in respect of a covenant or provision hereof which under Section 1202 cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any and all Events of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 814. Undertaking for Costs.

The Company and the Trustee agree, and each Holder by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in aggregate principal amount of the Outstanding Securities of all series in respect of which such suit may be brought, considered as one class, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or premium, if any, or interest, if any, on any Security on or after the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date).

SECTION 815. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE NINE

The Trustee

SECTION 901. Certain Duties and Responsibilities.

(a) Upon receipt of a notice from the Company that this Indenture is subject to the Trust Indenture Act, the Trustee shall have and be subject to all the duties and responsibilities specified with respect to an indenture trustee in the Trust Indenture Act. Prior to receipt of any such notice, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. No implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(c) Notwithstanding anything contained in this Indenture to the contrary and whether or not this Indenture is qualified under the Trust Indenture Act, the duties and responsibilities of the Trustee under this Indenture shall be subject to the protections, exculpations and limitations on liability afforded to a trustee under the provisions of the Trust Indenture Act.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 902. Notice of Defaults.

The Trustee shall give notice of any default hereunder with respect to the Securities of any series to the Holders of Securities of such series in the manner and to the extent required to do so by the Trust Indenture Act, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 801(c), no such notice to Holders shall be given until at least 45 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time, or both, would become, an Event of Default.

SECTION 903. Certain Rights of Trustee.

Subject to the provisions of Section 901 and to the applicable provisions of the Trust Indenture Act:

(a) the Trustee may rely and shall be protected in acting or refraining from acting in good faith upon any resolution, certificate, statement, instrument,

opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, or as otherwise expressly provided herein, and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;

(d) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any Holder pursuant to this Indenture, unless such Holder shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall (subject to applicable legal requirements) be entitled to examine, during normal business hours, the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(h) the Trustee shall not be charged with knowledge of any default or Event of Default, as the case may be, with respect to the Securities of any series for which it is acting as Trustee unless either (1) a Responsible Officer of the Trustee shall have actual knowledge of the default or Event of Default, as the case may be, or (2) written notice of such default or Event of Default, as the case may

be, shall have been given to the Trustee by the Company, any other obligor on such Securities or by any Holder of such Securities.

SECTION 904. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities (except the Trustee's certificates of authentication) shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 905. May Hold Securities.

Each of the Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 908 and 913, may otherwise deal with the Company with the same rights it would have if it were not the Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 906. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds, except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as expressly provided herein or otherwise agreed with, and for the sole benefit of, the Company.

SECTION 907. Compensation and Reimbursement.

The Company shall

(a) pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except to the extent that any such expense, disbursement or advance may be attributable to the Trustee's negligence, wilful misconduct or bad faith; and

(c) indemnify the Trustee for, and hold it harmless from and against, any loss, liability or expense reasonably incurred by it arising out of or in connection with the acceptance or administration of the trust or trusts hereunder or the performance of its duties hereunder, including the reasonable costs and expenses of

defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense may be attributable to its negligence, wilful misconduct, bad faith or breach of its obligations under this Indenture.

As security for the performance of the obligations of the Company under this Section, the Trustee shall have a lien prior to the Securities upon all property and funds held or collected by the Trustee as such other than property and funds held in trust under Section 703 (except as otherwise provided in Section 703). "Trustee" for purposes of this Section shall include any predecessor Trustee; provided, however, that the negligence, wilful misconduct or bad faith of any Trustee hereunder shall not affect the rights of any other Trustee hereunder.

In addition to the rights provided to the Trustee pursuant to the provisions of the immediately preceding paragraph of this Section 907, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 801(d) or Section 801(e), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

SECTION 908. Disqualification; Conflicting Interests.

If the Trustee shall have or acquire any conflicting interest within the meaning of the Trust Indenture Act, it shall either eliminate such conflicting interest or resign to the extent, in the manner and with the effect, and subject to the conditions, provided in the Trust Indenture Act and this Indenture. For purposes of Section 310(b)(1) of the Trust Indenture Act and to the extent permitted thereby, the Trustee, in its capacity as trustee in respect of the Securities of any series, shall not be deemed to have a conflicting interest arising from its capacity as trustee in respect of the Securities of any other series.

SECTION 909. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be

(a) a corporation organized and doing business under the laws of the United States, any State or Territory thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $50,000,000 and subject to supervision or examination by Federal or State authority, or

(b) if and to the extent permitted by the Commission by rule, regulation or order upon application, a corporation or other Person organized and doing business under the laws of a foreign government, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $50,000,000 or the Dollar equivalent of the applicable foreign currency and subject to supervision or examination by authority of such foreign government or a

political subdivision thereof substantially equivalent to supervision or examination applicable to United States institutional trustees,

and, in either case, qualified and eligible under this Article and the Trust Indenture Act. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 910. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 911.

(b) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 911 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(c) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Trustee and to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with Section 908 after written request therefor by the Company or by any Holder who has been a bona fide Holder for at least six months, or

(2) the Trustee shall cease to be eligible under Section 909 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (x) the Company by a Board Resolution may remove the Trustee with respect to all Securities or (y) subject to Section 814, any Holder who has been a

bona fide Holder for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause (other than as contemplated in clause (y) in subsection (d) of this Section), with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 911. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 911, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 911, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(f) So long as no event which is, or after notice or lapse of time, or both, would become, an Event of Default shall have occurred and be continuing, and except with respect to a Trustee appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities pursuant to subsection (e) of this Section, if the Company shall have delivered to the Trustee (i) a Board Resolution appointing a successor Trustee, effective as of a date specified therein, and (ii) an instrument of acceptance of such appointment, effective as of such date, by such successor Trustee in accordance with Section 911, the Trustee shall be deemed to have resigned as contemplated in subsection (b) of this Section, the successor Trustee shall be deemed to have been appointed by the Company pursuant to subsection (e) of this Section and such appointment shall be deemed to have been accepted as contemplated in Section 911, all as of such date, and all other provisions of this Section and Section 911 shall be applicable to such resignation, appointment and acceptance except to the extent inconsistent with this subsection (f).

(g) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series by mailing written

notice of such event by first-class mail, postage prepaid, to all Holders of Securities of such series as their names and addresses appear in the Security Register. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its corporate trust office.

SECTION 911. Acceptance of Appointment by Successor.

(a) In case of the appointment hereunder of a successor Trustee with respect to the Securities of all series, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of all sums owed to it, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee, upon payment of all sums owed to it, shall duly assign, transfer and deliver to such successor Trustee

all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

(c) Upon request of any such successor Trustee, the Company shall execute any instruments which fully vest in and confirm to such successor Trustee all such rights, powers and trusts referred to in subsection (a) or (b) of this Section, as the case may be.

(d) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 912. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 913. Preferential Collection of Claims Against Company.

If the Trustee shall be or become a creditor of the Company or any other obligor upon the Securities (other than by reason of a relationship described in Section 311(b) of the Trust Indenture Act), the Trustee shall be subject to any and all applicable provisions of the Trust Indenture Act regarding the collection of claims against the Company or such other obligor. For purposes of Section 311(b) of the Trust Indenture Act:

(a) the term "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand;

(b) the term "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or

merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

SECTION 914. Co-trustees and Separate Trustees.

At any time or times, for the purpose of meeting the legal requirements of any applicable jurisdiction, the Company and the Trustee shall have power to appoint, and, upon the written request of the Trustee or of the Holders of at least 33% in principal amount of the Securities then Outstanding, the Company shall for such purpose join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Trustee either to act as co-trustee, jointly with the Trustee, or to act as separate trustee, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons, in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Company does not join in such appointment within 15 days after the receipt by it of a request so to do, or if an Event of Default shall have occurred and be continuing, the Trustee alone shall have power to make such appointment.

Should any written instrument or instruments from the Company be required by any co-trustee or separate trustee so appointed to more fully confirm to such co-trustee or separate trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Company.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following conditions:

(a) the Securities shall be authenticated and delivered, and all rights, powers, duties and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustee hereunder, shall be exercised solely, by the Trustee;

(b) the rights, powers, duties and obligations hereby conferred or imposed upon the Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed either by the Trustee or by the Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee;

(c) the Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Company, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section, and, if an Event of Default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Company. Upon the written request of the Trustee, the Company shall join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section;

(d) no co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Trustee, or any other such trustee hereunder; and

(e) any Act of Holders delivered to the Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

SECTION 915. Appointment of Authenticating Agent.

The Trustee may appoint an Authenticating Agent or Agents with respect to the Securities of one or more series, which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon original issuance and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States, any State or territory thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any

merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section, and the Trustee shall be entitled to be reimbursed for such payments, in accordance with, and subject to the provisions of Section 907.

The provisions of Sections 308, 904 and 905 shall be applicable to each Authenticating Agent.

If an appointment with respect to the Securities of one or more series shall be made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication substantially in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

As Trustee

By

As Authenticating
Agent

By

Authorized Signatory

If all of the Securities of a series may not be originally issued at one time, and if the Trustee does not have an office capable of authenticating Securities upon original

issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested by the Company in writing (which writing need not comply with Section 102 and need not be accompanied by an Opinion of Counsel), shall appoint, in accordance with this Section and in accordance with such procedures as shall be acceptable to the Trustee, an Authenticating Agent having an office in a Place of Payment designated by the Company with respect to such series of Securities.

ARTICLE TEN

Holders' Lists and Reports by Trustee and Company

SECTION 1001. Lists of Holders.

Semiannually, not later than June 1 and December 1 in each year, commencing June 1, 1996, and at such other times as the Trustee may request in writing, the Company shall furnish or cause to be furnished to the Trustee information as to the names and addresses of the Holders, and the Trustee shall preserve such information and similar information received by it in any other capacity and afford to the Holders access to information so preserved by it, all to such extent, if any, and in such manner as shall be required by the Trust Indenture Act; provided, however, that no such list need be furnished so long as the Trustee shall be the Security Registrar.

SECTION 1002. Reports by Trustee and Company.

Not later than November 1 in each year, commencing November 1, 1996, the Trustee shall transmit to the Holders and the Commission a report, dated as of the next preceding September 1, with respect to any events and other matters described in Section 313(a) of the Trust Indenture Act, in such manner and to the extent, if any, required by the Trust Indenture Act. The Trustee shall transmit to the Holders and the Commission, and the Company shall file with the Trustee (within 30 days after filing with the Commission in the case of reports which pursuant to the Trust Indenture Act must be filed with the Commission and furnished to the Trustee) and transmit to the Holders, such other information, reports and other documents, if any, at such times and in such manner, as shall be required by the Trust Indenture Act.

ARTICLE ELEVEN

Consolidation, Merger, Conveyance or Other Transfer

SECTION 1101. Company May Consolidate, etc., Only on Certain Terms.

The Company shall not consolidate with or merge into any other corporation, or convey or otherwise transfer or lease its properties and assets substantially as an entirety to any Person, unless

(a) the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a Person organized and validly existing under the laws of the United States, any State thereof or the District of Columbia, and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and premium, if any, and interest, if any, on all Outstanding Securities and the performance of every covenant of this Indenture on the part of the Company to be performed or observed;

(b) immediately after giving effect to such transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(c) the Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, or other transfer or lease and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transactions have been complied with.

SECTION 1102. Successor Corporation Substituted.

Upon any consolidation by the Company with or merger by the Company into any other corporation or any conveyance, or other transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 1101, the successor corporation formed by such consolidation or into which the Company is merged or the Person to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities Outstanding hereunder.

ARTICLE TWELVE

Supplemental Indentures

SECTION 1201. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(a) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities, all as provided in Article Eleven; or

(b) to add one or more covenants of the Company or other provisions for the benefit of all Holders or for the benefit of the Holders of, or to remain in effect only so long as there shall be Outstanding, Securities of one or more specified series, or to surrender any right or power herein conferred upon the Company; or

(c) to add any additional Events of Default with respect to all or any series of Securities Outstanding hereunder; or

(d) to change or eliminate any provision of this Indenture or to add any new provision to this Indenture; provided, however, that if such change, elimination or addition shall adversely affect the interests of the Holders of Securities of any series (other than any series the terms of which permit such change, elimination or addition) Outstanding on the date of such indenture supplemental hereto in any material respect, such change, elimination or addition shall become effective with respect to such series only pursuant to the provisions of Section 1202 hereof or when no Security of such series remains Outstanding; or

(e) to provide collateral security for all but not part of the Securities; or

(f) to establish the form or terms of Securities of any series as contemplated by Sections 201 and 301; or

(g) to provide for the authentication and delivery of bearer securities and coupons appertaining thereto representing interest, if any, thereon and for the procedures for the registration, exchange and replacement thereof and for the giving of notice to, and the solicitation of the vote or consent of, the holders thereof, and for any and all other matters incidental thereto; or

(h) to evidence and provide for the acceptance of appointment hereunder by a separate or successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be

necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 911(b); or

(i) to provide for the procedures required to permit the Company to utilize, at its option, a noncertificated system of registration for all, or any series of, the Securities; or

(j) to change any place or places where (1) the principal of and premium, if any, and interest, if any, on all or any series of Securities shall be payable, (2) all or any series of Securities may be surrendered for registration of transfer, (3) all or any series of Securities may be surrendered for exchange and (4) notices and demands to or upon the Company in respect of all or any series of Securities and this Indenture may be served; or

(k) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other changes to the provisions hereof or to add other provisions with respect to matters or questions arising under this Indenture, provided that such other changes or additions shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

Without limiting the generality of the foregoing, if the Trust Indenture Act as in effect at the date of the execution and delivery of this Indenture or at any time thereafter shall be amended and

(x) if any such amendment shall require one or more changes to any provisions hereof or the inclusion herein of any additional provisions, or shall by operation of law be deemed to effect such changes or incorporate such provisions by reference or otherwise, this Indenture shall be deemed to have been amended so as to conform to such amendment to the Trust Indenture Act, and the Company and the Trustee may, without the consent of any Holders, enter into an indenture supplemental hereto to effect or evidence such changes or additional provisions; or

(y) if any such amendment shall permit one or more changes to, or the elimination of, any provisions hereof which, at the date of the execution and delivery hereof or at any time thereafter, are required by the Trust Indenture Act to be contained herein, this Indenture shall be deemed to have been amended to effect such changes or elimination, and the Company and the Trustee may, without the consent of any Holders, enter into an indenture supplemental hereto to evidence such amendment hereof.

SECTION 1202. Supplemental Indentures With Consent of Holders.

With the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under this Indenture,

considered as one class, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or modifying in any manner the rights of the Holders of Securities of such series under the Indenture; provided, however, that if there shall be Securities of more than one series Outstanding hereunder and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and provided, further, that no such supplemental indenture shall:

(a) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon (or the amount of any installment of interest thereon) or change the method of calculating such rate or reduce any premium payable upon the redemption thereof, or change the coin or currency (or other property), in which any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity of any Security (or, in the case of redemption, on or after the Redemption Date), without, in any such case, the consent of the Holder of such Security, or

(b) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with any provision of this Indenture or of any default hereunder and its consequences, or reduce the requirements of Section 1304 for quorum or voting, without, in any such case, the consent of the Holders of each Outstanding Security of such series, or

(c) modify any of the provisions of this Section, Section 607 or Section 813 with respect to the Securities of any series, except to increase the percentages in principal amount referred to in this Section or such other Sections or to provide that other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section, or the deletion of this proviso, in accordance with the requirements of Sections 911(b) and 1201(h).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof. A waiver by a Holder of such Holder's right to consent under this Section shall be deemed to be a consent of such Holder.

SECTION 1203. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 901) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties, immunities or liabilities under this Indenture or otherwise.

SECTION 1204. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby. Any supplemental indenture permitted by this Article may restate this Indenture in its entirety, and, upon the execution and delivery thereof, any such restatement shall supersede this Indenture as theretofore in effect for all purposes.

SECTION 1205. Conformity With Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 1206. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

SECTION 1207. Modification Without Supplemental Indenture.

If the terms of any particular series of Securities shall have been established in a Board Resolution or an Officer's Certificate as contemplated by Section 301, and not in an indenture supplemental hereto, additions to, changes in or the elimination of any of such terms may be effected by means of a supplemental Board Resolution or Officer's Certificate, as the case may be, delivered to, and accepted by, the Trustee; provided, however, that such supplemental Board Resolution or Officer's Certificate shall not be accepted by the Trustee or otherwise be effective unless all conditions set forth in this Indenture which would be required to be satisfied if such additions, changes or elimination were contained in a supplemental indenture shall have been appropriately satisfied. Upon the acceptance thereof by the Trustee, any such supplemental Board Resolution or Officer's Certificate shall be deemed to be a "supplemental indenture" for purposes of Section 1204 and 1206.

ARTICLE THIRTEEN

Meetings of Holders; Action Without Meeting

SECTION 1301. Purposes for Which Meetings May Be Called.

A meeting of Holders of Securities of one or more, or all, series may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series.

SECTION 1302. Call, Notice and Place of Meetings.

(a) The Trustee may at any time call a meeting of Holders of Securities of one or more, or all, series for any purpose specified in Section 1301, to be held at such time and at such place in the Borough of Manhattan, The City of New York, as the Trustee shall determine, or, with the approval of the Company, at any other place. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 106, not less than 21 nor more than 180 days prior to the date fixed for the meeting.

(b) If the Trustee shall have been requested to call a meeting of the Holders of Securities of one or more, or all, series by the Company or by the Holders of 33% in aggregate principal amount of all of such series, considered as one class, for any purpose specified in Section 1301, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have given the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series in

the amount above specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York, or in such other place as shall be determined or approved by the Company, for such meeting and may call such meeting for such purposes by giving notice thereof as provided in subsection (a) of this Section.

(c) Any meeting of Holders of Securities of one or more, or all, series shall be valid without notice if the Holders of all Outstanding Securities of such series are present in person or by proxy and if representatives of the Company and the Trustee are present, or if notice is waived in writing before or after the meeting by the Holders of all Outstanding Securities of such series, or by such of them as are not present at the meeting in person or by proxy, and by the Company and the Trustee.

SECTION 1303. Persons Entitled to Vote at Meetings.

To be entitled to vote at any meeting of Holders of Securities of one or more, or all, series a Person shall be (a) a Holder of one or more Outstanding Securities of such series, or (b) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series by such Holder or Holders. The only Persons who shall be entitled to attend any meeting of Holders of Securities of any series shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 1304. Quorum; Action.

The Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of the series with respect to which a meeting shall have been called as hereinbefore provided, considered as one class, shall constitute a quorum for a meeting of Holders of Securities of such series; provided, however, that if any action is to be taken at such meeting which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series, considered as one class, the Persons entitled to vote such specified percentage in principal amount of the Outstanding Securities of such series, considered as one class, shall constitute a quorum. In the absence of a quorum within one hour of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series, be dissolved. In any other case the meeting may be adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Except as provided by Section 1305(e), notice of the reconvening of any meeting adjourned for more than 30 days shall be given as provided in Section 1302(a) not less than 10 days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as

provided above, of the principal amount of the Outstanding Securities of such series which shall constitute a quorum.

Except as limited by Section 1202, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in aggregate principal amount of the Outstanding Securities of the series with respect to which such meeting shall have been called, considered as one class; provided, however, that, except as so limited, any resolution with respect to any action which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series, considered as one class, may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of such series, considered as one class.

Any resolution passed or decision taken at any meeting of Holders of Securities duly held in accordance with this Section shall be binding on all the Holders of Securities of the series with respect to which such meeting shall have been held, whether or not present or represented at the meeting.

SECTION 1305. Attendance at Meetings; Determination of Voting Rights; Conduct and Adjournment of Meetings.

(a) Attendance at meetings of Holders of Securities may be in person or by proxy; and, to the extent permitted by law, any such proxy shall remain in effect and be binding upon any future Holder of the Securities with respect to which it was given unless and until specifically revoked by the Holder or future Holder of such Securities before being voted.

(b) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities in regard to proof of the holding of such Securities and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 104 and the appointment of any proxy shall be proved in the manner specified in Section 104. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 104 or other proof.

(c) The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 1302(b), in which case the Company or the Holders of Securities of the series calling the meeting, as the case

may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series represented at the meeting, considered as one class.

(d) At any meeting each Holder or proxy shall be entitled to one vote for each $1 principal amount of Securities held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security or proxy.

(e) Any meeting duly called pursuant to Section 1302 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series represented at the meeting, considered as one class; and the meeting may be held as so adjourned without further notice.

SECTION 1306. Counting Votes and Recording Action of Meetings.

The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities, of the series with respect to which the meeting shall have been called, held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports of all votes cast at the meeting. A record of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 1302 and, if applicable, Section 1304. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

SECTION 1307. Action Without Meeting.

In lieu of a vote of Holders at a meeting as hereinbefore contemplated in this Article, any request, demand, authorization, direction, notice, consent, waiver or other action may be made, given or taken by Holders by written instruments as provided in Section 104.

ARTICLE FOURTEEN

Immunity of Incorporators, Stockholders, Officers and Directors

SECTION 1401. Liability Solely Corporate.

No recourse shall be had for the payment of the principal of or premium, if any, or interest, if any, on any Securities, or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under this Indenture, against any incorporator, stockholder, officer or director, as such, past, present or future of the Company or of any predecessor or successor corporation (either directly or through the Company or a predecessor or successor corporation), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that this Indenture and all the Securities are solely corporate obligations, and that no personal liability whatsoever shall attach to, or be incurred by, any incorporator, stockholder, officer or director, past, present or future, of the Company or of any predecessor or successor corporation, either directly or indirectly through the Company or any predecessor or successor corporation, because of the indebtedness hereby authorized or under or by reason of any of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or to be implied herefrom or therefrom, and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of this Indenture and the issuance of the Securities.

ARTICLE FIFTEEN

Securities of the First Series

SECTION 1501. Designation of Securities of the First Series.

There is hereby created a series of Securities designated "7.70% Senior Notes, Series A, Due 2006" (herein sometimes referred to as "Securities of the First Series") and limited in aggregate principal amount (except as contemplated in Section 201(b) hereof) to Ninety Million Dollars ($90,000,000). The form and terms of the Securities of the First Series shall be established in an Officer's Certificate.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the day and year first above written.

ADESA Corporation

By: Jerry Williams

Jerry Williams, Esq.
Executive Vice President
and General Counsel

THE BANK OF NEW YORK, Trustee

By: Helen M. Cotiaux

Helen M. Cotiaux
Vice President

STATE OF INDIANA)
) ss.:
COUNTY OF MARION)

On the 29 day of May, 1996, before me personally came Jerry Williams, Esq., to me known, who, being by me duly sworn, did depose and say that he is an Executive Vice President and General Counsel of ADESA Corporation, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

illegible

Notary Public, State of Indiana
Marion County
My Comm. Expires 11/08/98

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 30 day of May, 1996, before me personally came Helen M. Cotiaux, to me known, who, being by me duly sworn, did depose and say that (s)he is a Vice President of The Bank of New York, one of the corporations described in and which executed the foregoing instrument; that she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that she signed her name thereto by like authority.

Susan Fields

Notary Public, State of New York
No. 31-4980055
Qualified in New York County
Commission Expires April 8, 1997

Exhibit 4(l)

GUARANTEE
OF
MINNESOTA POWER & LIGHT COMPANY

For value received, Minnesota Power & Light Company, a corporation duly organized and existing under the laws of the State of Minnesota (herein called the "Guarantor"), hereby fully and unconditionally guarantees to the Trustee under the Indenture, dated as of May 15, 1996, between ADESA Corporation (the "Company") and The Bank of New York, as Trustee (together with any amendments thereto, the "Indenture"), the payment of the obligations of the Company under the Securities of the First Series and the Indenture relating to such series, including, without limitation, the due and punctual payment of the principal of and premium, if any, and interest on the Securities of the First Series when and as the same shall become due and payable, whether at maturity or upon redemption or upon declaration or otherwise, according to the terms thereof and of the Indenture. In case of the failure of the Company punctually to pay any such principal, premium, if any, or interest, the Guarantor hereby agrees to cause any such payment to be made punctually when and as the same shall become due and payable, whether at maturity or upon redemption or upon declaration or otherwise, and as if such payment were made by the Company. The Guarantor hereby agrees that its obligations hereunder shall be full and unconditional, irrespective of the validity, legality or enforceability of the Securities of the First Series or the Indenture, the absence of any action to enforce the same, the waiver or consent by the Holder of the Securities of the First Series or by the Trustee with respect to any provisions thereof or of said Indenture, the recovery of any judgment against the Company or any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor. The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Company, any right to require a proceeding first against the Company, protest or notice with respect to the Securities of the First Series or the indebtedness evidenced thereby, and all demands whatsoever, and covenants that this Guarantee will not be discharged except by complete performance of the obligations contained in the Securities of the First Series and in this Guarantee.

The Guarantor hereby guarantees that the obligations of the Company under the Securities of the First Series and the Indenture to the extent related to such series will be paid to the Trustee without set-off or counterclaim or other reduction whatsoever (whether for taxes, withholding or otherwise) in lawful currency of the United States of America.

The obligations of the Guarantor hereunder are independent of the obligations of the Company under the Securities of the First Series and the Indenture to the extent related to such series, and a separate action or actions may be brought and prosecuted against the Guarantor whether or not an action or proceeding is brought against the Company and whether or not the Company is joined in any such action or proceeding. The liability of the Guarantor hereunder is full and unconditional and (to the extent permitted by law) the liability and obligations of the Guarantor hereunder shall not be released, discharged, mitigated, waived, impaired or affected in whole or in part by any circumstance (including any statute of limitations) (other than payment) that might constitute a defense available to, or discharge of the Company or the Guarantor, including, without limitation, any termination, amendment, modification, addition, deletion, supplement or other change to any of the terms of the Securities of the First Series or the Indenture, any failure on the part of the Trustee or any Holder to enforce, assert or exercise any right, power or remedy, any waiver, consent, extension, renewal, indulgence, compromise, release, settlement, refunding or other action or inaction under or in respect of any obligation or liability of the Company or the Guarantor or the Trustee or any Holder, or any modification, compromise,

settlement or release by the Trustee, or by operation of law or otherwise, of the obligations or the liability of the Company under the Securities of the First Series, in whole or in part.

The Guarantor agrees that if at any time all or any part of any payment at any time received by the Trustee or the Holders of the Securities of the First Series is or must be rescinded or returned by the Trustee or such Holders for any reason whatsoever (including, without limitation, the insolvency, reorganization or bankruptcy of the Company), then the Guarantor's obligations hereunder shall, to the extent of the payment rescinded or returned, be deemed to have continued in existence notwithstanding such previous receipt by the Trustee or such Holders, and the Guarantor's obligations hereunder shall continue to be effective or reinstated, as the case may be, as if such payment had never been made.

The failure of the Trustee to enforce any right or remedy hereunder, or promptly to enforce any right or remedy hereunder, or promptly to enforce any such right or remedy, shall not constitute a waiver thereof, nor give rise to any estoppel against the Trustee, nor excuse the Guarantor from its obligations hereunder.

No reference herein to the Indenture and no provision of this Guarantee or of the Indenture shall alter or impair the guarantee of the Guarantor, which is absolute and unconditional, of the due and punctual payment of the principal of and premium, if any, and interest on the Security of the series upon which this Guarantee is endorsed.

The Guarantor shall be subrogated to all rights of the Holder of the Securities of the First Series against the Company in respect of any amounts paid by the Guarantor pursuant to the provisions of this Guarantee upon payment by the Guarantor of all amounts due and payable under such Guarantee.

This Guarantee shall be irrevocable unless terminated as provided herein. This Guarantee shall be terminated upon the assumption by the Guarantor of the obligations of the Company under the Securities of the First Series and the Indenture to the extent related to such series as provided in the terms of such Securities.

All capitalized terms used in this Guarantee which are not defined herein but are defined in the Indenture shall have the meanings set forth in the Indenture.

This Guarantee shall be deemed to be a contract made under the laws of the State of New York and shall for all purposes be governed by and construed in accordance with the laws of such State.

Section 1. Consolidation, Merger and Sale of Assets.

During the term of this Guarantee, the Guarantor shall not consolidate with or merge into any other corporation, or convey or otherwise transfer or lease its properties and assets substantially as an entirety to any Person, unless

(a) the corporation formed by such consolidation or into which the Guarantor is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Guarantor substantially as an entirety shall be a Person organized and validly existing under the laws of the United States, any State thereof or the District of Columbia, and shall expressly assume, the obligations of the Guarantor under this Guarantee;

(b) immediately after giving effect to such transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(c) the Guarantor shall have delivered to the Trustee an Officer's Certificate (as hereinafter defined) and an Opinion of Counsel (as hereinafter defined), each stating that such consolidation, merger, conveyance, or other transfer or lease and such supplemental indenture comply with this Guarantee and that all conditions precedent herein provided for relating to such transactions have been complied with.

Upon any consolidation by the Guarantor with or merger by the Guarantor into any other corporation or any conveyance, or other transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with this Section, the successor corporation formed by such consolidation or into which the Guarantor is merged or the Person to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Guarantor under this Guarantee and under the terms of the Securities of the First Series (including assumption of the obligations under the Securities of the First Series and under the Indenture to the extent related to such series) with the same effect as if such successor Person had been named as the Guarantor herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Guarantee.

Section 2. Limitation on Liens.

A. The Guarantor shall not suffer any Lien (other than Permitted Liens) to be created or to exist upon any property (other than Excepted Property) of the Guarantor, real, personal or mixed, of whatever kind or nature and located in the State of Minnesota, whether owned at the date of the execution and delivery of this Guarantee or hereafter acquired, all except as expressly contemplated in subsection B of this Section.

B. The provisions of subsection A shall not prohibit the creation or existence of any Lien on property of the Guarantor which secures indebtedness for borrowed money if either:

1. the Guarantor shall make effective provision whereby this Guarantee shall be secured equally and ratably with the indebtedness secured by such Lien; or

2. the Guarantor shall deliver to the Trustee bonds, notes or other evidences of indebtedness secured by such Lien (hereinafter called "Secured Obligations") (a) in an aggregate principal amount equal to the aggregate principal amount of the Securities of the First Series then Outstanding, (b) maturing (or being subject to mandatory redemption) on such dates and in such principal amounts that, at each Stated Maturity of the Securities of the First Series, there shall mature (or be redeemed) Secured Obligations equal in principal amount to the Securities of the First Series then to mature and (c) containing, in addition to any mandatory redemption provisions applicable to all Secured Obligations outstanding under such Lien and any mandatory redemption provisions contained therein pursuant to clause (b) above, mandatory redemption provisions correlative to the provisions, if any, for the mandatory redemption (pursuant to a sinking fund or otherwise) of the Securities of the First Series or for the redemption thereof at the option of the Holder, as well as a provision for mandatory redemption upon an acceleration of the maturity of all Outstanding Securities of

the First Series following an Event of Default (such mandatory redemption to be rescinded upon the rescission of such acceleration); it being expressly understood that such Secured Obligations (x) may, but need not, bear interest, (y) may, but need not, contain provisions for the redemption thereof at the option of the issuer, any such redemption to be made at a redemption price or prices not less than the principal amount thereof and (z) shall be held by the Trustee for the benefit of the Holders of all Securities of the First Series from time to time Outstanding subject to such terms and conditions relating to surrender to the Guarantor, transfer restrictions, voting, application of payments of principal and interest and other matters as shall be set forth in an indenture supplemental hereto specifically providing for the delivery to the Trustee of such Secured Obligations.

C. If the Guarantor shall elect either of the alternatives described in subsection B, the Guarantor shall deliver to the Trustee:

1. an amendment to this Guarantee (a) together with appropriate inter-creditor arrangements, whereby this Guarantee shall be secured by the Lien referred to in subsection B equally and ratably with all other indebtedness secured by such Lien or (b) providing for the delivery to the Trustee of Secured Obligations;

2. an Officer's Certificate (a) stating that, to the knowledge of the signer, (I) no Event of Default has occurred and is continuing and (II) no event has occurred and is continuing which entitles the secured party under such Lien to accelerate the maturity of the indebtedness outstanding thereunder and (b) stating the aggregate principal amount of indebtedness issuable, and then proposed to be issued, under and secured by such Lien;

3. an Opinion of Counsel (a) if this Guarantee is to be secured by such Lien, to the effect that all Securities of the First Series then Outstanding are entitled to the benefit of such Lien equally and ratably with all other indebtedness outstanding under such Lien or (b) if Secured Obligations are to be delivered to the Trustee, to the effect that such Secured Obligations have been duly issued under such Lien and constitute valid obligations, entitled to the benefit of such Lien equally and ratably with all other indebtedness then outstanding under such Lien.

D. For all purposes of this Guarantee, except as otherwise expressly provided or unless the context otherwise requires:

"Excepted Property" means

(a) all cash on hand or in banks or other financial institutions, deposit accounts, shares of stock, interests in general or limited partnerships, bonds, notes, evidences of indebtedness and other securities not hereafter paid or delivered to, deposited with or held by the Trustee hereunder or required so to be;

(b) all contracts, leases, operating agreements, and other agreements of whatsoever kind and nature; all contract rights, bills, notes and other instruments and chattel paper (except to the extent that any of the same constitute securities, in which case they are separately excepted from this Guarantee under clause (a) above); all revenues, income and earnings, all accounts, accounts receivable and unbilled revenues, and all rents, tolls, issues,

product and profits, claims, credits, demands and judgments; all governmental and other licenses, permits, franchises, consents and allowances; all patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights, claims, credits, choses in action and other intangible property and general intangibles including, but not limited to, computer software;

(c) All automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment; all rolling stock, rail cars and other railroad equipment; all vessels, boats, barges and other marine equipment; all airplanes, helicopters, aircraft engines and other flight equipment; all parts, accessories and supplies used in connection with any of the foregoing; and all personal property of such character that the perfection of a security interest therein or other Lien thereon is not governed by the Uniform Commercial Code as in effect in the jurisdiction in which such property is located;

(d) all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; all materials, supplies, inventory and other items of personal property which are consumable (otherwise than by ordinary wear and tear) in their use in the operation of any property of the Guarantor; all fuel, including nuclear fuel, whether or not any such fuel is in a form consumable in the operation of any property of the Guarantor, including separate components of any fuel in the forms in which such components exist at any time before, during or after the period of the use thereof as fuel; all hand and other portable tools and equipment; all furniture and furnishings; and computers and data processing, data storage, data transmission, telecommunications and other facilities, equipment and apparatus, which, in any case, are used primarily for administrative or clerical purposes or are otherwise not necessary for the operation or maintenance of the facilities, machinery, equipment or fixtures of the Guarantor for (i) the generation, transmission or distribution of electric energy, (ii) the transmission, storage or distribution of gas or (iii) the appropriation, storage, transmission or distribution of water;

(e) all coal, ore, gas, oil and other minerals and all timber, and all rights and interests in any of the foregoing, whether or not such minerals or timber shall have been mined or extracted or otherwise separated from the land; and all electric energy, gas (natural or artificial), steam, water and other products generated, produced, manufactured, purchased or otherwise acquired by the Guarantor;

(f) all real property, leaseholds, gas rights, wells, gathering, tap or other pipe lines, or facilities, equipment or apparatus, in any case used or to be used primarily for the production or gathering of natural gas;

(g) all hydroelectric plants and all lands, power sites, flowage rights, water rights, riparian rights, permits, licenses, franchises, privileges, leaseholds, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, structures, facilities, equipment, or apparatus, in any case used or to be used primarily in connection with the Company's hydroelectric plants; and

(h) all leasehold interests held by the Guarantor as lessee.

"Lien" means any mortgage, deed of trust, pledge, security interest, encumbrance, easement, lease, reservation, restriction, servitude, charge or similar right and any other lien of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof, and any defect, irregularity, exception or limitation in record title.

"Officer's Certificate" means a certificate signed by an Authorized Officer and delivered to the Trustee. "Authorized Officer" means the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer, or any other officer or agent of the Guarantor duly authorized by the Board of Directors to act in respect of matters relating to this Guarantee. "Board of Directors" means either the board of directors of the Guarantor or any committee thereof duly authorized to act in respect of matters relating to this Guarantee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Guarantor, or other counsel acceptable to the Trustee.

"Permitted Liens" means, as of any particular time, any of the following:

(a) Liens for taxes, assessments and other governmental charges or requirements which are not delinquent or which are being contested in good faith by appropriate proceedings;

(b) mechanics', workmen's, repairmen's, materialmen's, warehousemen's and carriers' Liens, other Liens incident to construction, Liens or privileges of any employees of the Guarantor for salary or wages earned, but not yet payable, and other Liens, including without limitation Liens for worker's compensation awards, arising in the ordinary course of business for charges or requirements which are not delinquent or which are being contested in good faith and by appropriate proceedings;

(c) Liens in respect of attachments, judgments or awards arising out of judicial or administrative proceedings (i) in an aggregate amount not exceeding Ten Million Dollars ($10,000,000) or (ii) with respect to which the Guarantor shall (X) in good faith be prosecuting an appeal or other proceeding for review and with respect to which the Guarantor shall have secured a stay of execution pending such appeal or other proceeding or (Y) have the right to prosecute an appeal or other proceeding for review;

(d) easements, leases, reservations or other rights of others in, on, over, and/or across, and laws, regulations and restrictions affecting, and defects, irregularities, exceptions and limitations in title to, the property of the Guarantor or any part thereof; provided, however, that such easements, leases, reservations, rights, laws, regulations, restrictions, defects, irregularities, exceptions and limitations do not in the aggregate materially impair the use by the Guarantor of its property considered as a whole for the purposes for which it is held by the Guarantor;

(e) defects, irregularities, exceptions and limitations in title to real property subject to rights-of-way in favor of the Guarantor or otherwise or used or to be used by the Guarantor primarily for right-of-way purposes or real property held under lease, easement, license or similar right; provided, however, that (i) the Guarantor shall have obtained from the apparent owner or owners of such real property a sufficient right, by the terms of the

instrument granting such right-of-way, lease, easement, license or similar right, to the use thereof for the purposes for which the Guarantor acquired the same, (ii) the Guarantor has power under eminent domain or similar statutes to remove such defects, irregularities, exceptions or limitations or (iii) such defects, irregularities, exceptions and limitations may be otherwise remedied without undue effort or expense; and defects, irregularities, exceptions and limitations in title to flood lands, flooding rights and/or water rights;

(f) Liens securing indebtedness or other obligations neither created, assumed nor guaranteed by the Guarantor nor on account of which it customarily pays interest upon real property or rights in or relating to real property acquired by the Guarantor for the purpose of the transmission or distribution of electric energy, gas or water, for the purpose of telephonic, telegraphic, radio, wireless or other electronic communication or otherwise for the purpose of obtaining rights-of-way;

(g) leases existing at the date of the execution and delivery of this Guarantee affecting properties owned by the Guarantor at said date and renewals and extensions thereof; and leases affecting such properties entered into after such date or affecting properties acquired by the Guarantor after such date which, in either case, (i) have respective terms of not more than ten (10) years (including extensions or renewals at the option of the tenant) or (ii) do not materially impair the use by the Guarantor of such properties for the respective purposes for which they are held by the Guarantor;

(h) Liens vested in lessors, licensors, franchisors or permitters for rent or other amounts to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under leases, subleases, licenses, franchises or permits, so long as the payment of such rent or other amounts or the performance of such other obligations or acts is not delinquent or is being contested in good faith and by appropriate proceedings;

(i) controls, restrictions, obligations, duties and/or other burdens imposed by federal, state, municipal or other law, or by rules, regulations or orders of Governmental Authorities, upon any property of the Guarantor or the operation or use thereof or upon the Guarantor with respect to any of its property or the operation or use thereof or with respect to any franchise, grant, license, permit or public purpose requirement, or any rights reserved to or otherwise vested in Governmental Authorities to impose any such controls, restrictions, obligations, duties and/or other burdens;

(j) rights which Governmental Authorities may have by virtue of franchises, grants, licenses, permits or contracts, or by virtue of law, to purchase, recapture or designate a purchaser of or order the sale of, any property of the Guarantor, to terminate franchises, grants, licenses, permits, contracts or other rights or to regulate the property and business of the Guarantor; and any and all obligations of the Guarantor correlative to any such rights;

(k) Liens required by law or governmental regulations (i) as a condition to the transaction of any business or the exercise of any privilege or license, (ii) to enable the Guarantor to maintain self-insurance or to participate in any funds established to cover any insurance risks, (iii) in connection with workmen's compensation, unemployment insurance,

social security, any pension or welfare benefit plan or (iv) to share in the privileges or benefits required for companies participating in one or more of the arrangements described in clauses (ii) and (iii) above;

(l) Liens on property of the Guarantor which are granted by the Guarantor to secure duties or public or statutory obligations or to secure, or serve in lieu of, surety, stay or appeal bonds;

(m) rights reserved to or vested in others to take or receive any part of any coal, ore, gas, oil and other minerals, any timber and/or any electric capacity or energy, gas, water, steam and any other products, developed, produced, manufactured, generated, purchased or otherwise acquired by the Guarantor or by others on property of the Guarantor;

(n) (i) rights and interests of Persons other than the Guarantor arising out of contracts, agreements and other instruments to which the Guarantor is a party and which relate to the common ownership or joint use of property; and (ii) all Liens on the interests of Persons other than the Guarantor in property owned in common by such Persons and the Guarantor if and to the extent that the enforcement of such Liens would not adversely affect the interests of the Guarantor in such property in any material respect;

(o) any restrictions on assignment and/or requirements of any assignee to qualify as a permitted assignee and/or public utility or public service corporation;

(p) any Liens which have been bonded for the full amount in dispute or for the payment of which other adequate security arrangements have been made;

(q) grants, by the Guarantor of easements, ground leases or rights-of-way in, upon, over and/or across the property or rights-of-way of the Guarantor for the purpose of roads, pipe lines, transmission lines, distribution lines, communication lines, railways, removal of coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, rights-of-way, facilities and/or equipment; provided, however, that no such grant shall materially impair the use of the property or rights-of-way for the purposes for which such property or rights-of-way are held by the Guarantor;

(r) Prepaid Liens;

(s) Purchase Money Liens and any other Liens existing or placed upon property at the time of, or within one hundred eighty (180) days after, the acquisition thereof by the Guarantor, and any extensions, renewals and/or replacements of any such Liens to secure any refundings, refinancings and/or replacements of the indebtedness secured thereby; provided, however, that no such Purchase Money Lien or other Lien shall extend to or cover any property of the Guarantor other than (i) the property so acquired and improvements, extensions and additions to such property and renewals, replacements and substitutions of or for such property or any part or parts thereof and (ii) with respect to Purchase Money Liens, other property subsequently acquired by the Guarantor;

(t) Liens on property of the Guarantor which secure indebtedness for borrowed money which matures less than one year from the date of the issuance or incurrence thereof

and is not extendible at the option of the issuer, and any extensions, renewals and/or replacements of any such Liens to secure any refundings, refinancings and/or replacements of such indebtedness by or with similar indebtedness;

(u) Liens created or assumed by the Guarantor in connection with the issuance of debt securities the interest on which is not included in gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (or any successor provision of law), for the purpose of financing, in whole or in part, the acquisition or construction of property to be used by the Guarantor, to the extent that such Lien is required in connection with the issuance of such debt securities either by applicable law or by the issuer of such debt securities or is otherwise necessary in order to establish or maintain such exclusion from gross income; and any extensions, renewals and/or replacements of any such Liens to secure any refundings, refinancings and/or replacement of such debt securities by or with similar securities;

(v) Liens securing indebtedness or lease obligations (i) which are related to the construction or acquisition of property not previously owned by the Guarantor or (ii) which are related to the financing of a project involving the development or expansion of property of the Guarantor and (iii) the obligee in respect of which has no recourse to the Guarantor or any property of the Guarantor other than the property constructed or acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (or the proceeds thereof);

(w) Liens created by the Mortgage and Deed of Trust dated September 1, 1945 between the Guarantor and Irving Trust Company (now The Bank of New York) and Richard H. West (W. T. Cunningham, successor), as Trustees, as heretofore and hereafter supplemented and amended (the "Mortgage"); and Liens created by any other indenture hereafter executed by the Guarantor pursuant to which bonds issued under the Mortgage are or are to be delivered to the trustee(s) under such indenture in a principal amount at least equal to the principal amount of debt securities to be secured by such indenture; and

(x) in addition to the Permitted Liens defined in clauses (a) through (w) above, Liens on any property of the Guarantor (other than Excepted Property) to secure indebtedness for borrowed money (under circumstances not otherwise excepted from the operation of this Section) in an aggregate principal amount not exceeding 2.5% of the total assets of the Guarantor and its consolidated subsidiaries, as shown on the latest balance sheet of the Guarantor and its consolidated subsidiaries, audited by independent certified public accountants, dated prior to the date of the issuance or incurrence of such indebtedness.

"Prepaid Lien" means any Lien securing indebtedness for the payment, prepayment or redemption of which there shall have been irrevocably deposited in trust with the trustee or other holder of such Lien moneys and/or Investment Securities which (together with the interest reasonably expected to be earned from the investment and reinvestment in Investment Securities of the moneys and/or the principal of and interest on the Investment Securities so deposited) shall be sufficient for such purpose; provided, however, that if such indebtedness is to be redeemed or otherwise prepaid prior to the stated maturity thereof, any notice requisite to such redemption or prepayment shall have been given in accordance with the instrument creating such Lien or irrevocable instructions to give such notice shall have been given to such trustee or other holder. As used herein, the term "Investment Securities" means

any of the following obligations or securities on which neither the Guarantor, any other obligor on the Securities of the First Series nor any Affiliate of either is the obligor: (a) Government Obligations; (b) interest bearing deposit accounts (which may be represented by certificates of deposit) in any national or state bank (which may include the Trustee or any Paying Agent) or savings and loan association which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (c) bankers' acceptances drawn on and accepted by any commercial bank (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (d) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, any State or Territory of the United States or the District of Columbia, or any political subdivision of any of the foregoing, which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (e) bonds or other obligations of any agency or instrumentality of the United States; (f) corporate debt securities which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (g) repurchase agreements with respect to any of the foregoing obligations or securities with any banking or financial institution (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (h) securities issued by any regulated investment company (including any investment company for which the Trustee or any Paying Agent is the advisor), as defined in Section 851 of the Internal Revenue Code of 1986, as amended, or any successor section of such Code or successor federal statute, provided that the portfolio of such investment company is limited to obligations or securities of the character and investment quality contemplated in clauses (a) through (f) above and repurchase agreements which are fully collateralized by any of such obligations or securities; and (i) any other obligations or securities which may lawfully be purchased by the Trustee in its capacity as such.

"Purchase Money Lien" means, with respect to any property being acquired by the Guarantor, a Lien on such property which

(a) is taken or retained by the transferor of such property to secure all or part of the purchase price thereof;

(b) is granted to one or more Persons other than the transferor which, by making advances or incurring an obligation, give value to enable the grantor of such Lien to acquire rights in or the use of such property;

(c) is held by a trustee or agent for the benefit of one or more Persons described in clause (a) or (b) above, provided that such Lien may be held, in addition, for the benefit of one or more other Persons which shall have theretofore given, or may thereafter give, value to or for the benefit or account of the grantor of such Lien for one or more other purposes; or

(d) otherwise constitutes a purchase money mortgage or a purchase money security interest under applicable law;

and, without limiting the generality of the foregoing, for purposes of this Guarantee, the term Purchase Money Lien shall be deemed to include any Lien described above whether or not such Lien (x) shall permit the issuance or other incurrence of additional indebtedness secured by such Lien on such property, (y) shall permit the subjection to such Lien of additional property and the issuance or other incurrence of additional indebtedness on the basis thereof and/or (z) shall have been granted prior to the acquisition of such property, shall attach to or otherwise cover property other than the property being acquired and/or shall secure obligations issued prior and/or subsequent to the issuance of the obligations delivered in connection with such acquisition.

IN WITNESS WHEREOF, MINNESOTA POWER & LIGHT COMPANY has caused this Guarantee to be executed in its corporate name by the manual or facsimile signature of its Chairman of the Board of Directors or its President or any one of its Vice Presidents and its corporate seal or a facsimile thereof to be impressed or imprinted hereon, and the same to be attested by the manual or facsimile signature of its Secretary or any one of its Assistant Secretaries.

Dated: May 30, 1996

MINNESOTA POWER & LIGHT COMPANY

[Corporate Seal]

By Edwin L. Russell

President

Attest:

Sean MacPherson
- ---
Assistant Secretary

Exhibit 4(m)

ADESA Corporation

OFFICER'S CERTIFICATE 1-D-1

Jerry Williams, the Executive Vice President and General Counsel of ADESA Corporation (the "Company"), pursuant to the authority granted in the Board Resolutions of the Company dated as of May 24, 1996, and Sections 201 and 301 of the Indenture defined herein, in his capacity as such, does hereby certify for and on behalf of the Company to The Bank of New York (the "Trustee"), as Trustee under the Indenture of the Company (For Unsecured Debt Securities) dated as of May 15, 1996 (the "Indenture") that:

1. The securities of the first series to be issued under the Indenture shall be designated "7.70% Senior Notes, Series A, Due 2006" (the "Securities of the First Series"). The term "Guarantor" shall mean Minnesota Power & Light Company, its successors and assigns. All capitalized terms used in this certificate which are not defined herein but are defined in the Indenture shall have the meanings set forth in the Indenture;

2. The Securities of the First Series shall be limited in aggregate principal amount to $90,000,000 at any time Outstanding, except as contemplated in Section 301(b) of the Indenture;

3. The Securities of the First Series shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on June 1, 2006;

4. The Securities of the First Series shall bear interest from, and including, May 30, 1996, at the rate of 7.70% per annum payable semi-annually on June 1 and December 1 of each year (each, an "Interest Payment Date") commencing December 1, 1996. The amount of interest payable for any such period will be computed on the basis of a 360-day year of twelve 30-day months and for any period shorter than a full month, on the basis of the actual number of days elapsed in such period. Interest on the Securities of the First Series will accrue from, and including, the date of original issuance and will accrue to the first Interest Payment Date, and thereafter will accrue from, and including, the last Interest Payment Date to which interest has been paid or duly provided for. In the event that any Interest Payment Date is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of such delay), with the same force and effect as if made on such Interest Payment Date;

5. Each installment of interest on a Security of the First Series registered in the name of Cede & Co. (or any successor thereof) at the close of business on the Business Day next preceding the relevant Interest Payment Date (the "Regular Record Date") for the Securities of the First Series shall be payable to such Holder; each installment of interest on a Security of the First Series not so registered shall be payable to the Person in whose name such Security is registered at the close of business on the date

fifteen (15) days prior to the relevant Interest Payment Date (the "Alternate Record Date") or if such date is not a Business Day, the next succeeding Business Day. The Company shall not be required to execute or to provide for the registration of transfer of or the exchange of any Security of the First Series during a period of 15 days next preceding any Interest Payment Date for such Series. Any installment of interest on the Securities of the First Series not punctually paid or duly provided for shall forthwith cease to be payable to the Holders of such Securities of the First Series on such Regular Record Date or Alternate Record Date, as the case may be, and may be paid to the Persons in whose name the Securities of the First Series are registered at the close of business on a Special Record Date to be fixed by the Trustee for the payment of such Defaulted Interest. Notice of such Defaulted Interest and Special Record Date shall be given to the Holders of the Securities of the First Series not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of the First Series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture;

6. The principal, premium, if any, and each installment of interest on the Securities of the First Series shall be payable in immediately available funds at the office or agency of the Company in The City of New York; provided that payment of interest may be made at the option of the Company by check mailed to the address of the persons entitled thereto or wire transfer. Registration and registration of transfers and exchanges in respect of the Securities of the First Series may be effected at the office or agency of the Company in The City of New York. Notices, demands to or upon the Company in respect of the Securities of the First Series may be served at the office or agency of the Company in The City of New York. The Trustee will initially be the agency of the Company for such service of notices and demands; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates any such office or agency. The Trustee will initially be the Security Registrar and the Paying Agent for the Securities of the First Series;

7. The Securities of the First Series will be redeemable as provided in the form set forth in Exhibit A hereto, upon not less than 30 nor more than 60 days' notice given to the Holders thereof. In case of any redemption at the election of the Company of all of the Securities of the First Series, the Company shall, at least 45 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date. In case of any redemption at the election of the Company of less than all the Securities of such series, the Company shall, at least 45 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of Securities of such series to be redeemed and deliver to the Trustee an Officer's Certificate stating that no default in payment of interest or Event of Default with respect to the Securities of such series has occurred (or, if such an Event of Default shall have occurred, that the same has been cured or waived);

8. The Securities of the First Series will be initially issued pursuant to Rule 144A under the Securities Act of 1933, as amended, to Cede & Co. (as nominee for The

Depository Trust Company ("DTC"), New York, New York) and beneficial interests in such Securities are eligible for trading by qualified institutional buyers in the Private Offerings, Resales and Trading through Automated Linkages ("PORTAL") market of the National Association of Securities Dealers, Inc. Any Securities of the First Series to be issued or transferred to, or to be held by, Cede & Co. (or any successor thereof) for such purpose shall bear the depository legend in substantially the form set forth in Exhibit A hereto, unless otherwise agreed by the Company, such agreement to be confirmed in writing to the Trustee. Each Security of the First Series shall bear the non-registration legend in substantially the form set forth in Exhibit A hereto, unless otherwise agreed by the Company, such agreement to be confirmed in writing to the Trustee. Nothing in the Indenture, the Securities of the First Series or this certificate shall be construed to require the Company to register any Securities of the First Series under the Securities Act of 1933, as amended, unless otherwise expressly agreed by the Company, confirmed in writing to the Trustee, or to make any transfer of such Securities in violation of applicable law. In connection with any transfer of Securities of the First Series, the Trustee, the Security Registrar and the Company shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in relying upon the certificates and other information (in the attached forms or otherwise) received from the Holders and any transferees of any Securities of the First Series regarding the validity, legality and due authorization of any such transfer, the eligibility of the transferee to receive such Security and any other facts and circumstances related to such transfer;

9. No service charge shall be made for the registration of transfer or exchange of the Securities of the First Series; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the exchange or transfer;

10. The Company additionally covenants that, so long as any Securities of the First Series remain Outstanding, it will:

A. keep proper books of record and account in accordance with generally accepted accounting principles;

B. pay all applicable taxes, assessments and governmental charges imposed upon it or any of its properties or assets or in respect of any of its franchises, business income or profits and comply with all applicable statutes, regulations and orders of governmental bodies relating to taxes except for any tax the payment of which, or statutes, regulations and orders the compliance with which, in each case, is being contested in good faith and by appropriate means and for which adequate reserves have been provided or with respect to which there would not reasonably be expected to be a material adverse effect on the financial condition of the Company;

C. carry and maintain in full force and effect at all times with fiscally sound and reputable insurers insurance against such risks as the Company deems reasonable and prudent in the circumstances; provided that such insurance shall be comparable to insurance carried by, or otherwise maintained by,

comparable companies similarly situated to the Company carrying on the same types of businesses;

D. comply with the requirements of all applicable laws, rules, regulations and orders of any governmental authority, the noncompliance with which would materially adversely affect the business, condition (financial or other), assets, properties or operations of the Company taken as a whole;

11. So long as any Securities of the First Series remain Outstanding, the following shall constitute additional Events of Default with respect to such series:

(a) At any time prior to the payment in full of all amounts due under the Securities of the First Series, the Company shall fail to pay aggregate Indebtedness (as hereinafter defined) in excess of the greater of (i) $15 million and (ii) 5% of the total assets of the Company (whether as to principal, interest or premium) when due, and such failure shall continue after applicable grace periods specified in the agreement or instrument relating to such Indebtedness, if the effect of such failure is to accelerate the maturity of such Indebtedness, and, in such case, the Company shall have failed to cure (or obtain a waiver of) such failure or default within ten days after the expiration of such grace period has occurred;

(b) At any time prior to the payment in full of all amounts due under the Securities of the First Series, the Guarantor shall fail to pay aggregate Indebtedness in excess of $25 million (whether as to principal, interest or premium) when due, and such failure shall continue after applicable grace periods specified in the agreement or instrument relating to such Indebtedness, if the effect of such failure is to accelerate the maturity of such Indebtedness, and, in such case, the Guarantor shall have failed to cure (or obtain a waiver of) such failure or default with ten days after the expiration of such grace period has occurred;

Indebtedness, as used in this certificate, shall mean, with respect to a Person (as defined in the Indenture), all obligations (other than non-recourse obligations) of, or guaranteed or assumed by, such Person for borrowed money or obligations under leases of personal property which are required by generally accepted accounting practices to be capitalized on the balance sheet of such Person.

(c) the entry by a court having jurisdiction in the premises of

(i) a decree or order for relief in respect of the Guarantor in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or

(ii) a decree or order adjudging the Guarantor a bankrupt or insolvent, or approving as properly filed a petition by one or more persons other than the Guarantor seeking reorganization, arrangement, adjustment or

composition of or in respect of the Guarantor under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for the Guarantor or for any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief or any such other decree or order shall have remained unstayed and in effect for a period of 90 consecutive days;

(d) the commencement by the Guarantor of a voluntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Guarantor in a case or other similar proceeding or to the commencement of any bankruptcy or insolvency case or proceeding against it under any applicable Federal or state law or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Guarantor or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts as they become due, or the authorization of such action by the Guarantor's board of directors.

Notwithstanding anything to the contrary contained in the Securities of the First Series, this certificate or in the Indenture, with respect to an event described in clause (b), (c) or (d) of this section (each such event, a "Guarantor Event"), such Guarantor Event shall not be deemed to be an Event of Default until 15 Business Days after such Guarantor Event has occurred, and, if, within such 15 day period, the Company shall have provided to the Trustee a certificate or letter from Standard & Poor's Corporation (if the Securities of the First Series are then rated by Standard & Poor's Corporation, or, if the Securities of the First Series are then rated by another nationally recognized rating agency, then by such other agency) confirming that the rating on the Securities of the First Series at such time is BBB or better (or the equivalent rating if by another rating agency), then such Guarantor Event shall be deemed to be waived by the Holders of the Securities of the First Series and shall not constitute an Event of Default notwithstanding its continuation in fact;

12. The Company covenants that the Securities of the First Series shall rank pari passu with all existing and future unsecured Senior Indebtedness of the Company;

For the purposes of this covenant, except as otherwise expressly provided or unless the context otherwise requires:

Senior Indebtedness means all obligations (other than non-recourse obligations) of, or guaranteed or assumed by, the Company for borrowed money, including indebtedness

for borrowed money or for the payment of money relating to any lease which is capitalized on the consolidated balance sheet of the Company and its subsidiaries in accordance with generally accepted accounting principles as in effect from time to time, or evidenced by bonds, debentures, notes or other similar instruments, and in each case, amendments, renewals, extensions, modifications and refundings of any such indebtedness or obligations, whether existing as of the date of this Indenture or subsequently incurred by the Company;

13. The obligation of the Company to make due and punctual payment of the principal of and premium, if any, and interest on the Securities of the First Series shall be fully and unconditionally guaranteed by the Guarantor, as provided in the Guarantee to be delivered by the Guarantor to the Trustee. The form of such Guarantee is attached hereto as Exhibit B. The Trustee shall hold and enforce such Guarantee solely for the benefit of the Holders of the Securities of the First Series. If any amounts shall become due and payable under such Guarantee, the Trustee, in its own name and as trustee for such Holders, may demand payment, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same and collect the moneys adjudged or decreed to be payable in the manner provided by law;

14. The obligations of the Company under the Securities of the First Series and under the Indenture to the extent related to such series will be subject to assumption in whole by the Guarantor at any time (and upon such assumption the Company shall be released and discharged from its obligations under the Securities of the First Series and under the Indenture to the extent related to such series) as provided in the form set forth in Exhibit A hereto. Upon such assumption, the additional Events of Default contained in clauses (a), (c) and (d) and the last paragraph of Section 11 of this certificate shall be deleted and the following modifications to the Indenture shall be made by supplemental indenture, to remain in effect so long as any Securities of the First Series remain Outstanding:

A. The provisions contained in the Guarantee under the heading "Limitation of Liens" shall be added to the Indenture. In making such addition, the word "Company" shall be substituted for the word "Guarantor", the word "Indenture" shall be substituted for the word "Guarantee" and such other modifications as the context may require shall be made.

B. The additional Event of Default contained in clause (b) of Section 11 of this certificate shall be added to the Indenture. In making such addition, the word "Company" shall be substituted for the word "Guarantor".

15. The Securities of the First Series shall have such other terms and provisions as are provided in the form of the Securities of the First Series set forth in Exhibit A hereto, and shall be issued in substantially such form;

16. The undersigned has read all of the covenants and conditions contained in the Indenture relating to the issuance of the Securities of the First Series and the

definitions in the Indenture relating thereto and in respect of which this certificate is made;

17. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein;

18. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable the undersigned to express an informed opinion whether or not such covenants and conditions have been complied with; and

19. In the opinion of the undersigned, such conditions and covenants and conditions precedent, if any (including any covenants compliance with which constitutes a condition precedent) to the authentication and delivery of the Securities of the First Series requested in the accompanying Company Order have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this Officer's Certificate this 30th day of May, 1996.

Jerry Williams

Jerry Williams
Executive Vice President
and General Counsel

EXHIBIT A

[depository legend]

Unless this Certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Company or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

[non-registration legend]

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"). THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, AGREES FOR THE BENEFIT OF THE COMPANY THAT THIS SECURITY MAY NOT BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED (X) PRIOR TO THE THIRD ANNIVERSARY OF THE LATER OF THE ISSUANCE HEREOF (OR ANY PREDECESSOR SECURITY HERETO) OR THE SALE HEREOF (OR ANY PREDECESSOR SECURITY HERETO) BY THE COMPANY OR AN AFFILIATE (WITHIN THE MEANING OF RULE 144 UNDER THE SECURITIES ACT) OF THE COMPANY (COMPUTED IN ACCORDANCE WITH PARAGRAPH (d) OF RULE 144 UNDER THE SECURITIES ACT) OR (Y) BY ANY AFFILIATE OF THE COMPANY OR ANY HOLDER THAT WAS AN AFFILIATE OF THE COMPANY AT ANY TIME DURING THE THREE MONTHS PRECEDING THE DATE OF SUCH TRANSFER, IN EITHER CASE OTHER THAN (1) TO THE COMPANY, (2) SO LONG AS THIS SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A (AS INDICATED BY THE BOX CHECKED BY THE TRANSFEROR ON THE CERTIFICATE OF TRANSFER ON THE REVERSE OF THIS SECURITY), (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT (AS INDICATED BY THE BOX CHECKED BY THE TRANSFEROR ON THE CERTIFICATE OF TRANSFER ON THE REVERSE OF THIS SECURITY), OR (4) TO AN INSTITUTION THAT IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT (AS INDICATED BY THE BOX CHECKED BY THE TRANSFEROR ON THE CERTIFICATE OF TRANSFER ON THE REVERSE OF THIS SECURITY) THAT IS ACQUIRING THIS SECURITY FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION, AND A CERTIFICATE IN THE FORM ATTACHED TO THIS SECURITY IS DELIVERED BY THE TRANSFEREE TO THE COMPANY AND THE TRUSTEE IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. AN INSTITUTIONAL ACCREDITED INVESTOR HOLDING THIS SECURITY AGREES IT WILL FURNISH TO THE COMPANY AND THE TRUSTEE SUCH CERTIFICATES AND OTHER INFORMATION AS THEY MAY REASONABLY REQUIRE TO

CONFIRM THAT ANY TRANSFER BY IT OF THIS SECURITY COMPLIES WITH THE FOREGOING RESTRICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT IS (1) A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A OR (2) AN INSTITUTION THAT IS AN "ACCREDITED INVESTOR" AS DEFINED IN RULE 501(a)(1),(2),(3) OR (7) UNDER THE SECURITIES ACT AND THAT IT IS HOLDING THIS SECURITY FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION OR (3) A NON-U.S. PERSON OUTSIDE THE UNITED STATES WITHIN THE MEANING OF, OR AN ACCOUNT SATISFYING THE REQUIREMENTS OF PARAGRAPH (o)(2) OF RULE 902 UNDER, REGULATION S UNDER THE SECURITIES ACT.

[FORM OF FACE OF SECURITY]

No.

[CUSIP No. 000892 AA 7]

ADESA Corporation

7.70% SENIOR NOTE, SERIES A, DUE 2006

ADESA Corporation, a corporation duly organized and existing under the laws of the State of Indiana (herein referred to as the "Company", which term includes any successor Person under the Indenture), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on June 1, 2006 (the "Stated Maturity" of the Securities of this series), and to pay interest on said principal sum, from and including, May 30, 1996 or from, and including, the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 1 and December 1 of each year, commencing December 1, 1996 at the rate of 7.70% per annum until the principal hereof is paid or made available for payment. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Securities of this series will accrue from, and including, May 30, 1996 to the first Interest Payment Date, and thereafter will accrue, from, and including, the last Interest Payment Date to which interest has been paid or duly provided for. In the event that any Interest Payment Date is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of such delay), with the same force and effect as if made on the Interest Payment Date. If this Security is registered in the name of Cede & Co. (or any successor thereto) at the close of business on the Business Day next preceding the relevant Interest Payment Date, the interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to such Holder; if this security is not so registered, the interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the date fifteen (15) days next preceding such Interest Payment Date or if such date is not a Business Day, the next succeeding Business Day. The Company shall not be required to execute or to provide for the registration of transfer of or the exchange of any Security of the First Series during a period of fifteen (15) days next preceding any Interest Payment Date for such Series. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date or

Alternate Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture referred to on the reverse hereof.

Payment of the principal of and premium, if any, and interest on this Security will be made in immediately available funds at the office or agency of the Company maintained for that purpose in The City of New York, the State of New York in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts, provided, however, that, at the option of the Company, interest on this Security may be paid by check mailed to the address of the person entitled thereto, as such address shall appear on the Security Register or by wire transfer.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

ADESA Corporation

By:

ATTEST:

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[FORM OF CERTIFICATE OF AUTHENTICATION]

CERTIFICATE OF AUTHENTICATION

Dated:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

, as Trustee

By:

Authorized Signatory

[FORM OF REVERSE OF SECURITY]

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of May 15, 1996 (herein, together with any amendments thereto, called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and The Bank of New York, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture, including the Board Resolutions and Officer's Certificate filed with the Trustee on May 30, 1996 creating the series designated on the face hereof, for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, limited in aggregate principal amount to $90,000,000.

The Securities of this series are subject to redemption upon not less than 30 days nor more than 60 days' notice by mail, at the option of the Company, in whole, at any time, or in part, from time to time (but, if in part, only in connection with redemptions of Securities of this series in an aggregate principal amount of $1,000 or any integral multiple thereof), at a price ("Redemption Price") equal to the sum of (A) the principal amount of the Securities of this series to be redeemed, plus (B) accrued interest thereon (except if the Redemption Date shall be an Interest Payment Date) to the date selected for redemption ("Redemption Date"), plus (C) a premium equal to the Make-Whole Amount (as hereinafter defined). Each Security of this series (or portion thereof) so redeemed shall be canceled (or such portion thereof shall be deemed to have been canceled) and, thereafter, shall not be reissued.

Notice of a make-whole redemption shall be accompanied by an Officer's Certificate certifying: (A) the preliminary redemption price (the "Preliminary Redemption Price"), including the aggregate applicable principal, interest and Make-Whole Amount, and (B) the portion of such Preliminary Redemption Price allocable to each Security of this series. On or prior to the Redemption Date, the Company shall deliver to each Holder of the Securities of this series and to the Trustee a further Officer's Certificate certifying (X) the Redemption Price, including the aggregate applicable principal, interest and Make-Whole Amount, and (Y) the portion of such Redemption Price allocable to each Security of this series.

Any Holder of the Securities of this series shall have the right to contest the calculation of any Redemption Price to be paid or paid to such Holder as the result of any make-whole redemption by delivering written notice to the Company, within five (5) Business Days of receipt by such Holder of the further Officer's Certificate referred to in the preceding paragraph, setting forth such Holder's objection. Within five (5) Business Days of receipt by the Company of any such notice, the Company shall notify each Holder of such Securities of this series and the Trustee of the nature of such objection and of the Company's response thereto. Any increase in a Redemption Price made by the Company as a result of any such objection shall be paid to each Holder and acceptance thereof shall not be deemed to be a waiver by such Holder of any right to contest the amount of such payment; provided, that notice of such contest has been delivered to the Company within five (5) Business Days after receipt of such further Officer's Certificate.

The Trustee shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in acting upon the Company's calculation of any Preliminary Redemption Price, any Redemption Price and any increase therein.

The term "Business Day" means any day other than a Saturday or a Sunday or a day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed or a day on which the Corporate Trust Office of the Trustee is closed for business.

The term "Discount Rate" means the Treasury Rate plus .20%.

The term "Make-Whole Amount" means an amount equal to the excess, if any, of (A) the sum of the present values, on the day after the Redemption Date, of the amount of each remaining scheduled payment of interest (exclusive of interest accrued to the Redemption Date) on and principal of the Securities of this series, or portion of such payment, which will not be required to be made as a result of such optional redemption (each such amount discounted separately at the Discount Rate, to be determined (1) with respect to the Preliminary Redemption Price, as of the third Business Day before the date of mailing of notice of an optional redemption, and (2) with respect to the Redemption Price, as of the third Business Day before the Redemption Date, compounded semi-annually, from the date such amount would have been due), over (B) the principal amount of such Securities of this series to be optionally redeemed.

The term "Treasury Rate" means the rate per annum equal to the arithmetic average of (A) the average yields on issues of non-callable United States Treasury securities adjusted to a constant maturity equal to the Life to Maturity of the Securities of this series (determined, if necessary, by interpolating such yields on non-callable United States Treasury securities adjusted to the particular constant maturities greater than (but nearest to) and less than (but nearest to) the Life to Maturity of the Securities of this series), as published by the Federal Reserve Board for release on the first Business Day preceding the Business Day on which such determination shall be made in its Statistical Release H.15(519) under the heading "Treasury Constant Maturities," for the two calendar weeks ending on the two Wednesdays immediately preceding the date of such release, or (B) if such average yields shall not have been published for such periods, two such reasonably comparable indices as may be designated for such period by the Company and not objected to by the Holders of a majority in aggregate unpaid principal amount of the Securities of this series then Outstanding.

The term "Life to Maturity" of the Securities of this series means, as of the date of the determination thereof, the number of years (calculated to the nearest one-twelfth) which will elapse between the date of determination and the Stated Maturity of the Securities of this series.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Securities at the time Outstanding of all series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than a majority in aggregate principal amount of the Securities of such series at the time Outstanding in respect of which an Event of Default shall have occurred and be continuing shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in aggregate principal amount of Securities of all series at the time Outstanding in respect of which an Event of Default shall have occurred and be continuing a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

The Securities of this series are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor and of authorized denominations, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the absolute owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

The Securities of this series are entitled to the benefit of a Guarantee of Minnesota Power & Light Company (together with its successors and assigns, the "Guarantor") dated as of May 30, 1996 delivered to the Trustee as provided therein; provided, however, that such Guarantee shall be terminated if the obligations of the Company under the Securities of this series and the Indenture to the extent related to such series are assumed by Guarantor as herein provided.

Unless an Event of Default, or an event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing, the obligations of the Company under the Securities of this series and the Indenture to the extent related to such series may be assumed in whole, on a full recourse basis, by the Guarantor at any time (and upon any such assumption the Company shall be released and discharged from its obligations under the Securities of this series and the Indenture to the extent related to such series); provided, however, that such assumption shall be subject to, and permitted only upon the fulfillment and satisfaction of, the following terms and conditions: (a) an assumption agreement and a supplemental indenture to the Indenture evidencing such assumption shall be in substance and form reasonably satisfactory to the Trustee and shall, inter alia, include modifications and amendments to the Indenture making the obligations under the Securities of this series and under the Indenture to the extent related to such series primary obligations of the Guarantor, substituting the Guarantor for the Company in the form of the Securities of this series and in provisions of the Indenture to the extent related to such series, modifying the Indenture to add the limitation of lien provision contained in the Guarantee and substitute the cross-default provision applicable to the Guarantor, and releasing and discharging the Company from its obligations under the Securities of this series and the Indenture to the extent related to such series; and (b) the Trustee shall have received (i) an executed counterpart of such assumption agreement and supplemental indenture; (ii) evidence satisfactory to the Trustee and the Company that all necessary authorizations, consents, orders, approvals, waivers, filings and declarations of or with, Federal, state, county, municipal, regional or other governmental authorities, agencies or boards (collectively, "Governmental Actions") relating to such assumption have been duly obtained and are in full force and effect, (iii) evidence satisfactory to the Trustee that any security interest intended to be created by the Indenture is not in any material way adversely affected or impaired by any of the agreements or transactions relating to such assumption and (iv) an Opinion of Counsel for the Guarantor, reasonably satisfactory in substance, scope and form to the Trustee and the Company, to the effect that (A) the supplemental indenture evidencing such assumption has been duly authorized, executed and delivered by the Guarantor, (B) the execution and delivery by the Guarantor of such supplemental indenture and the consummation of the transactions contemplated thereby do not contravene any provision of law or any governmental rule applicable to the Guarantor or any provision of the Guarantor's charter documents or by-laws and do not contravene any provision of, or constitute a default under, or result in the creation or imposition of any lien upon any of the Guarantor's properties or assets under any indenture, mortgage, contract or other agreement to which the Guarantor is a party or by which the Guarantor or any of its properties may be bound or affected, (C) all necessary Governmental Actions relating to such assumption have been duly obtained and are in full force and effect and (D) such agreement and supplemental indenture constitute the legal, valid and binding obligations of the Guarantor, enforceable in accordance with their respective terms,

except assuch enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws at the time in effect affecting the rights of creditors generally.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

CERTIFICATE OF TRANSFER

FOR VALUE RECEIVED, the undersigned sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE
[BOX]

Name and address of assignee must be printed or typewritten.

- ---
the within Security of the Company and does hereby irrevocable constitute and appoint

- ---
to transfer the said Security on the books of the within-named Company, with full power of substitution in the premises.

The undersigned certifies that said Security is being resold, pledged or otherwise transferred as follows: (check one)

/ / to the Company;

/ / to a Person whom the undersigned reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") purchasing for its own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or other transfer is being made in reliance on Rule 144A;

/ / in an offshore transaction in accordance with Rule 904 of Regulation S under the Securities Act;

/ / to an institution that is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that is acquiring this Security for investment purposes and not for distribution; (attach a copy of an Investment Letter For Institutional Accredited Investors in the form annexed signed by an authorized officer of the transferee)

/ / as otherwise permitted by the non-registration legend appearing on this Security; or

/ / as otherwise agreed by the Company, confirmed in writing to the Trustee, as follows: [describe]

Dated:

[FORM OF INVESTMENT LETTER FOR
INSTITUTIONAL ACCREDITED INVESTORS]

ADESA Corporation
The Bank of New York, as Trustee

Dear Sirs:

In connection with our proposed purchase of $_____ aggregate principal amount of 7.70% Senior Notes, Series A, Due 2006 (the "Senior Notes") of ADESA Corporation, an Indiana corporation (the "Company"), we confirm that:

1. We understand that the Senior Notes have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and may not be sold except as permitted in the following sentence. We agree, on our own behalf and on behalf of any accounts for which we are acting as hereinafter stated, that if we should resell, pledge or otherwise transfer such Senior Notes within three years after the later of the original issuance of the Senior Notes or the sale thereof by the Company or an "affiliate" (within the meaning of Rule 144 under the Securities Act) of the Company (computed in accordance with Rule 144 under the Securities Act) or if we are at the proposed date of such transfer or were during the three months preceding the proposed date of transfer an affiliate of the Company, such Senior Notes may be resold, pledged or transferred only (i) to the Company, (ii) so long as such Senior Notes are eligible for resale pursuant to Rule 144A under the Securities Act ("Rule 144A"), to a person whom we reasonably believe is a "qualified institutional buyer" (as defined in Rule 144A) ("QIB") that purchases for its own account or for the account of a QIB, to whom notice is given that the resale, pledge or transfer is being made in reliance on Rule 144A (as indicated by the box checked by the transferor on the Certificate of Transfer on the reverse of the certificate for the Senior Notes), (iii) in an offshore transaction in accordance with Rule 904 of Regulation S under the Securities Act (as indicated by the box checked by the transferor on the Certificate of Transfer on the reverse of the certificate for the Senior Notes), or (iv) to an institution that is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act (as indicated by the box checked by the transferor on the Certificate of Transfer on the reverse of the certificate for the Senior Notes) that is acquiring the Senior Notes for investment purposes and not for distribution and a Certificate in the form hereof is delivered to the Company and to the Trustee under the Indenture relating to the Senior Notes by such Accredited Investor, in each case in accordance with any applicable securities laws of any state of the United States, and we will notify any purchaser of the Senior Notes from us of the above resale restrictions, if then applicable. We further understand that in connection with any transfer of the Senior Notes by us that the Company and the Trustee may request, and if so requested we will furnish, such certificates and other information as they may reasonably require to confirm that any such transfer complies with the foregoing restrictions.

2. We are an institutional investor and are an "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) and we have such knowledge and experience in financial and business matters as to be capable of evaluating the

merits and risks of our investment in the Senior Notes, and we and any accounts for which we are acting as a fiduciary or agent are each able to bear the economic risk of our or its investment.

3. We are acquiring the Senior Notes purchased by us for our own account or for one or more accounts (each of which is an institutional "accredited investor") as to each of which we exercise sole investment discretion, for investment purposes and not for distribution.

4. You are entitled to rely upon this letter and you are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours,

(Name of Purchaser)

By:

Date:

EXHIBIT B

[FORM OF GUARANTEE]
GUARANTEE
OF
MINNESOTA POWER & LIGHT COMPANY

For value received, Minnesota Power & Light Company, a corporation duly organized and existing under the laws of the State of Minnesota (herein called the "Guarantor"), hereby fully and unconditionally guarantees to the Trustee under the Indenture, dated as of May 15, 1996, between ADESA Corporation (the "Company") and The Bank of New York, as Trustee (together with any amendments thereto, the "Indenture"), the payment of the obligations of the Company under the Securities of the First Series and the Indenture relating to such series, including, without limitation, the due and punctual payment of the principal of and premium, if any, and interest on the Securities of the First Series when and as the same shall become due and payable, whether at maturity or upon redemption or upon declaration or otherwise, according to the terms thereof and of the Indenture. In case of the failure of the Company punctually to pay any such principal, premium, if any, or interest, the Guarantor hereby agrees to cause any such payment to be made punctually when and as the same shall become due and payable, whether at maturity or upon redemption or upon declaration or otherwise, and as if such payment were made by the Company. The Guarantor hereby agrees that its obligations hereunder shall be full and unconditional, irrespective of the validity, legality or enforceability of the Securities of the First Series or the Indenture, the absence of any action to enforce the same, the waiver or consent by the Holder of the Securities of the First Series or by the Trustee with respect to any provisions thereof or of said Indenture, the recovery of any judgment against the Company or any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor. The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Company, any right to require a proceeding first against the Company, protest or notice with respect to the Securities of the First Series or the indebtedness evidenced thereby, and all demands whatsoever, and covenants that this Guarantee will not be discharged except by complete performance of the obligations contained in the Securities of the First Series and in this Guarantee.

The Guarantor hereby guarantees that the obligations of the Company under the Securities of the First Series and the Indenture to the extent related to such series will be paid to the Trustee without set-off or counterclaim or other reduction whatsoever (whether for taxes, withholding or otherwise) in lawful currency of the United States of America.

The obligations of the Guarantor hereunder are independent of the obligations of the Company under the Securities of the First Series and the Indenture to the extent related to such series, and a separate action or actions may be brought and prosecuted against the Guarantor whether or not an action or proceeding is brought against the Company and whether or not the Company is joined in any such action or proceeding. The liability of the Guarantor hereunder is full and unconditional and (to the extent permitted by law) the liability and obligations of the Guarantor hereunder shall not be released, discharged, mitigated, waived, impaired or affected in whole or in part by any circumstance (including any statute of limitations) (other than payment) that might constitute a defense available to, or discharge of the Company or the Guarantor, including, without limitation, any termination,

amendment, modification, addition, deletion, supplement or other change to any of the terms of the Securities of the First Series or the Indenture, any failure on the part of the Trustee or any Holder to enforce, assert or exercise any right, power or remedy, any waiver, consent, extension, renewal, indulgence, compromise, release, settlement, refunding or other action or inaction under or in respect of any obligation or liability of the Company or the Guarantor or the Trustee or any Holder, or any modification, compromise, settlement or release by the Trustee, or by operation of law or otherwise, of the obligations or the liability of the Company under the Securities of the First Series, in whole or in part.

The Guarantor agrees that if at any time all or any part of any payment at any time received by the Trustee or the Holders of the Securities of the First Series is or must be rescinded or returned by the Trustee or such Holders for any reason whatsoever (including, without limitation, the insolvency, reorganization or bankruptcy of the Company), then the Guarantor's obligations hereunder shall, to the extent of the payment rescinded or returned, be deemed to have continued in existence notwithstanding such previous receipt by the Trustee or such Holders, and the Guarantor's obligations hereunder shall continue to be effective or reinstated, as the case may be, as if such payment had never been made.

The failure of the Trustee to enforce any right or remedy hereunder, or promptly to enforce any right or remedy hereunder, or promptly to enforce any such right or remedy, shall not constitute a waiver thereof, nor give rise to any estoppel against the Trustee, nor excuse the Guarantor from its obligations hereunder.

No reference herein to the Indenture and no provision of this Guarantee or of the Indenture shall alter or impair the guarantee of the Guarantor, which is absolute and unconditional, of the due and punctual payment of the principal of and premium, if any, and interest on the Security of the series upon which this Guarantee is endorsed.

The Guarantor shall be subrogated to all rights of the Holder of the Securities of the First Series against the Company in respect of any amounts paid by the Guarantor pursuant to the provisions of this Guarantee upon payment by the Guarantor of all amounts due and payable under such Guarantee.

This Guarantee shall be irrevocable unless terminated as provided herein. This Guarantee shall be terminated upon the assumption by the Guarantor of the obligations of the Company under the Securities of the First Series and the Indenture to the extent related to such series as provided in the terms of such Securities.

All capitalized terms used in this Guarantee which are not defined herein but are defined in the Indenture shall have the meanings set forth in the Indenture.

This Guarantee shall be deemed to be a contract made under the laws of the State of New York and shall for all purposes be governed by and construed in accordance with the laws of such State.

Section 1. Consolidation, Merger and Sale of Assets.

During the term of this Guarantee, the Guarantor shall not consolidate with or merge into any other corporation, or convey or otherwise transfer or lease its properties and assets substantially as an entirety to any Person, unless

(a) the corporation formed by such consolidation or into which the Guarantor is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Guarantor substantially as an entirety shall be a Person organized and validly existing under the laws of the United States, any State thereof or the District of Columbia, and shall expressly assume, the obligations of the Guarantor under this Guarantee;

(b) immediately after giving effect to such transaction no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(c) the Guarantor shall have delivered to the Trustee an Officer's Certificate (as hereinafter defined) and an Opinion of Counsel (as hereinafter defined), each stating that such consolidation, merger, conveyance, or other transfer or lease and such supplemental indenture comply with this Guarantee and that all conditions precedent herein provided for relating to such transactions have been complied with.

Upon any consolidation by the Guarantor with or merger by the Guarantor into any other corporation or any conveyance, or other transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with this Section, the successor corporation formed by such consolidation or into which the Guarantor is merged or the Person to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Guarantor under this Guarantee and under the terms of the Securities of the First Series (including assumption of the obligations under the Securities of the First Series and under the Indenture to the extent related to such series) with the same effect as if such successor Person had been named as the Guarantor herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Guarantee.

Section 2. Limitation on Liens.

A. The Guarantor shall not suffer any Lien (other than Permitted Liens) to be created or to exist upon any property (other than Excepted Property) of the Guarantor, real, personal or mixed, of whatever kind or nature and located in the State of Minnesota, whether owned at the date of the execution and delivery of this Guarantee or hereafter acquired, all except as expressly contemplated in subsection B of this Section.

B. The provisions of subsection A shall not prohibit the creation or existence of any Lien on property of the Guarantor which secures indebtedness for borrowed money if either:

1. the Guarantor shall make effective provision whereby this Guarantee shall be secured equally and ratably with the indebtedness secured by such Lien; or

2. the Guarantor shall deliver to the Trustee bonds, notes or other evidences of indebtedness secured by such Lien (hereinafter called "Secured Obligations") (a) in an aggregate principal amount equal to the aggregate principal amount of the Securities of the First Series then Outstanding, (b) maturing (or being subject to mandatory redemption) on such dates and in such principal amounts that, at each Stated Maturity of the Securities of the First Series, there shall mature (or be redeemed) Secured Obligations equal in principal amount to the Securities of the First Series then to mature and (c) containing, in addition to any mandatory redemption provisions applicable to all Secured Obligations outstanding under such Lien and any mandatory redemption provisions contained therein pursuant to clause (b) above, mandatory redemption provisions correlative to the provisions, if any, for the mandatory redemption (pursuant to a sinking fund or otherwise) of the Securities of the First Series or for the redemption thereof at the option of the Holder, as well as a provision for mandatory redemption upon an acceleration of the maturity of all Outstanding Securities of the First Series following an Event of Default (such mandatory redemption to be rescinded upon the rescission of such acceleration); it being expressly understood that such Secured Obligations (x) may, but need not, bear interest, (y) may, but need not, contain provisions for the redemption thereof at the option of the issuer, any such redemption to be made at a redemption price or prices not less than the principal amount thereof and (z) shall be held by the Trustee for the benefit of the Holders of all Securities of the First Series from time to time Outstanding subject to such terms and conditions relating to surrender to the Guarantor, transfer restrictions, voting, application of payments of principal and interest and other matters as shall be set forth in an indenture supplemental hereto specifically providing for the delivery to the Trustee of such Secured Obligations.

C. If the Guarantor shall elect either of the alternatives described in subsection B, the Guarantor shall deliver to the Trustee:

1. an amendment to this Guarantee (a) together with appropriate inter-creditor arrangements, whereby this Guarantee shall be secured by the Lien referred to in subsection B equally and ratably with all other indebtedness secured by such Lien or (b) providing for the delivery to the Trustee of Secured Obligations;

2. an Officer's Certificate (a) stating that, to the knowledge of the signer, (I) no Event of Default has occurred and is continuing and (II) no event has occurred and is continuing which entitles the secured party under such Lien to accelerate the maturity of the indebtedness outstanding thereunder and (b) stating the aggregate principal amount of indebtedness issuable, and then proposed to be issued, under and secured by such Lien;

3. an Opinion of Counsel (a) if this Guarantee is to be secured by such Lien, to the effect that all Securities of the First Series then Outstanding are entitled to the benefit of such Lien equally and ratably with all other indebtedness outstanding under such Lien or (b) if Secured Obligations are to be delivered to the Trustee, to the effect that such Secured Obligations have been duly issued under such Lien and constitute valid obligations, entitled to the benefit of such Lien equally and ratably with all other indebtedness then outstanding under such Lien.

D. For all purposes of this Guarantee, except as otherwise expressly provided or unless the context otherwise requires:

"Excepted Property" means

(a) all cash on hand or in banks or other financial institutions, deposit accounts, shares of stock, interests in general or limited partnerships, bonds, notes, evidences of indebtedness and other securities not hereafter paid or delivered to, deposited with or held by the Trustee hereunder or required so to be;

(b) all contracts, leases, operating agreements, and other agreements of whatsoever kind and nature; all contract rights, bills, notes and other instruments and chattel paper (except to the extent that any of the same constitute securities, in which case they are separately excepted from this Guarantee under clause (a) above); all revenues, income and earnings, all accounts, accounts receivable and unbilled revenues, and all rents, tolls, issues, product and profits, claims, credits, demands and judgments; all governmental and other licenses, permits, franchises, consents and allowances; all patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights, claims, credits, choses in action and other intangible property and general intangibles including, but not limited to, computer software;

(c) All automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment; all rolling stock, rail cars and other railroad equipment; all vessels, boats, barges and other marine equipment; all airplanes, helicopters, aircraft engines and other flight equipment; all parts, accessories and supplies used in connection with any of the foregoing; and all personal property of such character that the perfection of a security interest therein or other Lien thereon is not governed by the Uniform Commercial Code as in effect in the jurisdiction in which such property is located;

(d) all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; all materials, supplies, inventory and other items of personal property which are consumable (otherwise than by ordinary wear and tear) in their use in the operation of any property of the Guarantor; all fuel, including nuclear fuel, whether or not any such fuel is in a form consumable in the operation of any property of the Guarantor, including separate components of any fuel in the forms in which such components exist at any time before, during or after the period of the use thereof as fuel; all hand and other portable tools and equipment; all furniture and furnishings; and computers and data processing, data storage, data transmission, telecommunications and other facilities, equipment and apparatus, which, in any case, are used primarily for administrative or clerical purposes or are otherwise not necessary for the operation or maintenance of the facilities, machinery, equipment or fixtures of the Guarantor for (i) the generation, transmission or distribution of electric energy, (ii) the transmission, storage or distribution of gas or (iii) the appropriation, storage, transmission or distribution of water;

(e) all coal, ore, gas, oil and other minerals and all timber, and all rights and interests in any of the foregoing, whether or not such minerals or timber shall have been mined or extracted or otherwise separated from the land; and all electric energy, gas

(natural or artificial), steam, water and other products generated, produced, manufactured, purchased or otherwise acquired by the Guarantor;

(f) all real property, leaseholds, gas rights, wells, gathering, tap or other pipe lines, or facilities, equipment or apparatus, in any case used or to be used primarily for the production or gathering of natural gas;

(g) all hydroelectric plants and all lands, power sites, flowage rights, water rights, riparian rights, permits, licenses, franchises, privileges, leaseholds, water locations, water appropriations, ditches, flumes, reservoirs, reservoir sites, canals, raceways, dams, dam sites, aqueducts, structures, facilities, equipment, or apparatus, in any case used or to be used primarily in connection with the Company's hydroelectric plants; and

(h) all leasehold interests held by the Guarantor as lessee.

"Lien" means any mortgage, deed of trust, pledge, security interest, encumbrance, easement, lease, reservation, restriction, servitude, charge or similar right and any other lien of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof, and any defect, irregularity, exception or limitation in record title.

"Officer's Certificate" means a certificate signed by an Authorized Officer and delivered to the Trustee. "Authorized Officer" means the Chairman of the Board, the President, any Vice President, the Treasurer, any Assistant Treasurer, or any other officer or agent of the Guarantor duly authorized by the Board of Directors to act in respect of matters relating to this Guarantee. "Board of Directors" means either the board of directors of the Guarantor or any committee thereof duly authorized to act in respect of matters relating to this Guarantee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Guarantor, or other counsel acceptable to the Trustee.

"Permitted Liens" means, as of any particular time, any of the following:

(a) Liens for taxes, assessments and other governmental charges or requirements which are not delinquent or which are being contested in good faith by appropriate proceedings;

(b) mechanics', workmen's, repairmen's, materialmen's, warehousemen's and carriers' Liens, other Liens incident to construction, Liens or privileges of any employees of the Guarantor for salary or wages earned, but not yet payable, and other Liens, including without limitation Liens for worker's compensation awards, arising in the ordinary course of business for charges or requirements which are not delinquent or which are being contested in good faith and by appropriate proceedings;

(c) Liens in respect of attachments, judgments or awards arising out of judicial or administrative proceedings (i) in an aggregate amount not exceeding Ten

Million Dollars ($10,000,000) or (ii) with respect to which the Guarantor shall (X) in good faith be prosecuting an appeal or other proceeding for review and with respect to which the Guarantor shall have secured a stay of execution pending such appeal or other proceeding or (Y) have the right to prosecute an appeal or other proceeding for review;

(d) easements, leases, reservations or other rights of others in, on, over, and/or across, and laws, regulations and restrictions affecting, and defects, irregularities, exceptions and limitations in title to, the property of the Guarantor or any part thereof; provided, however, that such easements, leases, reservations, rights, laws, regulations, restrictions, defects, irregularities, exceptions and limitations do not in the aggregate materially impair the use by the Guarantor of its property considered as a whole for the purposes for which it is held by the Guarantor;

(e) defects, irregularities, exceptions and limitations in title to real property subject to rights-of-way in favor of the Guarantor or otherwise or used or to be used by the Guarantor primarily for right-of-way purposes or real property held under lease, easement, license or similar right; provided, however, that (i) the Guarantor shall have obtained from the apparent owner or owners of such real property a sufficient right, by the terms of the instrument granting such right-of-way, lease, easement, license or similar right, to the use thereof for the purposes for which the Guarantor acquired the same, (ii) the Guarantor has power under eminent domain or similar statutes to remove such defects, irregularities, exceptions or limitations or (iii) such defects, irregularities, exceptions and limitations may be otherwise remedied without undue effort or expense; and defects, irregularities, exceptions and limitations in title to flood lands, flooding rights and/or water rights;

(f) Liens securing indebtedness or other obligations neither created, assumed nor guaranteed by the Guarantor nor on account of which it customarily pays interest upon real property or rights in or relating to real property acquired by the Guarantor for the purpose of the transmission or distribution of electric energy, gas or water, for the purpose of telephonic, telegraphic, radio, wireless or other electronic communication or otherwise for the purpose of obtaining rights-of-way;

(g) leases existing at the date of the execution and delivery of this Guarantee affecting properties owned by the Guarantor at said date and renewals and extensions thereof; and leases affecting such properties entered into after such date or affecting properties acquired by the Guarantor after such date which, in either case, (i) have respective terms of not more than ten (10) years (including extensions or renewals at the option of the tenant) or (ii) do not materially impair the use by the Guarantor of such properties for the respective purposes for which they are held by the Guarantor;

(h) Liens vested in lessors, licensors, franchisors or permitters for rent or other amounts to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under leases, subleases, licenses, franchises or permits, so long as the payment of such rent or other amounts or the performance of such other obligations or acts is not delinquent or is being contested in good faith and by appropriate proceedings;

(i) controls, restrictions, obligations, duties and/or other burdens imposed by federal, state, municipal or other law, or by rules, regulations or orders of Governmental Authorities, upon any property of the Guarantor or the operation or use thereof or upon the Guarantor with respect to any of its property or the operation or use thereof or with respect to any franchise, grant, license, permit or public purpose requirement, or any rights reserved to or otherwise vested in Governmental Authorities to impose any such controls, restrictions, obligations, duties and/or other burdens;

(j) rights which Governmental Authorities may have by virtue of franchises, grants, licenses, permits or contracts, or by virtue of law, to purchase, recapture or designate a purchaser of or order the sale of, any property of the Guarantor, to terminate franchises, grants, licenses, permits, contracts or other rights or to regulate the property and business of the Guarantor; and any and all obligations of the Guarantor correlative to any such rights;

(k) Liens required by law or governmental regulations (i) as a condition to the transaction of any business or the exercise of any privilege or license, (ii) to enable the Guarantor to maintain self-insurance or to participate in any funds established to cover any insurance risks, (iii) in connection with workmen's compensation, unemployment insurance, social security, any pension or welfare benefit plan or (iv) to share in the privileges or benefits required for companies participating in one or more of the arrangements described in clauses (ii) and (iii) above;

(l) Liens on property of the Guarantor which are granted by the Guarantor to secure duties or public or statutory obligations or to secure, or serve in lieu of, surety, stay or appeal bonds;

(m) rights reserved to or vested in others to take or receive any part of any coal, ore, gas, oil and other minerals, any timber and/or any electric capacity or energy, gas, water, steam and any other products, developed, produced, manufactured, generated, purchased or otherwise acquired by the Guarantor or by others on property of the Guarantor;

(n) (i) rights and interests of Persons other than the Guarantor arising out of contracts, agreements and other instruments to which the Guarantor is a party and which relate to the common ownership or joint use of property; and (ii) all Liens on the interests of Persons other than the Guarantor in property owned in common by such Persons and the Guarantor if and to the extent that the enforcement of such Liens would not adversely affect the interests of the Guarantor in such property in any material respect;

(o) any restrictions on assignment and/or requirements of any assignee to qualify as a permitted assignee and/or public utility or public service corporation;

(p) any Liens which have been bonded for the full amount in dispute or for the payment of which other adequate security arrangements have been made;

(q) grants, by the Guarantor of easements, ground leases or rights-of-way in, upon, over and/or across the property or rights-of-way of the Guarantor for the purpose of roads, pipe lines, transmission lines, distribution lines, communication lines, railways, removal of coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, rights-of-way, facilities and/or equipment; provided, however, that no such grant shall materially impair the use of the property or rights-of-way for the purposes for which such property or rights-of-way are held by the Guarantor;

(r) Prepaid Liens;

(s) Purchase Money Liens and any other Liens existing or placed upon property at the time of, or within one hundred eighty (180) days after, the acquisition thereof by the Guarantor, and any extensions, renewals and/or replacements of any such Liens to secure any refundings, refinancings and/or replacements of the indebtedness secured thereby; provided, however, that no such Purchase Money Lien or other Lien shall extend to or cover any property of the Guarantor other than (i) the property so acquired and improvements, extensions and additions to such property and renewals, replacements and substitutions of or for such property or any part or parts thereof and (ii) with respect to Purchase Money Liens, other property subsequently acquired by the Guarantor;

(t) Liens on property of the Guarantor which secure indebtedness for borrowed money which matures less than one year from the date of the issuance or incurrence thereof and is not extendible at the option of the issuer, and any extensions, renewals and/or replacements of any such Liens to secure any refundings, refinancings and/or replacements of such indebtedness by or with similar indebtedness;

(u) Liens created or assumed by the Guarantor in connection with the issuance of debt securities the interest on which is not included in gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (or any successor provision of law), for the purpose of financing, in whole or in part, the acquisition or construction of property to be used by the Guarantor, to the extent that such Lien is required in connection with the issuance of such debt securities either by applicable law or by the issuer of such debt securities or is otherwise necessary in order to establish or maintain such exclusion from gross income; and any extensions, renewals and/or replacements of any such Liens to secure any refundings, refinancings and/or replacement of such debt securities by or with similar securities;

(v) Liens securing indebtedness or lease obligations (i) which are related to the construction or acquisition of property not previously owned by the Guarantor or (ii) which are related to the financing of a project involving the development or expansion of property of the Guarantor and (iii) the obligee in respect of which has no recourse to the Guarantor or any property of the Guarantor other than the property constructed or acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (or the proceeds thereof);

(w) Liens created by the Mortgage and Deed of Trust dated September 1, 1945 between the Guarantor and Irving Trust Company (now The Bank of New York) and

Richard H. West (W. T. Cunningham, successor), as Trustees, as heretofore and hereafter supplemented and amended (the "Mortgage"); and Liens created by any other indenture hereafter executed by the Guarantor pursuant to which bonds issued under the Mortgage are or are to be delivered to the trustee(s) under such indenture in a principal amount at least equal to the principal amount of debt securities to be secured by such indenture; and

(x) in addition to the Permitted Liens defined in clauses (a) through (w) above, Liens on any property of the Guarantor (other than Excepted Property) to secure indebtedness for borrowed money (under circumstances not otherwise excepted from the operation of this Section) in an aggregate principal amount not exceeding 2.5% of the total assets of the Guarantor and its consolidated subsidiaries, as shown on the latest balance sheet of the Guarantor and its consolidated subsidiaries, audited by independent certified public accountants, dated prior to the date of the issuance or incurrence of such indebtedness.

"Prepaid Lien" means any Lien securing indebtedness for the payment, prepayment or redemption of which there shall have been irrevocably deposited in trust with the trustee or other holder of such Lien moneys and/or Investment Securities which (together with the interest reasonably expected to be earned from the investment and reinvestment in Investment Securities of the moneys and/or the principal of and interest on the Investment Securities so deposited) shall be sufficient for such purpose; provided, however, that if such indebtedness is to be redeemed or otherwise prepaid prior to the stated maturity thereof, any notice requisite to such redemption or prepayment shall have been given in accordance with the instrument creating such Lien or irrevocable instructions to give such notice shall have been given to such trustee or other holder. As used herein, the term "Investment Securities" means any of the following obligations or securities on which neither the Guarantor, any other obligor on the Securities of the First Series nor any Affiliate of either is the obligor: (a) Government Obligations; (b) interest bearing deposit accounts (which may be represented by certificates of deposit) in any national or state bank (which may include the Trustee or any Paying Agent) or savings and loan association which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (c) bankers' acceptances drawn on and accepted by any commercial bank (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (d) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, any State or Territory of the United States or the District of Columbia, or any political subdivision of any of the foregoing, which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (e) bonds or other obligations of any agency or instrumentality of the United States; (f) corporate debt securities which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (g) repurchase agreements with respect to any of the foregoing obligations or securities with any banking or financial institution (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a

nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (h) securities issued by any regulated investment company (including any investment company for which the Trustee or any Paying Agent is the advisor), as defined in Section 851 of the Internal Revenue Code of 1986, as amended, or any successor section of such Code or successor federal statute, provided that the portfolio of such investment company is limited to obligations or securities of the character and investment quality contemplated in clauses (a) through (f) above and repurchase agreements which are fully collateralized by any of such obligations or securities; and (i) any other obligations or securities which may lawfully be purchased by the Trustee in its capacity as such.

"Purchase Money Lien" means, with respect to any property being acquired by the Guarantor, a Lien on such property which

(a) is taken or retained by the transferor of such property to secure all or part of the purchase price thereof;

(b) is granted to one or more Persons other than the transferor which, by making advances or incurring an obligation, give value to enable the grantor of such Lien to acquire rights in or the use of such property;

(c) is held by a trustee or agent for the benefit of one or more Persons described in clause (a) or (b) above, provided that such Lien may be held, in addition, for the benefit of one or more other Persons which shall have theretofore given, or may thereafter give, value to or for the benefit or account of the grantor of such Lien for one or more other purposes; or

(d) otherwise constitutes a purchase money mortgage or a purchase money security interest under applicable law;

and, without limiting the generality of the foregoing, for purposes of this Guarantee, the term Purchase Money Lien shall be deemed to include any Lien described above whether or not such Lien (x) shall permit the issuance or other incurrence of additional indebtedness secured by such Lien on such property, (y) shall permit the subjection to such Lien of additional property and the issuance or other incurrence of additional indebtedness on the basis thereof and/or (z) shall have been granted prior to the acquisition of such property, shall attach to or otherwise cover property other than the property being acquired and/or shall secure obligations issued prior and/or subsequent to the issuance of the obligations delivered in connection with such acquisition.

IN WITNESS WHEREOF, MINNESOTA POWER & LIGHT COMPANY has caused this Guarantee to be executed in its corporate name by the manual or facsimile signature of its Chairman of the Board of Directors or its President or any one of its Vice Presidents and its corporate seal or a facsimile thereof to be impressed or imprinted hereon, and the same to be attested by the manual or facsimile signature of its Secretary or any one of its Assistant Secretaries.

Dated:

MINNESOTA POWER & LIGHT COMPANY

[Corporate Seal]

By

Attest:

- ---
Secretary

Exhibit 10(f)

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.

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RECEIVABLES PURCHASE AGREEMENT

This RECEIVABLES PURCHASE AGREEMENT, dated as of December 31, 1996 (as amended, supplemented or otherwise modified from time to time, the "Agreement") among AFC FUNDING CORPORATION, an Indiana corporation, as seller (the "Seller"), 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"), POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION, a Delaware Corporation ("PAR"), as purchaser (together with its successors and permitted assigns, the "Purchaser"), and NESBITT BURNS SECURITIES INC., a Delaware corporation ("Nesbitt Burns") as agent for the Purchaser (in such capacity, together with its successors and assigns in such capacity, the "Agent").

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.

The Seller desires to sell, transfer and assign an undivided variable percentage interest in a pool of receivables, and the Purchaser desires to acquire such undivided variable percentage interest, as such percentage interest shall be adjusted from time to time based upon, in part, reinvestment payments which are made by the Purchaser and additional incremental payments made to the Seller.

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

ARTICLE I.

AMOUNTS AND TERMS OF THE PURCHASES

Section 1.1. Purchase Facility. (a) On the terms and conditions hereinafter set forth, the Purchaser hereby agrees to purchase and make reinvestments of undivided percentage ownership interests with regard to the Participation from the Seller from time to time during the period from the date hereof to the Termination Date. Under no circumstances shall the Purchaser make any such purchase or reinvestment if, after giving effect to such purchase or reinvestment, the aggregate outstanding Investment of the Participation would exceed the Purchase Limit.

(b) The Seller may, upon at least 30 days' notice to the Agent, terminate the purchase facility provided in this Section 1 in whole or, from time to time, irrevocably reduce in part the unused portion of the Purchase Limit; provided that each partial reduction shall be in the amount of at least $1,000,000, or an integral multiple of $500,000 in excess thereof and shall not reduce the Purchase Limit below $25,000,000.

Section 1.2. Making Purchases. (a) Each purchase (but not reinvestments) of undivided ownership interests with regard to the Participation hereunder shall be made upon the Seller's irrevocable written notice in the form of Annex A delivered to the Agent in accordance with Section 5.2 (which notice must be received by the Agent prior to 11:00 a.m., Chicago time) on the second Business Day next preceding the date of such proposed purchase. Each such notice of any such proposed purchase shall specify the desired amount and date of such purchase and the desired duration of the initial Yield Period for the resulting Participation; provided each proposed purchase shall be in the amount of at least $1,000,000 or an integral multiple of $100,000 in excess thereof. The Agent shall select the duration of such initial Yield Period, and each subsequent Yield Period in its discretion; provided that it shall use reasonable efforts, taking into account market conditions, to accommodate Seller's preferences. At no time shall there be more than five Yield Periods.

(b) On the date of each purchase (but not reinvestment) of undivided ownership interests with regard to the Participation hereunder, the Purchaser shall, upon satisfaction of the applicable conditions set forth in Exhibit II hereto, make available to the Agent at its office at 111 West Monroe Street, Chicago, Illinois 60603, the amount of such purchase in same day funds, and after the Agent's receipt of such funds, the Agent shall make such funds immediately available to the Seller at such office.

(c) Effective on the date of each purchase pursuant to this Section 1.2 and each reinvestment pursuant to Section 1.4, the Seller hereby sells and assigns to the Purchaser an undivided percentage ownership interest equal to the Participation in (i) each Pool Receivable then existing, (ii) all Related Security with respect to such Pool Receivables, and (iii) Collections with respect to, and other proceeds of, such Pool Receivables and Related Security.

(d) To secure all of the Seller's obligations (monetary or otherwise) under this Agreement and the other Transaction Documents to which it is a party, whether now or hereafter existing or arising, due or to become due, direct or indirect, absolute or contingent, including to secure the obligation of the

Servicer that Collections be applied to the Participation as provided in this Agreement, the Seller hereby grants to the Purchaser a security interest in all of the Seller's right, title and interest (including without limitation any undivided interest of the Seller) in, to and under all of the following, whether now or hereafter owned, existing or arising: (A) all Pool Receivables, (B) all Related Security with respect to each such Pool Receivable, (C) all Collections with respect to each such Pool Receivable, (D) the Collection Account and Liquidation Account and all amounts on deposit therein and all certificates and instruments, if any, from time to time evidencing the Collection Account and the Liquidation Account, all amounts on deposit therein, all investments (including any investment property) made with such funds, all claims thereunder or in connection therewith, and all interest, dividends, moneys, instruments, securities and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the foregoing, (E) all rights of the Seller under the Purchase and Sale Agreement, and (F) all proceeds of, and all amounts received or receivable under any or all of, the foregoing. The Purchaser shall have, with respect to the property described in this Section 1.2(d), and in addition to all the other rights and remedies available to the Purchaser, all the rights and remedies of a secured party under any applicable UCC.

Section 1.3. Participation Computation. The Participation shall be initially computed on the date of the initial purchase hereunder. Thereafter until the Termination Date, the Participation shall be automatically recomputed (or deemed to be recomputed) on each Business Day other than a Termination Day. The Participation, as computed (or deemed recomputed) as of the day immediately preceding the Termination Date, shall thereafter remain constant. The Participation shall become zero when the Investment thereof and Discount thereon shall have been paid in full, all the amounts owed by the Seller hereunder to the Purchaser, the Agent, and any other Indemnified Party or Affected Person are paid in full and the Servicer shall have received the accrued Servicing Fee thereon.

Section 1.4. Settlement Procedures. (a) Collection of the Pool Receivables shall be administered by the Servicer in accordance with the terms of this Agreement. The Seller shall provide to the Servicer (if other than the Seller) on a timely basis all information needed for such administration, including notice of the occurrence of any Termination Day and current computations of the Participation.

(b) The Servicer shall segregate and hold all Collections in trust for the benefit of the Seller and the Purchaser and, within one Business Day of the receipt (or deemed receipt) of

Collections of Pool Receivables by the Seller or Servicer, deposit such Collections into a Deposit Account. Servicer shall on the day any funds deposited in a Deposit Account become available transfer such funds to the Collection Account. With respect to such Collections on the day deposited into the Collection Account, the Servicer shall:

(i) transfer from the Collection Account to the Liquidation Account, set aside for the benefit of the Purchaser, out of the percentage of such Collections represented by the Participation, first an amount equal to the Discount accrued through such day for each Portion of Investment and not previously set aside and second, to the extent funds are available therefor, an amount equal to the Servicing Fee (if the Originator or any Affiliate thereof is not the Servicer), and third the Program Fee accrued through such day for the Participation and not previously set aside; and

(ii) subject to Section 1.4(f), if such day is not a Termination Day, remit to the Seller, on behalf of the Purchaser, the remainder of the percentage of such Collections, represented by the Participation; such Collections shall be automatically reinvested in Pool Receivables, and in the Related Security and Collections and other proceeds with respect thereto, and the Participation shall be automatically recomputed pursuant to Section 1.3; it being understood, that prior to remitting to the Seller the remainder of such Collections by way of reinvestment in Pool Receivables, the Servicer shall have calculated the Participation on such day, and if such Participation shall exceed 100% of the sum of the Net Receivables Pool Balance on such day plus the amount on deposit in the Liquidation Account (other than amounts transferred thereto from the Collection Account to pay Discount, the Servicing Fee and the Program Fee pursuant to the preceding paragraph (i)), such Collections shall not be remitted to the Seller but shall be transferred to the Liquidation Account for the benefit of the Purchaser in accordance with paragraph (iii) below;

(iii) if such day is a Termination Day, (A) transfer to the Liquidation Account for the Purchaser the entire remainder of the percentage of the Collections represented by the Participation; provided that so long as the Termination Date has not occurred if any amounts are so transferred to the Liquidation Account on any Termination Day and, thereafter, the conditions set forth in Section 2 of Exhibit II are satisfied or are waived by the Agent, such previously transferred amounts shall, to the extent still on deposit in the Liquidation Account, be reinvested in

accordance with the preceding paragraph (ii) on the day of such subsequent satisfaction or waiver of conditions, and (B) transfer to the Liquidation Account for the Purchaser the entire remainder of the Collections in the Collection Account represented by the Seller's share of the Collections, if any; provided that so long as the Termination Date has not occurred if any amounts are so transferred to the Liquidation Account on any Termination Day and thereafter the conditions set forth in Section 2 of Exhibit II are satisfied or are waived by the Agent, such previously transferred amounts to the extent still on deposit in the Liquidation Account, shall be distributed to the Seller on the day of such subsequent satisfaction or waiver of conditions; and

(iv) during such times as amounts are required to be reinvested in accordance with the foregoing paragraph (ii) or the proviso to paragraph (iii), release to the Seller (subject to Section 1.4(f)) for its own account any Collections in excess of (x) such reinvested amounts, (y) the amounts that are required to be transferred to the Liquidation Account pursuant to paragraph (i) above and (z) in the event the Seller is not the Servicer, all reasonable and appropriate out-of-pocket costs and expenses of such Servicer of servicing, collecting and administering the Pool Receivables.

(c) The Servicer shall deposit into the Purchaser's Account (or such other account designated by the Agent), on the last day of each Settlement Period relating to a Portion of Investment:

(i) Collections held on deposit in the Liquidation Account for the benefit of the Purchaser pursuant to Section 1.4(b)(i) in respect of accrued Discount and the Program Fees with respect to such Portion of Investment;

(ii) Collections held on deposit in the Liquidation Account for the benefit of the Purchaser pursuant to Section 1.4(f) with respect to such Portion of Investment; and

(iii) the lesser of (x) the amount of Collections then held on deposit in the Liquidation Account for the benefit of the Purchaser pursuant to Section 1.4(b)(iii) and (y) such Portion of Investment.

(d) Upon receipt of funds deposited into the Purchaser's Account pursuant to Section 1.4(c) with respect to any Portion of Investment, the Agent shall cause such funds to be distributed as follows:

(i) if such distribution occurs on a day that is not a Termination Day, first to the Purchaser in payment in full of all accrued Discount with respect to such Portion of Investment, second, to the Purchaser in payment of accrued and unpaid Program Fees, and third, if the Servicer has set aside amounts in respect of the Servicing Fee pursuant to Section 1.4(b)(i), to the Servicer (payable in arrears on the last day of each calendar month) in payment in full of accrued Servicing Fees so set aside with respect to such Portion of Investment; and

(ii) if such distribution occurs on a Termination Day, first to the Purchaser in payment in full of all accrued Discount with respect to such Portion of Investment, second to the Purchaser in payment of accrued and unpaid Program Fees, third, to the Purchaser in payment in full of such Portion of Investment, fourth, if AFC or any of its Affiliates is not the Servicer, to the Servicer in payment in full of all accrued Servicing Fees with respect to such Portion of Investment, and fifth, if the Investment and accrued Discount with respect to each Portion of Investment have been reduced to zero, and all accrued Servicing Fees payable to the Servicer (if other than AFC or any of its Affiliates) have been paid in full, to the Purchaser, the Agent and any other Indemnified Party or Affected Person in payment in full of any other amounts owed thereto by the Seller hereunder and then to the Servicer (if the Servicer is AFC or any of its Affiliates) in payment in full of all accrued Servicing Fees.

After the Investment, Program Fees, Discount and Servicing Fees with respect to the Participation, and any other amounts payable by the Seller to the Purchaser, the Agent or any other Indemnified Party or Affected Person hereunder, have been paid in full, all additional Collections with respect to the Participation shall be paid to the Seller for its own account.

(e) For the purposes of this Section 1.4:

(i) if on any day the Outstanding Balance of any Pool Receivable is reduced or adjusted as a result of any discount, rebate or other adjustment made by the Originator, Seller or Servicer, or any setoff or dispute between the Seller, Originator or the Servicer and an Obligor, the Seller shall be deemed to have received on such day a

Collection of such Pool 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 Pool Receivable, the Seller shall be deemed to have received on such day a Collection of such Pool Receivable in full;

(iii) except as provided in paragraph (i) or (ii) of this Section 1.4(e), or as otherwise required by applicable law or the relevant Contract, all Collections received from an Obligor of any Receivable shall be applied in accordance with the Contract with such Obligor and the Credit and Collection Policy; and

(iv) if and to the extent the Agent or the Purchaser shall be required for any reason to pay over to an 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 Seller and, accordingly, the Agent or the Purchaser, as the case may be, shall have a claim against the Seller for such amount, payable when and to the extent that any distribution from or on behalf of such Obligor is made in respect thereof.

(f) If at any time the Seller shall wish to cause the reduction of a Portion of Investment (but not to commence the liquidation, or reduction to zero, of the entire Investment of the Participation), the Seller may do so as follows:

(i) the Seller shall give the Agent at least two Business Days' prior written notice thereof (including the amount of such proposed reduction and the proposed date on which such reduction will commence),

(ii) on the proposed date of commencement of such reduction and on each day thereafter, the Servicer shall cause Collections with respect to such Portion of Investment not to be reinvested until the amount thereof not so reinvested shall equal the desired amount of reduction, and

(iii) the Servicer shall hold such Collections in the Liquidation Account for the benefit of the Purchaser, for payment to the Agent on the last day of the current Settlement Period relating to such Portion of Investment, and the applicable Portion of Investment shall be deemed reduced in the amount to be paid to the Agent only when in fact finally so paid;

provided that,

A. unless otherwise agreed by the Agent the amount of any such reduction shall be not less than $1,000,000 and shall be an integral multiple of $100,000, and the entire Investment (if any) of the Participation after giving effect to such reduction shall be not less than $2,000,000,

B. the Seller shall use reasonable efforts to choose a reduction amount, and the date of commencement thereof, so that to the extent practicable such reduction shall commence and conclude in the same Yield Period, and

C. if two or more Portions of Investment shall be outstanding at the time of any proposed reduction, such proposed reduction shall be applied, unless the Seller shall otherwise specify in the notice given pursuant to Section 1.4(f)(i), to the Portion of Investment with the shortest remaining Yield Period.

Section 1.5. Fees. The Seller shall pay to the Agent certain fees in the amounts and on the dates set forth in a letter dated December 31, 1996 between the Seller and the Agent (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 Seller or the Servicer hereunder shall be paid or deposited no later than noon (Chicago time) on the day when due in same day funds to the Purchaser's Account. All amounts received after noon (Chicago time) will be deemed to have been received on the immediately succeeding Business Day.

(b) The Seller shall, to the extent permitted by law, pay interest on any amount not paid or deposited by the Seller or Servicer to the Purchaser'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 Discount, 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. Dividing or Combining Portions of the Investment of the Participation. The Seller may, on the last day of any Yield Period, either (i) divide the Investment of the Participation into two or more portions (each, a "Portion of Investment") equal, in aggregate, to the Investment of the Participation, provided that after giving effect to such division the amount of each such Portion of Investment shall be not less than $1,000,000, or (ii) combine any two or more Portions of Investment outstanding on such last day and having Yield Periods ending on such last day into a single Portion of Investment equal to the aggregate of the Investment of such Portions of Investment; provided, further there shall at no time be more than five Yield Periods.

Section 1.8. Increased Costs. (a) If the Agent, the Purchaser, any Liquidity Bank, any other Program Support Provider 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 purchases of or otherwise to maintain the investment in Pool Receivables related to this Agreement or any related liquidity facility or credit enhancement facility and other commitments of the same type, then, upon demand by such Affected Person (with a copy to the Agent), the Seller shall immediately pay to the Agent, 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 Seller of the same and whether such Affected Party will request that the Seller indemnify it for such circumstance. A certificate as to such amounts submitted to the Seller and the Agent 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 agreeing to purchase or purchasing, or maintaining the ownership of the Participation in respect of which Discount is computed by reference to the Eurodollar Rate, then, upon demand by such Affected Person, the Seller 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 Seller of the same and whether such Affected Party will request that the Seller indemnify it for such circumstance. A certificate as to such amounts submitted to the Seller by such Affected Person shall be conclusive and binding for all purposes, absent manifest error.

Section 1.9. Additional Discount on Portions of Participation Bearing a Eurodollar Rate. The Seller 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 Discount on the unpaid Investment of the applicable Portion of Investment during each Yield Period in respect of which Discount is computed by reference to the Eurodollar Rate, for such Yield Period, at a rate per annum equal at all times during such Yield Period to the remainder obtained by subtracting (i) the Eurodollar Rate for such Yield Period from (ii) the rate obtained by dividing such Eurodollar Rate referred to in clause (i) above by that percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Yield Period, payable on each date on which Discount 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 Seller of the same and whether such Affected Party will request that the Seller indemnify it for such circumstance. Such additional Discount shall be determined by the Affected Person and notified to the Seller through the Agent. A certificate as to such additional Discount submitted to the Seller by the Affected Person shall be conclusive and binding for all purposes, absent manifest error.

Section 1.10. 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 Participation or in the amount of Investment relating thereto, or does or shall change the basis of taxation of payments to such Affected Person on account of Collections, Discount 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, purchases, 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 Eurodollar Rate 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 acting as Agent, or of agreeing to purchase or purchasing or maintaining the ownership of undivided ownership interests with regard to the Participation (or interests therein) or any Portion of Investment in respect of which Discount is computed by reference to the Eurodollar Rate or the Base Rate or (y) to reduce any amount receivable hereunder (whether directly or indirectly) funded or maintained by reference to the Eurodollar Rate or the Base Rate, then, in any such case, upon demand by such Affected Person the Seller 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 Seller 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 1.11. Inability to Determine Eurodollar Rate. In the event that the Agent shall have determined prior to the first

day of any Yield 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 Yield Period are not available, (b) adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Yield Period or (c) the Eurodollar Rate determined pursuant hereto does not accurately reflect the cost to the Purchaser (as conclusively determined by the Agent) of maintaining any Portion of Investment during such Yield Period, the Agent shall promptly give telephonic notice of such determination, confirmed in writing, to the Seller prior to the first day of such Yield Period. Upon delivery of such notice (a) no Portion of Investment shall be funded thereafter at the Bank Rate determined by reference to the Eurodollar Rate, unless and until the Agent shall have given notice to the Seller that the circumstances giving rise to such determination no longer exist, and (b) with respect to any outstanding Portions of Investment then funded at the Bank Rate determined by reference to the Eurodollar Rate, 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 Yield Periods relating to such Portions of Investment.

ARTICLE II.

REPRESENTATIONS AND WARRANTIES; COVENANTS; TERMINATION EVENTS

Section 2.1. Representations and Warranties; Covenants. Each of the Seller, 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 2.2. Termination Events. If any of the Termination Events set forth in Exhibit V hereto shall occur, the Agent may, by notice to the Seller, declare the Termination Date to have occurred (in which case the Termination Date shall be deemed to have occurred); provided that, automatically upon the occurrence of any event (without any requirement for the passage of time or the giving of notice) described in subsection (g) or (m) of Exhibit V, the Termination Date shall occur. Upon any such declaration, the occurrence or the deemed occurrence of the Termination Date, the Purchaser and the Agent shall have, in addition to the rights and remedies which they may have under this Agreement, all other rights and remedies provided after default under the UCC and under other applicable law, which rights and remedies shall be cumulative.

ARTICLE III.

INDEMNIFICATION

Section 3.1. Indemnities by the Seller. Without limiting any other rights that the Agent or the Purchaser or any of their respective Affiliates, employees, agents, successors, transferees or assigns (each, an "Indemnified Party") may have hereunder or under applicable law, the Seller 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 use of proceeds of purchases or reinvestments or the ownership of the Participation, or any interest therein, or in respect of any Receivable or any Contract 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, (b) recourse (except as otherwise specifically provided in this Agreement) for uncollectible Receivables to be written off consistent with the Credit and Collection Policy, or (c) 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 Seller 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 Receivable included in the calculation of the Net Receivables Pool Balance as an Eligible Receivable to be an Eligible Receivable, the failure of any information contained in a Servicer Report or a Portfolio Certificate to be true and correct, or the failure of any other information provided to the Purchaser or the Agent 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 Seller (or any of its officers) under or in connection with this Agreement to have been true and correct in all respects when made;

(iii) the failure by the Seller to comply with any applicable law, rule or regulation with respect to any Pool

Receivable or the related Contract; or the failure of any Pool Receivable or the related Contract to conform to any such applicable law, rule or regulation;

(iv) the failure to vest in the Purchaser a valid and enforceable (A) perfected undivided percentage ownership interest, to the extent of the Participation, in the Receivables in, or purporting to be in, the Receivables Pool and the Related Security and Collections with respect thereto and (B) first priority perfected security interest in the items described in Section 1.2(d), in each case, free and clear of any Adverse Claim;

(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 Receivables in, or purporting to be in, the Receivables Pool and the Related Security and Collections in respect thereof, whether at the time of any purchase or reinvestment 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 in, or purporting to be in, the Receivables Pool (including, without limitation, a defense based on such Receivable or the related Contract 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 Seller or any of its Affiliates acting as Servicer or by any agent or independent contractor retained by the Seller or any of its Affiliates);

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

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

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

(x) any investigation, litigation or proceeding related to this Agreement or the use of proceeds of

purchases or reinvestments or the ownership of the Participation or in respect of any Receivable, Related Security or Contract;

(xi) any reduction in Investment 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 the purchase or ownership of the Participation, or other interests in the Receivables Pool or in any Related Security or Contract.

If for any reason the indemnification provided above in this Section 3.1 is unavailable to an Indemnified Party or is insufficient to hold such Indemnified Party harmless, then the Seller 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 3.2. Indemnities by AFC. Without limiting any other rights which any such person may have hereunder under applicable law, AFC 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 included in the calculation of the Net Receivables Pool Balance as an Eligible Receivable to be an Eligible Receivable, the failure of any information contained in a Servicer Report or a Portfolio Certificate to be true and correct, or the failure of any other information provided to the Purchaser or the Agent 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 Pool Receivable or other related contract; or

(iv) any failure of AFC 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 3.2 is unavailable to an Indemnified Party or is insufficient to hold such Indemnified Party harmless, then AFC 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 IV.

ADMINISTRATION AND COLLECTIONS

Section 4.1. Appointment of Servicer. (a) The servicing, administering and collection of the Pool Receivables shall be conducted by the Person so designated from time to time as Servicer in accordance with this Section 4.1. Until the Agent gives notice to the Seller and the Servicer (in accordance with this Section 4.1) 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 a Termination Event, the Agent 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 4.1(a) hereof, the Servicer agrees that it will terminate its activities as Servicer hereunder in a manner which the Agent 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 Pool Receivables and the Related Security.

(c) The Servicer acknowledges that, in making their decision to execute and deliver this Agreement, the Agent and the Purchaser have 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 Purchaser and the Agent for the performance of the duties and obligations so delegated, (iii) the Seller, the Agent and the Purchaser 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 Agent may terminate such agreement upon the termination of the Servicer in accordance with Section 4.1(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 4.2. 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 Pool Receivable from time to time, all in accordance with this Agreement and all applicable laws, rules and regulations, with reasonable care and diligence, and in accordance with the Credit and Collection Policy. The Servicer shall set aside for the accounts of the Seller and the Purchaser the amount of the Collections to which each is entitled in accordance with Article II hereto. The Seller shall deliver to the Servicer and the Servicer shall hold for the benefit of the Seller and the Agent (for the benefit of the Purchaser and individually) in accordance with their respective interests, all records and documents (including without limitation computer tapes or disks) with respect to each Pool Receivable. Notwithstanding anything to the contrary contained herein, the Agent may direct the Servicer to commence or settle any legal action to enforce collection of any Pool Receivable or to foreclose upon or repossess any Related Security; provided, however, that no such direction may be given unless a Termination Event 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 Seller all books, records and related materials that the Seller previously provided to the Servicer in connection with this Agreement.

Section 4.3. Deposit Accounts; Establishment and Use of Certain Accounts.

(a) Deposit Accounts. Servicer agrees to transfer ownership and control of the Deposit Accounts to the Seller no later than January 31, 1997. Seller agrees that if the Agent so requests it shall grant a valid perfected security interest in each Deposit Account to the Purchaser pursuant to documentation satisfactory to the Agent.

(b) Collection Account. The Servicer agrees to establish the Collection Account on or before the date of the first purchase hereunder. The Collection Account shall be used to accept the transfer of Collections from the Deposit Accounts pursuant to Section 1.4(b) and for such other purposes described in the Transaction Documents.

(c) Liquidation Account. The Servicer agrees to establish the Liquidation Account on or before the date of the first purchase hereunder. The Liquidation Account shall be used to receive transfers of certain amounts of the Purchaser's share of Collections of Pool Receivables prior to the Settlement Dates and for such other purposes described in the Transaction Documents. No funds other than those transferred in accordance with Section 1.4 shall be intentionally transferred into the Liquidation Account.

(d) Permitted Investments. Any amounts in the Liquidation Account or the Collection Account, as the case may be, may be invested by the Liquidation Account Bank or the Collection Account Bank, respectively, at Servicer's direction, in Permitted Investments, so long as Purchaser's interest in such Permitted Investments is perfected in a manner satisfactory to Purchaser and such Permitted Investments are subject to no Adverse Claims other than those of the Purchaser provided hereunder.

(e) Control of Accounts. The Agent may following any Termination Event (or an Unmatured Termination Event of the type described in paragraph (g) of Exhibit V) at any time give notice to the Collection Account Bank and the Liquidation Account Bank that the Agent is exercising its rights under the Collection Account Agreement and the Liquidation Account Agreement to do any or all of the following: (i) to have the exclusive ownership and control of the Collection Account and the Liquidation Account transferred to the Agent 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 and the Liquidation Account Agreement. The Seller hereby agrees that if the Agent at any time takes any action set forth in the preceding sentence, the Agent shall have exclusive control of the proceeds (including Collections) of all Pool

Receivables and the Seller hereby further agrees to take any other action that the Agent may reasonably request to transfer such control. Any proceeds of Pool Receivables received by the Seller, as Servicer or otherwise, thereafter shall be sent immediately to the Agent. The parties hereto hereby acknowledge that if at any time the Agent takes control of the Collection Account, the Liquidation Account or any Deposit Account, the Agent shall not have any rights to the funds therein in excess of the unpaid amounts due to the Agent, the Purchaser or any other Person hereunder.

Section 4.4. Enforcement Rights. (a) At any time following the occurrence of a Termination Event:

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

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

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

(b) The Seller hereby authorizes the Agent, and irrevocably appoints the Agent as its attorney-in-fact with full power of substitution and with full authority in the place and stead of the Seller, which appointment is coupled with an interest, to take any and all steps in the name of the Seller and on behalf of the Seller necessary or desirable, in the determination of the Agent, to collect any and all amounts or portions thereof due

under any and all Pool Receivables or Related Security, including, without limitation, endorsing the name of the Seller on checks and other instruments representing Collections and enforcing such Pool Receivables, Related Security and the related Contracts. The Agent shall only exercise the powers construed by this subsection (b) after the occurrence of a Termination Event. Notwithstanding anything to the contrary contained in this subsection (b), none of the powers conferred upon such attorney-in-fact pursuant to the immediately preceding sentence 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 4.5. Responsibilities of the Seller. Anything herein to the contrary notwithstanding, the Seller shall (i) perform all of its obligations, if any, under the Contracts related to the Pool Receivables to the same extent as if interests in such Pool Receivables had not been transferred hereunder, and the exercise by the Agent or the Purchaser of its rights hereunder shall not relieve the Seller from such obligations and (ii) pay when due any taxes, including, without limitation, any sales taxes payable in connection with the Pool Receivables and their creation and satisfaction. The Agent and the Purchaser shall not have any obligation or liability with respect to any Pool Receivable, any Related Security or any related Contract, nor shall any of them be obligated to perform any of the obligations of the Seller or AFC under any of the foregoing.

Section 4.6. Servicing Fee. The Servicer shall be paid a fee, through distributions contemplated by Section 1.4(d), equal to (a) at any time AFC or an Affiliate of AFC is the Servicer, 2% per annum of the average aggregate Outstanding Balance of all Receivables, and (b) at any time a Person other than AFC or an Affiliate of AFC is the Servicer, 110% of the Servicer's cost of acting as Servicer.

ARTICLE V.

MISCELLANEOUS

Section 5.1. Amendments, Etc. No amendment or waiver of any provision of this Agreement or consent to any departure by the Seller or Servicer therefrom shall be effective unless in a writing signed by the Agent, and, in the case of any amendment, by the Seller 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 Purchaser or Agent 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 5.2. 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 5.3. Assignability. (a) This Agreement and the Purchaser's rights and obligations herein (including ownership of the Participation) shall be assignable, in whole or in part, by the Purchaser and its successors and assigns with the prior written consent of the Seller; provided, however, that such consent shall not be unreasonably withheld; and provided, further, that no such consent shall be required if the assignment is made to (i) any Affiliate of the Purchaser, (ii) any Liquidity Bank (or any Person who upon such assignment would be a Liquidity Bank), (iii) other Program Support Provider (or any Person who upon such assignment would be a Program Support Provider) or (iv) any Person that is in the business of issuing Notes and is associated with or administered by the Agent or any Affiliate of the Purchaser (each such Person, a "Note Issuer"). Each assignor may, in connection with the assignment, disclose to the applicable assignee any information relating to the Seller or the Pool Receivables furnished to such assignor by or on behalf of the Seller, the Purchaser or the Agent.

Upon the assignment by the Purchaser in accordance with this Section 5.3, the assignee receiving such assignment shall have all of the rights of the Purchaser with respect to the Transaction Documents and the Investment (or such portion thereof as has been assigned).

(b) The Purchaser may at any time grant to one or more banks or other institutions (each a "Liquidity Bank") party to the Liquidity Agreement or to any other Program Support Provider participating interests or security interests in the Participation. In the event of any such grant by the Purchaser of a participating interest to a Liquidity Bank or other Program Support Provider, the Purchaser shall remain responsible for the performance of its obligations hereunder. The Seller agrees that

each Liquidity Bank or other Program Support Provider shall be entitled to the benefits of Sections 1.8, 1.9 and 1.10.

(c) This Agreement and the rights and obligations of the Agent hereunder shall be assignable, in whole or in part, by the Agent and its successors and assigns; provided, however, that if such assignment is to any Person who is not an Affiliate of the Agent, the Agent must receive the prior written consent of the Seller (which consent shall not be unreasonably withheld).

(d) Except as provided in Section 4.1(d), neither the Seller nor the Servicer may assign its rights or delegate its obligations hereunder or any interest herein without the prior written consent of the Agent.

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

Section 5.4. Costs, Expenses and Taxes. (a) In addition to the rights of indemnification granted under Section 3.1 hereof, the Seller agrees to pay on demand all reasonable costs and expenses in connection with the preparation, execution, delivery and administration (including periodic auditing of Pool Receivables) of this Agreement, the Liquidity 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 Liquidity 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 Agent, the Purchaser and their respective Affiliates and agents with respect thereto and with respect to advising the Agent, the Purchaser and their respective Affiliates and agents as to their rights and remedies under this Agreement and the other Transaction Documents (provided the costs and expenses payable in connection with the administration of the Transaction Documents (excluding any costs and expenses in connection with any amendment, amendment and restatement, modification, supplement or waiver) in any year shall not exceed $15,000), and all reasonable costs and expenses, if any (including Attorney Costs), of the Agent, the Purchaser and their respective Affiliates and agents, in connection with the enforcement of this Agreement and the other Transaction Documents.

(b) In addition, the Seller 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 5.5. No Proceedings; Limitation on Payments. Each of the Seller, the Servicer, the Agent, each assignee of the Participation or any interest therein, and each Person which enters into a commitment to purchase or does purchase the Participation or interests therein, hereby covenants and agrees that it will not institute against, or join any other Person in instituting against, any Note Issuer, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding, or other proceeding under any federal or state bankruptcy or similar law, for one year and one day after the latest maturing Note issued by any such Note Issuer is paid in full.

Section 5.6 Confidentiality. Unless otherwise required by applicable law or already known by the general public or the third party to which it is disclosed, the Seller 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 Agent, and (b) the Seller's legal counsel and auditors if they agree to hold it confidential.

Section 5.7. 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 PURCHASER IN THE POOL RECEIVABLES AND THE OTHER ITEMS DESCRIBED IN SECTION 1.2(d) 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 ILLINOIS OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF ILLINOIS, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE PURCHASER, THE SELLER, THE SERVICER AND THE AGENT CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE PURCHASER, THE SELLER, THE SERVICER AND THE AGENT 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. THE PURCHASER, THE SELLER, THE SERVICER AND THE AGENT EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY ILLINOIS LAW.

Section 5.8. 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 5.9. Survival of Termination. The provisions of Sections 1.8, 1.9, 1.10, 3.1, 5.4, 5.5, 5.6, 5.7 and 5.10 shall survive any termination of this Agreement.

Section 5.10. WAIVER OF JURY TRIAL. THE PURCHASER, THE SELLER, THE SERVICER AND THE AGENT EACH WAIVE THEIR 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. THE PURCHASER, THE SELLER, THE SERVICER AND THE AGENT EACH AGREE 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 5.11. Entire Agreement. This Agreement embodies the entire agreement and understanding between the Purchaser, the Seller, the Servicer and the Agent, 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 Purchaser of (or any indemnification for) any fees, costs or expenses payable to or incurred (or to be incurred) by or on behalf of the Seller, the Servicer and the Agent.

Section 5.12. Headings. The captions and headings of this Agreement and in any Exhibit hereto are for convenience of reference only and shall not affect the interpretation hereof or thereof.

Section 5.13. Purchaser's Liabilities. The obligations of the Purchaser under this Agreement are solely the corporate

obligations of the Purchaser. No recourse shall be had for any obligation or claim arising out of or based upon this Agreement against any stockholder, employee, officer, director or incorporator of the Purchaser; and provided, however, that this Section 5.13 shall not relieve any such Person of any liability it might otherwise have for its own gross negligence or willful misconduct. The agreements provided in this Section 5.13 shall survive termination of this Agreement.

AFC FUNDING CORPORATION, as Seller

By: Jeffrey K. Harty

Name: Jeffrey K. Harty
Title: Chief Financial Officer

1919 South Post Road
Indianapolis, Indiana 46239

Attention:

Telephone:

Facsimile:

AUTOMOTIVE FINANCE CORPORATION, as Servicer

By: Jeffrey K. Harty

Name: Jeffrey K. Harty
Title: Chief Financial Officer

1919 South Post Road
Indianapolis, Indiana 46239

Attention:

Telephone:

Facsimile:

POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION, as Purchaser

By: Richard L. Taiano

Name: Richard L. Taiano
Title: VICE PRESIDENT

c/o Broadstreet Contract Services, Inc.
Two Wall Street
New York, New York 10005
Attention: Richard Taiano
Telephone: 212/346-9000
Facsimile: 212/346-9012

NESBITT BURNS SECURITIES INC., as Agent

By: Jeffrey J. Phillips

Name: Jeffrey J. Phillips
Title: Managing Director

By: Thomas C. Wright

Name: Thomas C. Wright
Title: Sr. Executive Vice President

NESBITT BURNS SECURITIES INC.
111 West Monroe Street
Chicago, Illinois 60603

Attention: John Pappano
Telephone: (312) 461-4033
Facsimile: (312) 293-4908

Exhibit 10(g)

FIRST AMENDMENT TO
RECEIVABLES PURCHASE AGREEMENT

THIS FIRST AMENDMENT dated as of February 28, 1997 to RECEIVABLES PURCHASE AGREEMENT (this "Amendment") is entered into among AFC FUNDING CORPORATION, an Indiana corporation (the "Seller"), AUTOMOTIVE FINANCE CORPORATION, an Indiana corporation (the "Servicer"), POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION, a Delaware corporation (the "Purchaser"), and NESBITT BURNS SECURITIES INC., a Delaware corporation, as agent for Purchaser (the "Agent").

R E C I T A L S

1. The Seller, the Servicer, the Purchaser and the Agent are parties to that certain Receivables Purchase Agreement dated as of December 31, 1996 (the "Agreement").

2. The Seller, the Servicer, the Purchaser and the Agent desire to amend the Agreement as hereinafter set forth.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Certain Defined Terms. Capitalized terms which are used herein without definition and that are defined in the Agreement shall have the same meanings herein as in the Agreement.

2. Amendments to Agreement. The Agreement is amended as follows:

2.1 Amendment to Section 1.4 (b)(ii). Clause (b)(ii) of Section 1.4 of the Agreement is amended to read as follows:

> "(ii) subject to Section 1.4(f), if such day is not a Termination Day, remit to the Seller (a) on behalf of the Purchaser, the remainder of the percentage of such Collections, represented by the Participation; such Collections shall first be used, if the Originator or any Affiliate of the Seller is the Servicer, to pay any accrued but unpaid Servicing Fee to the Servicer and the remainder shall be automatically reinvested in Pool Receivables, and in the Related Security and Collections and other proceeds with respect thereto, and the Participation shall be automatically recomputed pursuant to Section 1.3; it being understood, that prior to remitting to the Seller the

remainder of such Collections by way of reinvestment in Pool Receivables, the Servicer shall have calculated the Participation on such day, and if such Participation shall exceed 100% of the sum of the Net Receivables Pool Balance on such day plus the amount on deposit in the Liquidation Account (other than amounts transferred thereto from the Collection Account to pay Discount, the Servicing Fee and the Program Fee pursuant to the preceding paragraph (i)), such Collections shall not be remitted to the Seller but shall be transferred to the Liquidation Account for the benefit of the Purchaser in accordance with paragraph (iii) below and (b) the Seller's share of Collections;".

2.2 Automatic Termination Events. The proviso to the first sentence of Section 2.2 of the Agreement is amended to read as follows:

"provided that, automatically upon the occurrence of any event (without any requirement for the passage of time or the giving of notice) described in subsection (g), (h), (k) or (m) of Exhibit V, the Termination Date shall occur."

2.3 Servicing Fee: Section 4.6 of the Agreement is amended to read as follows:

"Section 4.6. Servicing Fee. The Servicer shall be paid a fee, through distributions contemplated by Section 1.4, equal to (a) at any time AFC or an Affiliate of AFC is the Servicer, 2% per annum of the average aggregate Outstanding Balance of all Receivables, and (b) at any time a Person other than AFC or an Affiliate of AFC is the Servicer, 110% of the Servicer's cost of acting as Servicer. The Servicing Fee shall not be payable to the extent funds are not available to pay the Servicing Fee pursuant to Section 1.4."

2.4 Costs and Expenses. Section 5.4(a) of the Agreement is amended to read as follows:

"(a) In addition to the rights of indemnification granted under Section 3.1 hereof, the Seller agrees to pay on demand all reasonable costs and expenses in connection with the preparation, execution, delivery and administration (including periodic auditing of Pool Receivables) of this Agreement, the Liquidity 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 Liquidity 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 Agent, the Purchaser, each Program Support Provider and their respective Affiliates and agents with respect thereto and with respect to advising the Agent, the Purchaser, each Program Support Provider and their respective Affiliates and agents as to their rights and remedies under this Agreement and the other Transaction Documents (provided the costs and expenses payable in connection with the administration of the Transaction Documents (excluding any costs and expenses in connection with any amendment, amendment and restatement, modification, supplement or waiver and any costs and expenses in connection with enforcement) in any year shall not exceed $25,000), and all reasonable costs and expenses, if any (including Attorney Costs), of the Agent, the Purchaser, each Program Support Provider and their respective Affiliates and agents, in connection with the enforcement of this Agreement and the other Transaction Documents."

2.5 Default Ratio. The definition of "Default Ratio" in Exhibit I to the Agreement is amended to read as follows:

"'Default Ratio' means the ratio (expressed as a percentage and rounded upward to the nearest 1/100th of 1%) computed as of the last day of each calendar month by dividing (i) the aggregate Outstanding Balance of all Pool Receivables that were 91-120 days past due on such day or that would have been 91-120 days past due on such day had they not been written off the books of the Seller (the due date being determined, in each case, without reference to any extension that extends the due date to a date more than 90 days past the date such Receivable arose (provided that the determination of such due date shall include any extension that extends the due date to a date between 91 and 120 days past the date of such Receivable arose if, after giving effect to such extension, such Receivable was still an Eligible Receivable)) plus the aggregate amount of non-cash adjustments that reduced the Outstanding Balance of any Pool Receivable during such month by (ii) the aggregate amount of Pool Receivables that were generated by the Originator during the calendar month that occurred five calendar months prior to the calendar month ending on such day."

2.6 Defaulted Receivable. Clause (ii) of the definition of Defaulted Receivable is amended by deleting the reference to "paragraph A. (g)" and inserting in its place "paragraph (g)".

2.7 Delinquent Receivable. The definition of "Delinquent Receivable" in Exhibit I to the Agreement is amended to read as follows:

> "`Delinquent Receivable' means a Receivable which is not a Defaulted Receivable as to which any payment, or part thereof, remains unpaid for more than 30 days after the due date for such payment (such due date being determined without reference to any extension that extends the due date to a date more than 90 days past the date such Receivable arose (provided that the determination of such due date shall include any extension that extends the due date to a date between 91 and 120 days past the date of such Receivable arose if, after giving effect to such extension, such Receivable was still an Eligible Receivable))."

2.8 Eligible Contract. The definition of Eligible Contract in Exhibit I to the Agreement is amended to read as follows:

> "Eligible Contract" means a Contract in one of the forms set forth in Schedule IV with such variations as AFC shall approve in its reasonable business judgment that shall not result in materially lesser rights for the Originator, the Seller or the Purchaser.

2.9 Insolvency. Paragraph (g) of Exhibit V to the Agreement is amended to read as follows:

> "(g) The Originator, ADESA Corporation, Minnesota Power & Light Company or Seller 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, ADESA Corporation, Minnesota Power & Light Company or Seller 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 and 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 the Originator, ADESA Corporation, Minnesota Power & Light Company or Seller shall take any corporate action to authorize any of the actions set forth above in this paragraph (g); or"

2.10 Loss Reserve. The definition of Loss Reserve in Exhibit I to the Agreement is amended to read as follows:

"`Loss Reserve' means, for the Participation, on any date, an amount equal to the product of (a) the quotient obtained by dividing (i) the Loss Percentage by (y) 1 - the Loss Percentage and (b) the Investment at such time."

2.11 Performance Guaranty. Exhibit I to the Agreement is amended by adding the following defined term in proper alphabetical order:

"`Performance Guaranty' means the Performance Guaranty, dated as of February 28, 1997, made by ADESA Corporation in favor of the Agent for the benefit of the Purchaser, the Agent and each Program Support Provider, as the same may be amended, supplemented or otherwise modified from time to time."

2.12 Net Spread. Paragraph (j) of Exhibit V to the Agreement is amended to read as follows:

"(j) The Net Spread shall be 6% or less at any time; or"

2.13 Net Worth. Paragraph (n) of Exhibit V to the Agreement is amended to read as follows:

"(n) The Tangible Net Worth of the Seller shall be less than $1,000,000 or the Tangible Net Worth of the Originator shall be less than the lesser of (i) $18,000,000 and (ii) the result of: (A) $12,000,000 plus (B) 50% of the sum of the net income of the Originator for each fiscal quarter of the Originator that, at the time of determination, has concluded for which net income of the Originator was positive, commencing with the fiscal quarter ending March 31, 1997."

2.14 Validity of Performance Guaranty. Exhibit V to the Agreement is amended by inserting the following at the end thereof:

" ; or (q) The Performance Guaranty shall cease to be in full force and effect with respect to ADESA Corporation, ADESA Corporation shall fail to comply with or perform any provision of the Performance Guaranty, or ADESA Corporation (or any Person by, through or on behalf of ADESA Corporation) shall contest in any manner the validity, binding nature or enforceability of the Performance Guaranty with respect to ADESA Corporation".

3. Representations and Warranties. Each of the Seller and the Servicer hereby represents and warrants to the Agent and the Purchaser as follows:

(a) Representations and Warranties. The representations and warranties of such Person contained in Exhibit III to the Agreement are true and correct as of the date hereof (unless stated to relate solely to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

(b) Enforceability. The execution and delivery by such Person of this Amendment, and the performance of its obligations under this Amendment and the Agreement, as amended hereby, are within its corporate powers and have been duly authorized by all necessary corporate action on its part. This Amendment and the Agreement, as amended hereby, are its valid and legally binding obligations, enforceable in accordance with its terms.

(c) Termination Event. No Termination Event or Unmatured Termination Event has occurred and is continuing.

4. Effectiveness. This Amendment shall become effective as of the date hereof upon receipt by the Agent of the following, each duly executed and dated as of the date hereof (or such other date satisfactory to the Agent), in form and substance satisfactory to the Agent:

(a) counterparts of this Amendment (whether by facsimile or otherwise) executed by each of the parties hereto;

(b) a Performance Guaranty executed by ADESA Corporation ("ADESA");

(c) a written statement from Moody's Investors Service, Inc. and Standard & Poor's that this Amendment will not result in a downgrade or withdrawal of the rating of the Notes;

(d) a favorable opinion of Ice Miller Donadio & Ryan, counsel to the Seller, the Servicer and ADESA, as to such matters as the Agent may request;

(e) a favorable opinion of Warren W. Byrd, Esq., in-house counsel for the Seller, the Servicer and ADESA, as to such matters as the Agent may request;

(f) such other documents and instruments as the Agent may reasonably request.

5. Effect of Amendment. Except as expressly amended and modified by this Amendment, all provisions of the Agreement shall remain in full force and effect. After this Amendment becomes effective, all references in the Agreement (or in any other Transaction Document) to "the Receivables Purchase Agreement," "this Agreement," "hereof," "herein" or words of similar effect, in each case referring to the Agreement, shall be deemed to be references to the Agreement as amended by this Amendment. This Amendment shall not be deemed to expressly or impliedly waive, amend or supplement any provision of the Agreement other than as set forth herein.

6. Counterparts. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, and each counterpart shall be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

7. Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Indiana without reference to conflict of laws principles.

8. Section Headings. The various headings of this Amendment are inserted for convenience only and shall not affect the meaning or interpretation of this amendment or the Agreement or any provision hereof or thereof.

[signature pages begin on next page]

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

AFC FUNDING CORPORATION

By: Jeffrey K. Harty

Name: Jeffrey K. Harty

Title: Chief Financial Officer

AUTOMOTIVE FINANCE CORPORATION

By: Jeffrey K. Harty

Name: Jeffrey K. Harty

Title: Chief Financial Officer

POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION

By: Richard L. Taiano

Name: RICHARD L. TAIANO

Title: VICE PRESIDENT

NESBITT BURNS SECURITIES INC.

By: Jeffrey J. Phillips

Name: Jeffrey J. Phillips

Title: Managing Director

By: Thomas C. Wright

Name: Thomas C. Wright

Title: Sr. Executive Vice President

Exhibit 10 (h)

PURCHASE AND SALE AGREEMENT

Dated as of December 31, 1996

between

AFC FUNDING 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 31, 1996, is between AUTOMOTIVE FINANCE CORPORATION, an Indiana corporation (the "Originator"), as seller, and AFC FUNDING 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 Receivables Purchase Agreement of even date herewith (as amended, supplemented or otherwise modified from time to time, the "Receivables Purchase Agreement"), among the Company, the Originator, as initial Servicer, POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION, as purchaser (together with its successors and assigns, the "Purchaser"), and NESBITT BURNS SECURITIES, INC., as agent for Purchaser (together with its successors and assigns, the "Agent").

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 certain Receivables and Related Rights 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 sell to Purchaser an undivided variable percentage interest in its Receivables and Related Rights pursuant to the Receivables Purchase Agreement in order to finance its purchases of certain Receivables and Related Rights hereunder.

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 31, 1996 (the "Closing Date") (other than the Receivables and Related Rights contributed by the Originator to the Company pursuant to Section 3.1 (the "Contributed Receivables"));

(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 rights to, but not the obligations under, all Related Security (other than with respect to the Contributed Receivables);

(d) all monies due or to become due with respect to any of the foregoing;

(e) all books and records related to any of the foregoing; and

(f) all proceeds thereof (as defined in the UCC) received or applied on or after the Closing Date including, without limitation, all funds which either are received by the Originator, the Company or the Servicer from or on behalf of the Obligors in payment of any amounts owed (including, without limitation, finance charges, interest and all other charges) in respect of any Receivable (other than Contributed Receivables), 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 related 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 seller 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 (f) of this Section 1.1 (collectively, including such item relating to Contributed Receivables, 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 Receivables) 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 Payment Date immediately following the day on which the Originator shall have given notice to the Company that the Originator desires to terminate this Agreement.

As used herein, "Payment Date" means (i) the Closing Date and (ii) each Business Day thereafter that the Originator is open for business.

1.5. Intention of the Parties. It is the express intent of the parties hereto that the transfers of the Receivables (other than Contributed Receivables) and Related Rights (other than those relating to the Contributed Receivables) 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 the Receivables and the Related Rights now existing and hereafter

created, all monies due or to become due and all amounts received with respect thereto, and all proceeds thereof, 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 Receivables Purchase 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 Receivables Purchase 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 each Servicer Report Date, the Servicer shall deliver to the Company, the Agent and the Originator (if the Servicer is other than the Originator) a report in substantially the form of Exhibit A (each such report being herein called a "Purchase Report") with respect to the matters set forth therein and the Company's purchases of Receivables from the Originator

(a) that are to be made on the Closing Date (in the case of the Purchase Report to be delivered on the Closing Date), or

(b) that were made during the period commencing on the Servicer Report Date immediately preceding such Servicer Report Date to (but not including) such Servicer Report Date (in the case of each subsequent Purchase Report).

The "Purchase Price" (to be paid to the Originator in accordance with the terms of Article III) for the Receivables and the Related Rights that are purchased hereunder shall be determined in accordance with the following formula:

PP = OB X PDRR

where:

PP = Purchase Price for each Receivable as calculated on the relevant Payment Date.

OB = the Outstanding Balance of such Receivable at the time of origination.

PDRR = the Purchase Discount Rate Reserve Ratio.

"Purchase Discount Rate Reserve Ratio" means a percentage calculated in the most recent Purchase Report in accordance with the following formula:

$$PDRR = \frac{TD}{360} \times (DR + PD)$$

where:

PDRR = the Purchase Discount Rate Reserve Ratio;

TD = the Turnover Days for Receivables generated by the Originator during the prior calendar month;

DR = the Discount Rate; and

PD = a profit discount equal to 0.15%.

"Turnover Days" means, as calculated in any Purchase Report, that period (expressed in days) calculated as the product of (a) the quotient of (i) the aggregate Outstanding Balance of Receivables originated by the Originator as of the last day of the calendar month which occurs two months prior to the month to which the Purchase Report relates, divided by (ii) the aggregate amount of the Collections received during the prior calendar month, multiplied by (b) the number of days in the prior calendar month.

"Accrued Carrying Costs" means, as of any date, the sum of (i) accrued and unpaid Carrying Costs as of such date, plus (ii) without duplication, the amount of Carrying Costs that will, or are estimated by the Servicer to, have accrued by the next Servicer Report Date as set forth in the then-effective Purchase Report.

"Carrying Costs" means any of the following items: (i) yield and fees payable by the Company to the Purchaser and the Agent; (ii) Ordinary Course Expenses of the Company; and (iii) the Servicing Fee.

"Ordinary Course Expenses" means the expenses of the Company for the allocation of employee salaries, benefits, directors' fees, office lease payments, office equipment (including computers and related software), office supplies, Federal, state and local taxes and similar expenses incurred in the ordinary course of its business other than (a) interest expense under the Company Note and (b) other Carrying Costs specifically mentioned in the definition of Carrying Costs.

"Discount Rate" means, commencing on any Servicer Report Date and continuing until (but not including) the next Servicer Report Date, the blended per annum rate at which Discount accrued on the Participation as of the last day of the immediately preceding

calendar month, plus a fraction, the numerator of which equals the Accrued Carrying Costs (other than Discount on the Participation or interest on the Company Note) for the immediately preceding calendar month, and the denominator of which equals the aggregate Outstanding Balance of all Receivables as of the last day of the immediately preceding calendar month. The Discount Rate from the Closing Date until the first Servicer Report Date shall be 5.45%.

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, Receivables and Related Rights with respect thereto consisting of each Receivable of the Originator that existed and was owing to the Originator on the Closing Date that as of such date was not an Eligible Receivable and Receivables that existed and were owing to the Originator on the Closing Date that as of such date were Eligible Receivables, beginning with the oldest of such Eligible Receivables and continuing chronologically thereafter, and all or an undivided interest in the most recent of such contributed Eligible Receivables such that the aggregate Outstanding Balance of all such contributed Receivables 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 Purchase made by the Purchaser on the Closing Date under the Receivables Purchase 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 Receivables Purchase 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, 5.11 or 5.20 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 discount, rebate or other adjustment made by the Originator, Company or Servicer or any setoff or dispute between the Seller, the Originator or the Servicer and an 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 Receivables Purchase Agreement;

provided, further, that at any time (y) when a Termination Event or Unmatured Termination Event 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.

(d) Each Purchase Report (other than the Purchase Report delivered on the Closing Date) shall include, in respect of the Receivables previously generated by the Originator (including the Contributed Receivables), a calculation of the aggregate reductions described in subsection (a) or (b) relating to such Receivables since the last Purchase Report delivered hereunder.

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 Purchaser 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 Agent'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 Agent 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 Agent showing no evidence of such liens filed against the Originator;

(g) Favorable opinions of Warren W. Byrd, Esq., general counsel to the Originator, Ice Miller Donadio and Ryan, special counsel to the Originator, concerning enforceability of this Agreement and certain other matters, and Ice Miller Donadio and Ryan, 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 FUNDING CORPORATION PURSUANT TO A PURCHASE AND SALE AGREEMENT, DATED AS OF DECEMBER 31, 1996, BETWEEN AUTOMOTIVE FINANCE CORPORATION AND AFC FUNDING CORPORATION; AND AN INTEREST IN THE RECEIVABLES DESCRIBED HEREIN HAS BEEN GRANTED TO POOLED ACCOUNTS RECEIVABLE CAPITAL CORPORATION, PURSUANT TO A 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."

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 seller 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 seller, 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 seller, 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 seller, 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 seller, (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 seller, 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 seller.

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, 1995, 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 G, 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 Purchaser in accordance with the Receivables Purchase Agreement.

5.12. Accuracy of Information. No factual written information furnished or to be furnished in writing by the Originator, as seller, to the Company, the Purchaser or the Agent 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 seller, to the Company, the Purchaser, or the Agent 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, the related Contracts 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 Agent 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 (including, without limitation, Regulation Z, 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 and all other consumer laws applicable to the Receivables and related Contracts) (excluding with respect to environmental matters which are covered by clause (ii)), and (ii) to the best of its knowledge, all applicable environmental laws, rules, regulations and orders of all governmental authorities.

5.18. Reliance on Separate Legal Identity. The Originator is aware that Purchaser and the Agent are entering into the Transaction Documents to which they are parties 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 and, so long as the Originator is the Servicer,

each Pool Receivable included as an Eligible Receivable in the calculation of Net Receivables Pool Balance is an Eligible Receivable as of the date of such calculation.

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 Agent 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 related Contracts 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 Agent, 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, including, without limitation, the Contracts and other agreements related thereto, 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 Agent, permit certified public accountants or other auditors acceptable to the Agent 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 Receivables and Contracts. At its expense timely and fully perform and comply with all provisions, covenants and other promises required to be observed by it under the related Contracts 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 Agent, 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 Agent 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) Credit and Collection Policies. Comply in all material respects with its Credit and Collection Policy in connection with the Receivables and the related Contracts.

(h) 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 Agent and the Company shall otherwise consent in writing, furnish to the Company and the Agent:

(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 Agent of (i) all pending proceedings and investigations of the type described in Section 5.6 not previously disclosed to the Company and/or the Agent 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 Seller setting forth details of such Purchase and Sale Termination Event or event and the action that the Seller 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 Seller 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 Seller 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 Seller 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 Seller 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 Receiv-

ables, the Related Rights or the Originator's performance hereunder that the Company or the Agent may from time to time reasonably request in order to protect the interests of the Company, the Purchaser, the Agent 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 Agent 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 or related Contract, Collections or Related Security, or any interest therein, or assign any right to receive income in respect thereof.

(b) Extension or Amendment of Receivables. Except in its capacity as Servicer to the extent permitted by paragraph (f) of Annex IV to the Receivables Purchase Agreement, extend, amend or otherwise modify the terms of any Receivable in any material respect, or amend, modify or waive, in any material respect, any term or condition of any Contract related thereto (which term or condition relates to payments under, or the enforcement of, such Contract).

(c) Change in Business or Credit and Collection Policy. Make (i) any material change in the character of its business or in the Credit and Collection Policy, or any change in the Credit and Collection Policy that would adversely affect the collectibility of the Receivables Pool or the enforceability of any related Contract or the ability of the Originator or the Company to perform its obligations under any related Contract or under any Transaction Document; or (ii) any other change in the Credit and Collection Policy without prior written consent of the Company and the Agent.

(d) 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 Purchaser (or the Agent on its behalf)).

(e) 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.

(f) Deposit Banks. Add or terminate any Deposit Bank unless the requirements of paragraph (i) of Exhibit IV of the Receivables Purchase Agreement have been met.

(g) 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.

(h) Transaction Documents. 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 related Contracts 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 a Deposit 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 Purchaser; provided that if the Company or the Servicer is required by Section 4.4 of the Receivables Purchase Agreement to remit Collections directly to the Agent (or its designee) the Originator shall remit such Collections directly to the Agent (or its designee) in the same manner as the Company and Servicer may be required to do so by Section 4.4. of the Receivables Purchase Agreement. The Originator further agrees not to deposit any funds other than Collections in a Deposit 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), Purchaser or the Agent shall have any obligation or liability to any Obligor or any other third Person with respect to any Receivables, Contracts related thereto or any other related agreements, nor shall the Company, Servicer (if other than the Originator), Purchaser or the Agent be obligated to perform any of the obligations of the Originator thereunder.

(d) The Originator hereby grants to 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 an Obligor in respect of any indebtedness owed by it to the Originator shall, except as otherwise specified by such Obligor or otherwise required by contract or law and unless otherwise instructed by the Company or the Agent, be applied first, as a Collection of any Receivables of such Obligor, in the order of the age of such Receivables, starting with the oldest of such Receivables, and second, to any other indebtedness of such 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 Receivables Purchase 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 two 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, the Purchaser, the Agent or any Program Support Provider, 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(h) 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 Agent 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 Agent) 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 Purchaser, the Agent 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 related Contract, or the nonconformity of any Receivable or the related Contract 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 related Contracts 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 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 Agent.

(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 Agent. 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 PURCHASER 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 Liquidity Agreement, the Receivables Purchase 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 Liquidity Agreement, the Receivables Purchase 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 Agent, the Purchaser and their respective Affiliates and agents with respect thereto and with respect to advising the Company, the Agent, the Purchaser 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 Agent, the Purchaser 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 ILLINOIS STATE COURT AND THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, 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 assigned by the Company to the Purchaser pursuant to the Receivables Purchase Agreement, and the Originator consents to such assignment. Each of the parties hereto acknowledges and agrees that the Agent and the Purchaser are third party beneficiaries of the rights of the Company arising hereunder and under the other Transaction Documents to which the Originator is a party and that the Purchaser and/or the Agent 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 COMPANY

By: Jeffrey K. Harty

Name: Jeffrey K. Harty
Title: Chief Financial Officer

1919 South Post Road
Indianapolis, Indiana 46239

Attention:

Telephone:

Facsimile:

AFC FUNDING CORPORATION

By: Jeffrey K. Harty

Name: Jeffrey K. Harty
Title: Chief Financial Officer

1919 South Post Road
Indianapolis, Indiana 46239

Attention:

Telephone:

Facsimile:

Exhibit 12

Minnesota Power & Light Company
Computation of Ratios of Earnings to Fixed Charges and
Supplemental Ratios of Earnings to Fixed Charges

	For the Year Ended December 31,				
	1992	1993	1994	1995	1996
	(In thousands except ratios)				
Income from continuing operations per consolidated statement of income	$ 67,821	$ 64,374	$ 59,465	$ 61,857	$ 69,221
Add (deduct)					
Current income tax expense	29,147	29,277	24,116	13,356	31,395
Deferred income tax expense (benefit)	(1,113)	1,084	(981)	(11,336)	(9,770)
Deferred investment tax credits	(1,568)	(2,035)	(2,478)	(865)	(1,986)
Undistributed income from less than 50% owned equity investments	(5,733)	(6,009)	(7,547)	(9,124)	(10,994)
Minority interest	2,684	(83)	(879)	260	3,269
	91,238	86,608	71,696	54,148	81,135
Fixed charges					
Interest on long-term debt	44,008	44,647	48,137	45,713	52,386
Capitalized interest	422	3,010	-	1,395	1,450
Other interest charges - net	6,455	1,501	7,382	7,934	10,193
Interest component of all rentals	5,728	5,729	5,737	3,670	2,541
Distributions on redeemable preferred securities of subsidiary	-	-	-	-	4,729
Total fixed charges	56,613	54,887	61,256	58,712	71,299
Earnings before income taxes and fixed charges (excluding capitalized interest)	$147,429	$138,485	$132,952	$111,465	$150,984
Ratio of earnings to fixed charges	2.60	2.52	2.17	1.90	2.12
Earnings before income taxes and fixed charges (excluding capitalized interest)	$147,429	$138,485	$132,952	$111,465	$150,984
Supplemental charges	16,017	15,149	14,370	13,519	14,431
Earnings before income taxes and fixed and supplemental charges (excluding capitalized interest)	$163,446	$153,634	$147,322	$124,984	$165,415
Total fixed charges	$ 56,613	$ 54,887	$ 61,256	$ 58,712	$ 71,299
Supplemental charges	16,017	15,149	14,370	13,519	14,431
Fixed and supplemental charges	$ 72,630	$ 70,036	$ 75,626	$ 72,231	$ 85,730
Supplemental ratio of earnings to fixed charges	2.25	2.19	1.95	1.73	1.93

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The supplemental ratio of earnings to fixed charges includes the Company's obligation under a contract with Square Butte Electric Cooperative (Square Butte) which extends through 2007, pursuant to which the Company is purchasing 71 percent of the output of a generating unit capable of generating up to 470 megawatts. The Company is obligated to pay Square Butte all of Square Butte's leasing and operating and debt service costs, less any amount collected from the sale of power or energy to others, which shall not have been paid by Square Butte when due. (See Note 17.)

Exhibit 13

Management's Discussion and Analysis of Financial Condition and Results of Operations

Minnesota Power has operations in four business segments: (1) electric operations, which include electric and gas services, and coal mining; (2) water services, which include water and wastewater services; (3) automotive services, which include auctions, a finance company and an auto transport company; and (4) investments, which include a securities portfolio, a 21% equity investment in a financial guaranty reinsurance company and real estate operations.

Earnings Per Share. Earnings per share of common stock were $2.28 in 1996 compared to $2.16 in 1995 and $2.06 in 1994. An increase in the number of shares of common stock outstanding in 1996 diluted 1996 earnings by 7 cents per share. The dilution reduced electric operations earnings per share 4 cents, water services 1 cent and investments 4 cents, and increased by 2 cents per share the negative impact on earnings attributable to corporate charges. Return on common equity was 11.3%, 10.7% and 10.5% for 1996, 1995 and 1994, respectively.

Earnings Per Share	1996	1995	1994
Continuing Operations			
Electric Operations	$1.32	$1.36	$1.36
Water Services	.18	(.04)	.48
Automotive Services	.13	.00	-
Investments			
Portfolio and reinsurance	.80	.88	.47
Real estate operations	.50	.58	.36
	1.30	1.46	.83
Corporate Charges and Other	(.65)	(.72)	(.68)
Total Continuing Operations	2.28	2.06	1.99
Discontinued Operations	-	.10	.07
Total Earnings Per Share	$2.28	$2.16	$2.06
Average Shares of Common Stock - 000s	29,309	28,483	28,239

Electric operations earnings per share in 1996 were down slightly due to a 3% decrease in sales to the Company's large power customers and the dilutive effect of the increase in common stock outstanding. The decrease was partially offset by sales to other customers. The performance of water services in 1996 improved over 1995 primarily as a result of rate relief and ongoing cost controls at Florida Water. 1996 earnings from automotive services reflect twelve months of results while only six months are included in 1995 earnings. 1996 earnings also reflect growth in AFC's floorplan financing business and an increase in the number of automobiles auctioned by ADESA. 1996 earnings from automotive services were tempered in part by start-up losses at two new auction facilities. The contribution of the Company's investments was lower in 1996 because (i) the average securities portfolio balance was smaller in 1996 since a portion of the portfolio was sold in 1995 to fund the purchase of ADESA and (ii) Lehigh recognized 22 cents per share compared to 52 cents of tax benefits in 1996 and 1995, respectively. Corporate charges in 1995 included a 14 cents per share write-off of the Company's investment in Reach All.

Electric operations contributed the same amount to earnings per share in 1995 compared to 1994. This reflected lower demand charges from large power customers which were offset by increased sales. The performance of water services in 1995 compared to 1994 reflected lower water sales in Florida in 1995 due to high rainfall during the year. The 1994 performance of water services was favorably impacted by a 42 cent per share gain from the sale of certain water plant assets. Real estate operations in 1994 reflected 13 cents per share from the recognition of escrow funds. Portfolio and reinsurance in 1994 included a 21 cent per share write-off of a securities investment. Corporate charges in 1994 included an 11 cent per share loss from the Company's investment in Reach All.

Discontinued operations included results from the paper and pulp business which was sold in June 1995. The increase in income from discontinued operations reflected higher paper and pulp prices in 1995.

Consolidated Financial Review

Operating Revenue and Income. Electric operations revenue was higher in 1996 compared to 1995 due to a 14% increase in total kWh sales, setting a new sales record for the second year in a row. The increase in sales is attributed primarily to MPEX, the Company's new wholesale marketing division that is selling energy, capacity and brokering services to other power suppliers. Extreme winter weather in 1996 compared to the milder winter in 1995 increased sales to residential and commercial customers and reduced sales to taconite producers.

Revenue in 1995 was higher than 1994 because of increased kWh sales to industrial customers, higher commercial and residential rates, and a 37% increase in kWh sales for resale. One major taconite electric customer of the Company operated all year in 1995 and only four months in 1994.

Water services revenue and income was higher in 1996 compared to 1995 due to higher rates, a 9% increase in consumption, gains from the sale of assets, and the inclusion of $5.3 million of revenue from ISI. Florida Water, formerly Southern States Utilities, Inc., implemented an interim rate increase effective Jan. 23, 1996, and final rates effective Sept. 20, 1996, in total an $11.1 million annual increase. Florida Water added 17,000 new water and wastewater customers as a result of the December 1995 purchase of the assets of Orange Osceola in Florida. A 2% growth in customers and normal consumption due to the return of more typical weather in Florida both contributed to higher sales in 1996. Heater, which owns

and operates the Company's water operations in North Carolina and South Carolina, made a strategic decision to withdraw from South Carolina, sold the majority of its assets in that state and recognized $1.7 million in pre-tax gains during 1996. In April 1996 the Company purchased ISI, a company that specializes in predictive maintenance of water supply equipment.

Operating revenue in 1995 was lower than 1994 due to 15,000 fewer customers following the December 1994 sale of the Venice Gardens' assets in Florida. The sale resulted in a $19.1 million gain in 1994. High rainfall in parts of Florida and customer water conservation efforts also lowered operating revenue in 1995 and 1994.

Automotive services operating revenue and income is included as of July 1, 1995, the purchase date of ADESA. In addition to including a full year of operations, operating revenue and income was higher in 1996 because ADESA added eight new auction sites during the year and sold more than 600,000 cars in 1996 compared to 230,000 cars during the last six months of 1995 (470,000 cars in total were sold by ADESA in 1995). Ancillary services, such as transportation and reconditioning, and the expansion of AFC also contributed to revenue growth.

Investments revenue and income was higher in 1996 due to increased real estate sales in Florida. Lehigh purchased properties at Palm Coast in Florida and expanded its marketing program nationwide. Also included in investment income is the contribution of the securities portfolio. Due to a smaller average portfolio balance resulting from the sale of approximately $60 million of securities to finance the ADESA purchase, the contribution was lower.

Investments revenue and income in 1996 reflected an after-tax return of 8.8% compared to 9.2% in 1995 and 3.8% in 1994. The 1994 after-tax return included a $10.1 million write-off of a securities investment. Operating revenue and income from real estate operations was lower in 1995 compared to 1994 due to fewer commercial land sales and Lehigh's maturing accounts receivable portfolio. In 1994 Lehigh recognized in revenue $4.5 million of escrow funds.

Operating Expenses. Fuel and purchased power expenses were higher in 1996 than 1995 because of a 14% increase in kWh sold. Sales for resale were up over 48% due to the marketing efforts initiated by MPEX in 1996. These expenses in 1995 were higher than 1994 because of a 13% increase in kWh sold.

Operations expenses were higher in 1996 reflecting $91 million for a full year of automotive services' operations compared to $31 million for six months in 1995. ADESA added eight auctions which contributed to the increase in operations expense in 1996. Expenses in 1995 were higher than 1994 due to the inclusion of automotive services, scheduled electric maintenance costs, and increased expenses related to conservation improvement programs (CIP) and customer services.

Administrative and general expenses were higher in 1996 reflecting $73 million for a full year of automotive services operations compared to $27 million for six months in 1995. Medical plan expenses for employees and the amortization of an early retirement program offered to electric utility employees in 1995 also increased expenses in 1996. Expenses in 1995 were higher than 1994 due to the addition of automotive services' expenses totaling $27 million and salary and benefit increases company-wide. Salary and benefit increases were tempered by lower payroll costs associated with the early retirement program.

Interest expense was higher in 1996 due primarily to a $30 million increase in outstanding long-term indebtedness related to the addition and expansion of automotive services. In addition, the average short-term indebtedness balance was higher by $60 million in 1996.

Income from equity investments of $11.8 million in 1996 was from the Company's 21% ownership interest in Capital Re compared to $9.8 and $8.1 million in 1995 and 1994. Income from equity investments in 1995 and 1994 also included losses from Reach All of $6.4 and $5.2 million, respectively, a business the Company exited in 1995.

Income tax expense in 1996 and 1995 included the recognition of $8.2 and $18.4 million, respectively, of tax benefits associated with real estate operations in Florida. Excluding these tax benefits, the effective tax rate in 1996 and 1995 was 31% compared to 26% in 1994.

Electric Operations

Electric operations generate, transmit, distribute, and market electricity. Minnesota Power provides electricity to 121,000 customers in northeastern Minnesota, while the Company's wholly owned subsidiary, Superior Water, Light and Power Company, sells electricity to 14,000 customers and natural gas to 11,000 customers, and provides water to 10,000 customers, all in northwestern Wisconsin. Another wholly owned subsidiary, BNI Coal, owns and operates a lignite coal mine in North Dakota. Two electric generating cooperatives, Minnkota Power Cooperative, Inc. and Square Butte, consume virtually all of BNI Coal's production of lignite coal under contracts extending to 2027.

Summary of Changes in Electric Revenue	1996	1995
	(Change from previous year in millions)	
Retail sales (including demand and energy charges)	$(2.7)	$17.2
Sales for resale	22.4	11.0
Rate increases	-	12.1
Conservation improvement programs	-	3.0
Fuel clause adjustments	-	2.6
Coal revenue	1.1	1.9
Other	4.9	(2.7)
	$25.7	$45.1

Electric Sales. Kilowatthour sales in 1996 of 13.2 billion exceeded 1995's record-setting level of 11.5 billion kWh. Minnesota Power formally established MPEX as a new division in early 1996. MPEX is an expansion of the Company's inter-utility marketing group which has been a buyer and seller of capacity and energy for 25 years in the wholesale power market. The customers of MPEX are other power suppliers in the Midwest and Canada. MPEX contracts to provide hourly energy scheduling and power trading services. MPEX is credited with most of the increase in kWh sales.

The two major industries in Minnesota Power's service territory are taconite production, and paper and wood products manufacturing. Taconite mining customers accounted for 32% of electric operating revenue in 1996, 35% in 1995 and 34% in 1994. The paper and wood products industries accounted for 11% of electric operating revenue in 1996, 12% in 1995 and 13% in 1994. Sales for resale accounted for 13% of electric operating revenue in 1996 compared to 9% in 1995 and 8% in 1994.

Taconite is an important raw material for the steel industry and is made from low iron content ore mined in northern Minnesota. Taconite processing plants use large quantities of electric power to grind the ore and concentrate the iron particles into taconite pellets. Annual taconite production in Minnesota was 46 million tons in 1996 compared to 47 million in 1995 and 43 million tons in 1994. Minnesota's taconite production in 1997 is expected to be approximately 47 million tons. During 1996 and early 1997 the Company successfully negotiated extended contracts with several customers including two of the Company's largest customers, USX and Inland Steel.

While taconite production is expected to continue at annual levels over 40 million tons, the long-term future of this cyclical industry is less certain. Production may decline gradually some time after the year 2005.

Large Power Customer Contracts. Electric service contracts with 11 large power industrial customers require payment of minimum monthly demand charges that cover fixed costs associated with having capacity available to serve them, including a return on common equity. The demand charge is paid by these customers even if no electrical energy is taken. An energy charge is also paid to cover the variable cost of energy actually used. A four-year cancellation notice is required to terminate the contracts. The rates and corresponding revenue associated with capacity and energy provided under these contracts are subject to change through the regulatory process governing all retail electric rates.

Summary of Minimum Revenue and Demand Under Contract as of February 1, 1997

	Minimum Annual Revenue	Monthly Megawatts
1997	$101.6 million	641
1998	$89.2 million	558
1999	$80.3 million	518
2000	$70.1 million	464
2001	$61.9 million	411

The Company believes revenue from large power customers will be substantially in excess of the minimum contract amounts.

The 11 large power customers each require 10 MW or more of power and have contract termination dates ranging from October 1999 to December 2007. Five of these customers are taconite producers, four are paper and wood products manufacturers and two are pipeline companies. In addition to the minimum demand provisions, the contracts with the taconite producers and pipeline companies require these customers to purchase their entire electric service requirements from the Company. Six of the large power customers purchase a combined total of 200 MW of interruptible service pursuant to contract amendments incorporating an interruptible rate schedule. Under this schedule and pursuant to these amendments, the Company has the right to serve 100 MW of these customers' needs through Oct. 31, 2008, and another 100 MW of these customers' needs through April 30, 2010. The Company has the right of first refusal to serve an additional 200 MW during these same time periods.

Fuel. The cost of coal is the Company's largest single operating expense in generating electricity. Coal consumption at the Company's generating stations in 1996 was 4.3 million tons. Minnesota Power currently has three coal supply agreements in place with Montana suppliers. Two terminate in December 1999 and the other in December 2000. Under these agreements the Company has the tonnage flexibility to procure between 55% and 100% of its total coal requirements. The Company uses this flexibility to purchase coal under spot-market agreements when favorable market conditions exist. The Company continues to explore future supply options and believes that adequate supplies of low-sulfur, sub-bituminous coal will continue to be available. The Company has contracts with Burlington Northern Railroad to deliver coal from Montana and Wyoming to the Company's generating facilities in Minnesota through December 2003.

Purchased Power Contract. Under an agreement extending through 2007 with Square Butte, Minnesota Power purchases 71% (about 320 MW during the summer months and 333 MW during the winter months) of the output of a mine-mouth generating unit located near

Center, North Dakota. The Square Butte unit is one of two lignite-fired units at Minnkota Power Cooperative's Milton R. Young Generating Station.

Square Butte has the option, upon five years advance notice, to reduce the Company's share of the unit's output to 49%. Minnesota Power has the option, though not the obligation, to continue to purchase 49% of the output at market-based prices after 2007 to the end of the plant's economic life. Minnesota Power must pay any Square Butte costs and expenses that have not been paid by Square Butte when due, regardless of whether or not the Company receives any power from that unit.

Early Retirement Plan and Workforce Reduction. In late 1996 the Company reduced its workforce in electric operations by 4%. In 1995 an early retirement offer to electric utility employees resulted in a 12% reduction of the electric operations workforce, at a cost of approximately $15 million which is being amortized over 3 years. The workforce reductions are part of the Company's ongoing efforts to control costs and maintain low electric rates.

Competition. The electric utility industry is changing at both the wholesale and retail levels. The enactment of the Energy Policy Act of 1992 resulted in an increase in the competitive forces that affect three of the four components of the electric utility industry: generation, transmission and power marketing. The fourth component, local distribution, is subject to state regulation. This legislation has resulted in a more competitive market for electricity generally and particularly in wholesale markets. Wholesale deregulation is underway, while retail deregulation of the industry is being considered at both the Federal and state level, and is affecting the way the Company strategically views the future. With electric rates among the lowest in the US and with long-term wholesale and large power retail contracts in place, Minnesota Power believes it is well positioned to address competitive pressures.

Wholesale. During 1996 the Company completed functional unbundling of operations under the requirements of FERC's Order No. 888 Open Access Transmission Rules. Order No. 888 requires public utilities to take transmission service for their own wholesale transactions under the same terms and conditions on which transmission service is provided to third parties. The Company has filed its open access transmission tariff with the FERC, and expects to receive final FERC rate approval early in 1997. The Company has also filed its "Code of Conduct" under FERC's Order No. 889 Open Access Same Time Information System and Standards of Conduct to formalize the functional separation of generation from transmission within the organization. As a result, the transmission component of Minnesota Power's electric utility business is well organized for, and has begun to operate under, these new federal regulatory requirements.

Minnesota Power's newly formed MPEX division currently conducts the power marketing function. FERC approval of Minnesota Power's market-based rate authority enabled MPEX to conduct a successful wholesale power and energy marketing business in 1996. During 1996, MPEX also completed compliance filings under FERC's Open Access Transmission Rules to separately state the transmission component of the Company's coordination sales agreements, and is awaiting final FERC approvals. MPEX continues to review new strategic opportunities for its wholesale marketing operations in light of the new Open Access Transmission Rules enacted by FERC and of the new power and energy markets within the Mid-Continent Area Power Pool.

Retail. In 1995 the MPUC initiated an investigation into structural and regulatory issues in the electric utility industry. To make certain that delivery of electric service continues to be efficient following any restructuring, the MPUC adopted 15 principles to guide a deliberate and orderly approach to developing reasonable restructuring alternatives that ensure the fairness of a competitive market and protect the public interest. In January 1996 the MPUC established a competition working group in which company representatives have participated in addressing issues related to wholesale and retail competition. Minnesota Power has implemented a key account management process and anticipates continuing negotiations with its large industrial and commercial customers to explore contractual options to lower energy costs. These customers continue to aggressively seek lower energy costs and consider alternative suppliers in anticipation of deregulated retail markets.

Legislation. In 1997 Congress and the Minnesota legislature are expected to continue to debate proposed legislation which, if enacted, would promote customer choice and a more competitive electric market. The Company is actively participating in the dialogue and debate on these issues in various forums, principally to advocate fairness and parity for all power and energy competitors in any deregulated markets that may be created by any new legislation. The Company cannot predict the timing or substance of any legislation which might ultimately be enacted. However, the Company continues taking steps to maintain its competitive position as a low-cost supplier and maintain its long-term contracts with large industrial customers. The Company is also advocating property tax reform before the Minnesota legislature in order to eliminate the taxation of personal property that results in an inequitable tax burden among current and potential competitors in local markets. Finally, SWL&P is participating in the electric restructuring

investigation before the PSCW, which is advising the Wisconsin legislature on recommended restructuring in Wisconsin.

Conservation. Minnesota requires electric utilities to spend a minimum of 1.5% of annual retail electric revenue on conservation improvement programs (CIP) each year. An annually approved billing adjustment combined with retail base rates allow the Company to recover both costs of energy-saving programs and "lost margins" associated with power saved as a result of such programs.

The Company's largest conservation programs are targeted at taconite and paper customers to promote their efficient use of energy. CIP also provides demand-side management grants on a competitive basis to commercial and small industrial customers, low-cost financing for energy-saving investments, and promotes energy conservation for all residential and commercial customers. SWL&P also offers electric and gas conservation programs to qualified customers as approved by the PSCW.

Clean Air Act. While many utilities and their customers will face high costs to comply with clean-air legislation, the Company expects to meet future requirements without major spending. By burning low-sulfur fuels in units equipped with pollution control equipment, the Company's power plants already operate at or near the sulfur dioxide emission limits set for the year 2000 by the Federal Clean Air Act Amendment of 1990. To meet nitrogen oxide emission limits for 2000, the Company expects to install new burner technology and other associated equipment at a cost of $6 million.

1996 to 1995 Comparison. Operating revenue from electric operations was higher in 1996 compared to 1995 due to a 14% increase in total kWh sales. The increase in sales is attributed primarily to the Company's marketing of energy to other power suppliers as well as extreme winter weather in 1996 compared to the milder winter in 1995. Revenue from sales of electricity was up in 1996, but provided lower margins due to the cooler summer weather in 1996 resulting in more competitive wholesale pricing. Square Butte, one of Minnesota Power's low priced sources of energy, produced 23% more energy in 1996, after being down for scheduled maintenance in 1995. Costs associated with the early retirement offering in mid-1995 are being amortized over three years. Expenses in 1996 included twelve months of amortization, while 1995 included only five months. Employee and customer related expenses were higher in 1996. The Company measures the profitability of its operations through careful budgeting and monitoring of contributions by segment to corporate earnings per share. Electric operations contributed $1.32 to earnings per share in 1996 compared to $1.36 in 1995 and 1994. The per share amount in 1996 was slightly lower due to a 3% decrease in sales to the Company's large power customers and the 4 cent dilutive effect of the increase in common stock outstanding. The decrease was partially offset by sales to other customers. The contribution from electric operations is expected to remain stable in the future as the industry continues to deregulate. Electric operations will continue to seek additional cost saving alternatives and efficiencies and expand unregulated services to maintain its contribution to earnings.

1995 to 1994 Comparison. Like 1996, 1995 was an excellent year for electric operations. The Company set records for electric sales, revenue and generation. Operating revenue from electric operations was higher in 1995 compared to 1994, due to a 13% increase in total kWh sales, increased retail rates and collection of CIP expenditures. Warm summer weather and increased demand from large industrial customers and other power suppliers significantly increased sales over 1994.

Water Services

Water services include Florida Water, Heater and ISI, three wholly owned subsidiaries of the Company. Florida Water provides water to 120,000 customers and wastewater treatment services to 54,000 customers in Florida. Heater provides water to 22,000 customers and wastewater treatment services to 1,000 customers in North Carolina and South Carolina. ISI provides predictive maintenance services to water utility companies and other industrial operations in North Carolina, South Carolina, Florida, Georgia, Tennessee, Virginia and Texas. ISI was acquired in 1996.

Water and Wastewater Rates. 1995 Rate Case. Florida Water requested an $18.1 million rate increase in June 1995. On Oct. 30, 1996, the FPSC issued its final order in the Florida Water rate case. The final order established water and wastewater rates for all customers of Florida Water regulated by the FPSC. The new rates, which became effective on Sept. 20, 1996, resulted in an annualized increase in revenue of approximately $11.1 million. This increase included, and was not in addition to, the $7.9 million increase in annualized revenue granted as interim rates effective on Jan. 23, 1996. The FPSC approved a new rate structure called "capband," which replaces uniform rates. The new structure combines the concept of a "cap" on monthly bills at a certain usage level for 85 of Florida Water's facilities that are more expensive to operate, with a "banding," or grouping, of rates paid by customers served by the 56 less expensive facilities. On Nov. 1, 1996, Florida Water filed with the Florida First District Court of Appeals (Court) an appeal of the FPSC's final order seeking judicial review of issues relating to the amount of investment in utility

facilities recoverable in rates from current customers. Motions for reconsideration of the FPSC's final order were subsequently filed by other parties to the rate case. Therefore, the Court has postponed Florida Water's appeal pending the FPSC's disposition of the reconsideration requests. The Company is unable to predict the outcome of this matter. Florida law provides that the new rates be implemented while the order is under appeal.

1991 Rate Case Refund Order. Responding to a Florida Supreme Court decision addressing the issue of retroactive ratemaking with respect to another company, in March 1996 the FPSC voted to reconsider an October 1995 order (Refund Order) which would have required Florida Water to refund about $13 million, which includes interest, to customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. Under the Refund Order, the collection of the $13 million from customers who paid less under uniform rates would not be permitted. The Refund Order was in response to the Florida First District Court of Appeals reversal in April 1995 of the 1993 FPSC order which imposed uniform rates for most of Florida Water's service areas in Florida. With "uniform rates," all customers in the uniform rate areas pay the same rates for water and wastewater services. Uniform rates are an alternative to "stand-alone" rates which are based on the cost of serving each service area. The FPSC reconsidered the Refund Order, but upheld its decision to order refunds in August 1996. Florida Water filed an appeal of this decision with the First District Court of Appeals. A decision on the appeal is anticipated by early 1998. The Company continues to believe that it would be improper for the FPSC to order a refund to one group of customers without permitting recovery of a similar amount from the remaining customers since the First District Court of Appeals affirmed the Company's total revenue requirement for operations in Florida. No provision for refund has been recorded. The Company is unable to predict the outcome of this matter.

Florida Jurisdictional Issues. In June 1995 the FPSC issued an order assuming jurisdiction over Florida Water facilities statewide following an investigation of all of Florida Water's facilities. Several counties in Florida appealed this FPSC decision to the First District Court of Appeals. In December 1996 the Court issued an opinion reversing the FPSC order. In December 1996 the FPSC filed a motion for clarification and for rehearing with the Court. The Court denied this motion in January 1997. The FPSC voted to require Florida Water to charge rates to customers in Hernando County based on a modified stand-alone rate structure in January 1997. The imposition of this rate structure would reduce Florida Water revenue by $1.6 million on a prospective annual basis. No order has yet been issued reflecting this vote. Florida Water is considering an appeal of such an order. In the event county regulation of water and wastewater rates prevails, the Company anticipates that the regulatory process will become significantly more complex and expensive.

Competition. Water services provide water and wastewater utility services at regulated rates within exclusive service territories granted by regulators.

1996 and 1995 Comparison. Operating revenue and income from water services increased 29% in 1996 compared to 1995. Rate relief and a 9% increase in sales in 1996 are primarily responsible for the increase. The addition of 17,000 customers following the December 1995 purchase of Orange Osceola offset the 15,000 customer decrease from the sale of Venice Gardens in 1994. Workforce reductions and ongoing cost controls contributed to 1996 results. The addition of ISI operations in 1996 increased revenue and expense about 6%. Approximately $1.7 million in pre-tax gains were added to 1996 results due to the sale of assets in South Carolina.

Water services contributed 18 cents per share to earnings in 1996, compared to a 4 cent loss in 1995. The Company anticipates continued growth in earnings from this segment as Heater aggressively pursues opportunities to expand its business in North Carolina, additional competitive operations are added to complement ISI and cost controls combined with efficiency gains are continued in ongoing operations. The outcome of Florida's rate case and jurisdictional issues have the potential for affecting the profitability of this segment.

1995 and 1994 Comparison. Operating revenue and income from water services fell 24% in 1995 compared to 1994. The decrease is attributed to 15,000 fewer customers following the sale of Venice Gardens' assets in December 1994 and lower water consumption due to high rainfall in parts of Florida and customer conservation efforts. The sale of Venice Gardens' assets contributed $19.1 million to water services' operating revenue in 1994.

Automotive Services

Automotive services include ADESA's auction facilities, AFC, which is a finance company, and an auto transport company. ADESA is a wholly owned subsidiary of the Company and is the third largest automobile auction business in the US. Headquartered in Indianapolis, Indiana, ADESA owns and operates 24 automobile auctions in the US 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, fleet/lease companies, banks and finance companies. AFC provides inventory financing for wholesale and retail automobile dealers who purchase vehicles from independent auctions as well as auction chains.

The Company acquired 80% of ADESA on July 1, 1995. On Jan. 31, 1996, the Company provided additional capital in exchange for an additional 3% of ADESA. On Aug. 21, 1996, the Company acquired the remaining 17% ownership interest of ADESA from the ADESA management shareholders.

During 1996 ADESA opened new auto auctions in Newark, New Jersey, Jacksonville, Florida and Moncton, New Brunswick, Canada. During 1996 in Texas, the third largest used car market in the US, ADESA acquired auction businesses in Houston, San Antonio and Dallas, which together with its existing Austin site are intended to firmly establish ADESA's presence in the Texas market. During 1996 ADESA also acquired auction businesses in Portage, Wisconsin and Pittsburgh, Pennsylvania. In February 1997 ADESA consolidated a small auction facility in Concord, Massachusetts with its Boston facilities.

AFC's floorplan financing operations have expanded in 1996. Located at most ADESA auction locations, AFC has opened loan production offices at seven independently owned auto auctions. AFC expects to continue this expansion in 1997.

Competition. Within the automobile auction industry, ADESA's competition includes independently owned auctions as well as major chains and associations with auctions within its geographic proximity. ADESA competes with other auctions for dealers, financial institutions, fleet and lease companies, and other sellers to provide automobiles for auction at consignment sales and for the supply of rental repurchase vehicles from the automobile manufacturers for auction at factory sales. The automobile manufacturers often choose between auctions across multi-state areas in distributing rental repurchase vehicles. ADESA competes for sellers of automobiles by attempting to attract a large number of dealers to purchase vehicles, which ensures competitive prices and supports the volume of vehicles auctioned, and by providing a full range of services including reconditioning services which prepare automobiles for auction, transporting automobiles to auction and the prompt handling of the paperwork necessary to complete the sales. Another factor affecting the industry, the impact of which is yet to be determined, is the entrance of the "superstore", large used car dealerships, that have emerged in densely populated markets.

AFC is well positioned as a provider of floorplan financing services to the used vehicle industry. AFC's competition includes other specialty lenders, as well as banks and other financial institutions. AFC competes with other floorplan providers and strives to distinguish itself based upon ease of use, quality of service and price. A key component of AFC's program is on-site personnel to assist automobile dealers with their financing needs.

Auto auction sales for the industry are predicted to rise at a rate of 6% to 8% annually. With the increased popularity of leasing and the high cost of new cars, the same cars may come to auction more than once. Automotive services expect to participate in the industry's growth through selective acquisitions and expanded services.

1996 and 1995 Comparison. Automotive services contributed 13 cents per share to corporate earnings in 1996 compared to a breakeven performance in 1995. Severe winter weather on the east coast limited auction sales in January 1996. However, operating revenue was strong in 1996 as a result of the eight new sites and increased ancillary services. AFC expanded its dealer financing business in 1996 increasing financing income and earnings. Start-up losses associated with the new sites in New Jersey and Florida had a negative impact on profitability of this segment through 1996. For the six months ended Dec. 31, 1995, operating revenue was $61.6 million with no net income contribution. Financial results in 1995 were adversely impacted by auction cancellations due to severe weather conditions on the east coast in December 1995, as well as start-up losses associated with major construction projects. Growth in AFC's financing business and growth in the number of cars being auctioned combined with improved efficiencies and significant cost controls at existing auctions are expected to increase the contributions to earnings in 1997. Financial results for ADESA for periods prior to July 1, 1995, are not comparable due to several factors including the amortization of goodwill, the severe weather in December 1995 and January 1996, and the addition of eight auction facilities which caused ADESA to incur additional financing expenses and significant start-up costs.

Investments

Investments include a portfolio of securities managed by Minnesota Power which provides earnings and cash flow contributions and is available for reinvestment in existing businesses and acquisitions. Investments also include a 21% equity investment in Capital Re, a financial guaranty reinsurance company, and an 80% interest in Lehigh, a Florida real estate company.

Portfolio and Reinsurance. As of Dec. 31, 1996, the Company had approximately $155 million invested in a securities portfolio. The majority of the portfolio consists of stocks of other utility companies that have investment grade debt securities outstanding and are considered by the Company to be conservative investments. Additionally,

the Company sells common stock securities short and enters into short sales of treasury futures contracts as part of an overall investment portfolio hedge strategy. The Company plans to continue to concentrate in market neutral strategies that are designed to provide stable and acceptable returns without sacrificing needed liquidity. Returns will continue to be partially dependent upon general market yields.

Capital Re is the parent company of a group of specialty reinsurance companies. The Company's equity investment in Capital Re continues to be a major contributor to earnings. In 1996 Capital Re contributed $7.8 million to earnings compared to $8.2 million in 1995 and $7 million in 1994. The market value of the Company's $102 million investment in Capital Re was $152 million at Dec. 31, 1996.

1996 and 1995 Comparison. The Company's securities portfolio performed well in 1996. The securities portfolio and investment in Capital Re contributed 80 cents to earnings per share compared to 88 cents in 1995. Portfolio and reinsurance earned an after-tax return of 8.8% in 1996 and 9.2% in 1995.

1995 and 1994 Comparison. In 1995 the performance of the securities portfolio improved significantly over 1994. Earnings per share from the portfolio and reinsurance were 88 cents per share compared to 47 cents in 1994. The write-off of a $10.1 million securities investment lowered earnings in 1994. Portfolio and reinsurance earned an after-tax return of 9.2% in 1995 and 3.8% in 1994.

Real Estate Operations. The Company owns 80% of Lehigh, a real estate company which owns various real estate properties in Florida. Lehigh currently owns 4,000 acres of land and approximately 8,000 home sites near Fort Myers, Florida, 1,250 home sites in Citrus County, Florida, and 3,000 home sites and 13,000 acres of commercial land at Palm Coast, Florida. The Palm Coast properties and $18 million receivable portfolio were purchased in April 1996. The real estate strategy is to acquire large residential community properties at low cost, add value, and sell them at going market prices.

Tax Benefits. The Company, through Lehigh, a 67% owned subsidiary at the time, acquired the stock of Lehigh Corporation in a bargain purchase in 1991. Lehigh then began execution of a business strategy pursuant to which the majority of the acquired real estate assets would be disposed of over a five year period. An additional interest in Lehigh was purchased in 1993 bringing the Company's ownership interest to 80%. The structure of the transactions involved the acquisition of stock so the tax bases of the underlying acquired assets were carried over for income tax purposes. The carried-over tax bases exceeded the book bases assigned in purchase accounting. The Internal Revenue Code (IRC) limits the use of tax losses resulting from the higher tax basis over the fair market value of the underlying assets for a period of five years. The 1993 increase in ownership by the Company to 80%, which resulted in the inclusion of Lehigh and Lehigh Corporation in the Company's consolidated tax return, started another five year limitation period.

SFAS 109 was adopted on a prospective basis effective Jan. 1, 1993. Upon adoption, a valuation reserve was established for the entire amount of the tax benefits attributable to the bases differences and alternative minimum tax credits because, in management's judgment, realization of the tax benefits was not "more likely than not." This judgment was based on the unlikelihood of realizing the tax benefits due to the IRC restrictions, in light of management's existing five year property disposal plan. This situation continued through 1994.

In 1995 Lehigh implemented a business strategy which called for Lehigh to dispose of its remaining real estate assets with a specific view towards maximizing realization of the tax benefits. The new strategy was adopted after the Board of Directors of Lehigh, including the minority shareholders, were convinced of the cash flow benefit to Lehigh of deferring the liquidation of the remaining real estate assets. Accordingly, in 1995 the valuation reserve was reduced by $18.4 million based on a detailed analysis of the projected future taxable income based on the new business strategy.

In 1996 the remaining $8.2 million valuation reserve was reversed based on the projected positive impact the acquisition of $34 million of real estate assets at Palm Coast would have on Lehigh's taxable income. The Palm Coast assets were not considered in the 1995 revised strategy.

1996 and 1995 Comparison. Revenue in 1996 includes increased sales from the Palm Coast properties and $3.7 million from the sale of Lehigh's joint venture in a resort and golf course. Lehigh also recognized $8.2 and $18.4 million of tax benefits in 1996 and 1995, respectively. The Company's portion of the tax benefits reflected as net income was $6.6 million in 1996 and $14.7 million in 1995. Real estate operations added 50 cents to earnings per share in 1996 compared to 58 cents in 1995, of which tax benefits were 22 cents and 52 cents in 1996 and 1995, respectively.

1995 and 1994 Comparison. Income from real estate operations was higher in 1995 than 1994 primarily due to the recognition of $18.4 million of tax benefits. This tax benefit was partially offset by fewer commercial land sales and less interest income from Lehigh's maturing accounts receivable portfolio.

Liquidity and Capital Resources

As detailed in the consolidated statement of cash flows, cash flows from operating activities were affected by a number of factors representative of normal operations. Automotive services are included since the July 1, 1995, acquisition of ADESA.

Working capital, if and when needed, generally is provided by the sale of commercial paper. In addition, securities investments can be liquidated to provide funds for reinvestment in existing businesses or acquisition of new businesses, and approximately 5.4 million original issue shares of common stock are available for issuance through the DRIP. Minnesota Power's $77 million bank lines of credit provide liquidity for the Company's commercial paper program. The amount and timing of future sales of the Company's securities will depend upon market conditions and the specific needs of the Company. The Company 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 and/or preferred stock, to reduce short-term debt and for other corporate purposes.

A substantial amount of ADESA's working capital is generated internally from payments made by vehicle purchasers. However, ADESA utilizes borrowings from the Company 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 offers short-term on-site financing for dealers to purchase automobiles at auctions in exchange for a security interest in those automobiles. The financing is provided through the earlier of the date the dealer sells the automobile or a general borrowing term of 30 - 60 days. As a result, AFC also uses borrowings from the Company to meet its operational requirements. During 1996 AFC increased the financing program for dealers and in December sold a $50 million participation in its finance receivables to a third party purchaser. Under the terms of the five year agreement, the purchaser agrees to make reinvestments up to $100 million to the extent that such reinvestments are supported by eligible receivables. On Dec. 31, 1996, AFC received $50 million from the sale of receivables and used the proceeds to repay borrowings from the Company.

In January 1996 Florida Water issued $35.1 million of 6.5% Industrial Development Refunding Revenue Bonds Series 1996 due Oct. 1, 2025. The proceeds were used to refund existing industrial development revenue bonds totaling $33.8 million. Also in January 1996 the Company provided additional capital to ADESA in exchange for an additional 3% of ADESA. In August 1996 the Company acquired the remaining 17% ownership interest of ADESA from the ADESA management shareholders. Funds from the issuance of commercial paper were used to acquire the remaining 17% of ADESA.

MP&L Capital I (Trust) was established as a wholly owned business trust of the Company for the purpose of issuing common and preferred 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, indirectly resulting in net proceeds to the Company of $72.3 million. The net proceeds to the Company were used to retire approximately $56 million of commercial paper and approximately $17 million were used to redeem all of the outstanding shares of the Company's Serial Preferred Stock, $7.36 Series, in May 1996.

In May 1996 ADESA issued $90 million of 7.70% Senior Notes, Series A, Due 2006 in a Rule 144A offering. Proceeds were used by ADESA to repay existing indebtedness, including borrowings under ADESA's revolving bank credit agreement, floating rate option notes and certain borrowings from Minnesota Power.

In June 1996 Lehigh obtained a $20 million adjustable rate revolving line of credit due in 2003. The proceeds were used to partially finance the acquisition of real estate near Palm Coast, Florida. In June 1996 the Company's registration with the Securities and Exchange Commission became effective with respect to 5 million additional shares of common stock for offer and sale pursuant to the DRIP. Previously available to registered holders and electric utility customers, the DRIP has been amended, effective July 2, 1996, to, among other things, allow any interested investor to enroll in the plan with an initial investment of $250.

In September 1996 Minnesota Power exchanged 473,006 shares of common stock for all the outstanding shares of common stock of Alamo Auto Auction, Inc. and Alamo Auto Auction Houston, Inc. The common stock was issued by the Company and delivered to the sellers in a private placement transaction that has been accounted for as a pooling of interests.

In January 1997 the Company filed a shelf registration to issue up to $80 million in principal amount of Minnesota Power First Mortgage Bonds. On Feb. 20, 1997, the Company sold $60 million of First Mortgage Bonds, 7% Series due Feb. 15, 2007, for net proceeds to the Company of $59.4 million. The net proceeds along with internally generated funds were used for the retirement of $60 million in principal amount of the Company's First Mortgage Bonds, 7 3/8% Series due March 1, 1997.

Minnesota Power's electric utility first mortgage bonds and secured pollution control bonds are currently rated the following investment grades: Baa1 by Moody's Investor Services and BBB+ by Standard and Poor's. The disclosure of these security ratings is not a recommendation to buy, sell or hold the Company's securities.

In 1996 the Company paid out 90% of its per-share earnings in dividends. Over the longer term, Minnesota Power's goal is to reduce dividend payout to 75% to 80% of earnings. This is expected to be accomplished by increasing earnings rather than reducing dividends.

Capital Requirements. Consolidated capital expenditures in 1996 totaled $101 million. These expenditures included $38 million for electric operations, $22 million for water services and $41 million for automobile auction site relocation and development. Internally generated funds and long-term bank financing were used to fund these capital expenditures.

Capital expenditures are expected to be $61 million in 1997 and total about $260 million for 1998 through 2001. The 1997 amount includes $33 million for electric system component replacement and upgrades, $21 million to meet environmental standards, expand water and wastewater treatment facilities to accommodate customer growth, and for water conservation initiatives, and $7 million for on-going improvements at existing automobile auction sites. The Company expects to use internally generated funds and original issue equity securities to fund these capital expenditures.

New Accounting Standard. In June 1996 the FASB issued SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," effective for fiscal years beginning after Dec. 31, 1996. SFAS 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The standards are based on consistent application of a financial components approach that focuses on control. The adoption of SFAS 125 is expected to be immaterial to the Company's financial position and results of operations.

Safe Harbor Statement. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Reform Act), the Company is hereby filing cautionary statements identifying important factors that could cause the Company's 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 the Company in this Annual Report, 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", "estimates", "expects", "intends", "plans", "predicts", "projects", "will likely result", "will continue", and 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 the control of the Company and may cause actual results to differ materially from those contained in forward-looking statements: (i) prevailing governmental policies and regulatory actions, including those of the FERC, the MPUC, the FPSC, the NCUC, the SCPSC and the PSCW, with respect to 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 present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs); (ii) economic and geographic factors including political and economic risks; (iii) changes in and compliance with environmental and safety laws and policies; (iv) weather conditions; (v) population growth rates and demographic patterns; (vi) competition for retail and wholesale customers; (vii) pricing and transportation of commodities; (viii) market demand, including structural market changes; (ix) changes in tax rates or policies or in rates of inflation; (x) changes in project costs; (xi) unanticipated changes in operating expenses and capital expenditures; (xii) capital market conditions; (xiii) competition for new energy development opportunities; and (xiv) legal and administrative proceedings (whether civil or criminal) and settlements that influence the business and profitability of the Company.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such 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 such factors, nor can it assess the impact of each such factor on the business 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.

Reports
Independent Accountants [LOGO]

To the Shareholders and Board of Directors of Minnesota Power

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of retained earnings and of cash flows present fairly, in all material respects, the financial position of Minnesota Power and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company'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 generally accepted auditing standards 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.
Price Waterhouse LLP
Price Waterhouse LLP

Minneapolis, Minnesota
January 27, 1997

Management

The consolidated financial statements and other financial information were prepared by management, which 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 its responsibilities with respect to financial information, management maintains and enforces 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 which provides an appropriate segregation of responsibilities, careful selection and training of personnel, written policies and procedures, and periodic reviews by the internal audit department. In addition, the Company has a personnel policy which requires 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 its system of internal accounting controls in response to changes in business conditions. The Company's internal audit staff is charged with the responsibility for determining compliance with Company procedures.

Three directors of the Company, not members of management, serve as the Audit Committee. The Board of Directors, through its 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 its responsibilities. The internal auditors and the independent accountants have full and free access to the Audit Committee without management present.

Price Waterhouse 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 transactions to the extent necessary to allow them to report on the fairness of the operating results and financial condition of the Company.

Edwin L. Russell

Edwin L. Russell
Chairman, President and Chief Executive Officer

David G. Gartzke

David G. Gartzke
Chief Financial Officer

Consolidated Financial Statements

Minnesota Power Consolidated Balance Sheet

December 31	1996	1995
	In thousands	
Plant and Other Assets		
Electric operations	$ 796,055	$ 800,477
Water services	323,869	323,182
Automotive services	167,274	123,632
Investments	236,509	201,360
Total plant and other assets	1,523,707	1,448,651
Current Assets		
Cash and cash equivalents	40,095	31,577
Trading securities	86,819	40,007
Trade accounts receivable (less reserve of $6,568 and $3,325)	144,060	128,072
Notes and other accounts receivable	20,719	12,220
Fuel, material and supplies	23,221	26,383
Prepayments and other	17,195	13,706
Total current assets	332,109	251,965
Deferred Charges		
Regulatory	83,496	88,631
Other	27,086	25,037
Total deferred charges	110,582	113,668
Intangible Assets		
Goodwill	166,986	120,245
Other	12,665	13,096
Total intangible assets	179,651	133,341
Total Assets	$2,146,049	$1,947,625
Capitalization and Liabilities		
Capitalization		
Common stock, without par value, 65,000,000 shares authorized; 32,758,310 and 31,467,650 shares outstanding	$ 394,187	$ 377,684
Unearned ESOP shares	(69,124)	(72,882)
Net unrealized gain on securities investments	2,752	3,206
Cumulative translation adjustment	73	(177)
Retained earnings	282,960	276,241
Total common stock equity	610,848	584,072
Cumulative preferred stock	11,492	28,547
Redeemable serial preferred stock	20,000	20,000
Company obligated mandatorily redeemable preferred securities of subsidiary MP&L Capital I which holds solely Company Junior Subordinated Debentures	75,000	-
Long-term debt	694,423	639,548
Total capitalization	1,411,763	1,272,167
Current Liabilities		
Accounts payable	72,787	68,083
Accrued taxes	48,813	40,999
Accrued interest and dividends	14,851	14,471
Notes payable	155,726	96,218
Long-term debt due within one year	7,208	9,743
Other	37,598	27,292
Total current liabilities	336,983	256,806
Deferred Credits		
Accumulated deferred income taxes	148,931	164,737
Contributions in aid of construction	98,378	98,167
Regulatory	64,394	57,950
Other	85,600	97,798
Total deferred credits	397,303	418,652
Commitments and Contingencies		
Total Capitalization and Liabilities	$2,146,049	$1,947,625

The accompanying notes are an integral part of these statements.

Minnesota Power Consolidated Statement of Income

For the Year Ended December 31	1996	1995	1994
	In thousands except per share amounts		
Operating Revenue and Income			
Electric operations	$529,190	$503,457	$458,356
Water services	85,230	66,154	87,465
Automotive services	183,941	61,560	-
Investments	48,567	41,746	36,348
Total operating revenue and income	846,928	672,917	582,169
Operating Expenses			
Fuel and purchased power	190,928	176,960	157,687
Operations	354,210	286,204	232,280
Administrative and general	157,896	102,896	68,302
Interest expense	62,115	48,041	46,750
Total operating expenses	765,149	614,101	505,019
Income from Equity Investments	11,810	4,196	2,972
Operating Income from Continuing Operations	93,589	63,012	80,122
Distributions on Redeemable Preferred Securities of Subsidiary	4,729	-	-
Income Tax Expense	19,639	1,155	20,657
Income from Continuing Operations	69,221	61,857	59,465
Income from Discontinued Operations	-	2,848	1,868
Net Income	69,221	64,705	61,333
Dividends on Preferred Stock	2,408	3,200	3,200
Earnings Available for Common Stock	$ 66,813	$ 61,505	$ 58,133
Average Shares of Common Stock	29,309	28,483	28,239
Earnings Per Share of Common Stock			
Continuing operations	$2.28	$2.06	$1.99
Discontinued operations	-	.10	.07
Total	$2.28	$2.16	$2.06
Dividends Per Share of Common Stock	$2.04	$2.04	$2.02

Consolidated Statement of Retained Earnings

For the Year Ended December 31	1996	1995	1994
	In thousands		
Balance at Beginning of Year	$276,241	$272,646	$271,177
Net income	69,221	64,705	61,333
Redemption of preferred stock	(513)	-	-
Total	344,949	337,351	332,510
Dividends Declared			
Preferred stock	2,408	3,200	3,200
Common stock	59,581	57,910	56,664
Total	61,989	61,110	59,864
Balance at End of Year	$282,960	$276,241	$272,646

The accompanying notes are an integral part of these statements.

Minnesota Power Consolidated Statement of Cash Flows

For the Year Ended December 31	1996	1995	1994
		In thousands	
Operating Activities			
Net income	$ 69,221	$ 64,705	$ 61,333
Income from equity investments -- net of dividends received	(10,993)	(10,751)	(4,201)
Depreciation and amortization	65,092	59,554	50,236
Deferred income taxes	(9,770)	(26,082)	6,201
Deferred investment tax credits	(1,986)	(865)	(2,478)
Pre-tax (gain) loss on sale of plant	(1,632)	1,786	(19,147)
Changes in operating assets and liabilities net of the effects of discontinued operations and subsidiary acquisitions			
Trading securities	(46,812)	34,039	24,198
Notes and accounts receivable	(17,502)	(12,989)	(14,061)
Fuel, material and supplies	3,221	(3,164)	(5,641)
Accounts payable	(2,854)	(9,794)	1,112
Other current assets and liabilities	14,871	15,890	4,935
Other -- net	16,170	874	9,777
Cash from operating activities	77,026	113,203	112,264
Investing Activities			
Proceeds from sale of investments in securities	43,129	103,189	59,339
Proceeds from sale of discontinued operations -- net of cash sold	-	107,606	-
Proceeds from sale of plant	8,837	-	37,361
Additions to investments	(76,680)	(50,343)	(90,073)
Additions to plant	(94,147)	(117,749)	(80,161)
Acquisition of subsidiaries -- net of cash acquired	(66,902)	(129,531)	-
Changes to other assets -- net	(971)	(1,019)	(14,045)
Cash for investing activities	(186,734)	(87,847)	(87,579)
Financing Activities			
Issuance of long-term debt	205,537	28,070	21,982
Issuance of Company obligated mandatorily redeemable preferred securities of subsidiary MP&L Capital I -- net	72,270	-	-
Issuance of common stock	18,973	6,438	1,033
Changes in notes payable -- net	56,281	16,726	33,623
Reductions of long-term debt	(155,278)	(10,904)	(26,132)
Redemption of preferred stock	(17,568)	-	-
Dividends on preferred and common stock	(61,989)	(61,110)	(59,864)
Cash from (for) financing activities	118,226	(20,780)	(29,358)
Change in Cash and Cash Equivalents	8,518	4,576	(4,673)
Cash and Cash Equivalents at Beginning of Period	31,577	27,001	31,674
Cash and Cash Equivalents at End of Period	$ 40,095	$ 31,577	$ 27,001
Supplemental Cash Flow Information			
Cash paid during the period for			
Interest (net of capitalized)	$ 54,434	$ 48,913	$ 48,385
Income taxes	$ 25,531	$ 25,018	$ 20,584

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

1 Business Segments
Thousands

For the Year Ended December 31	Consolidated	Electric Operations	Water Services	Automotive Services	Investments: Portfolio & Reinsurance	Investments: Real Estate	Corporate Charges & Other
1996							
Operating revenue and income	$ 846,928	$529,190	$ 85,230	$183,941	$ 20,674	$29,166	$ (1,273)
Operation and other expense	637,942	400,868	53,571	152,840	2,738	17,056	10,869
Depreciation and amortization expense	65,092	42,184	10,979	11,753	-	176	-
Interest expense	62,115	22,501	12,534	11,667	2	1,180	14,231
Income from equity investments	11,810	-	-	-	11,810	-	-
Operating income (loss)	93,589	63,637	8,146	7,681	29,744	10,754	(26,373)
Distributions on redeemable preferred securities of subsidiary	4,729	1,332	-	-	-	-	3,397
Income tax expense (benefit)	19,639	22,888	2,761	4,029	6,426	(4,038)	(12,427)
Net income	$ 69,221	$ 39,417	$ 5,385	$ 3,652	$ 23,318	$14,792	$ (17,343)
Total assets	$2,146,049	$995,801	$346,989	$456,862	$256,356	$88,261	$ 1,780
Accumulated depreciation	$ 653,816	$533,554	$113,786	$ 6,476	-	-	-
Accumulated amortization	$ 8,551	-	-	$ 7,536	-	$ 1,015	-
Construction work in progress	$ 22,652	$ 3,959	$ 7,114	$ 11,579	-	-	-
1995							
Operating revenue and income	$ 672,917	$503,457	$ 66,154	$ 61,560	$ 24,198	19,558	$ (2,010)
Operation and other expense	508,753	373,647	46,021	55,314	3,217	20,242	10,312
Depreciation and amortization expense	57,307	40,294	12,369	4,367	-	277	-
Interest expense	48,041	22,397	10,110	675	9	26	14,824
Income (loss) from equity investments	4,196	-	-	-	9,811	-	(5,615)
Operating income (loss) from continuing operations	63,012	67,119	(2,346)	1,204	30,783	(987)	(32,761)
Income tax expense (benefit)	1,155	26,135	(1,278)	1,242	5,810	(17,435)	(13,319)
Income (loss) from continuing operations	61,857	$ 40,984	$ (1,068)	$ (38)	$ 24,973	$16,448	$ (19,442)
Income from discontinued operations	2,848						
Net income	$ 64,705						
Total assets	$1,947,625	$992,635	$337,693	$355,843	$209,556	$51,416	$ 482
Accumulated depreciation	$ 619,343	$508,566	$108,787	$ 1,990	-	-	-
Accumulated amortization	$ 3,036	-	-	$ 2,311	-	$ 725	-
Construction work in progress	$ 56,019	$ 5,676	$ 12,024	$ 38,319	-	-	-
1994							
Operating revenue and income	$ 582,169	$458,356	$ 87,465	-	$ 6,537	$31,653	$ (1,842)
Operation and other expense	412,493	335,196	45,435	-	3,516	20,510	7,836
Depreciation and amortization expense	45,776	36,963	8,534	-	-	276	3
Interest expense	46,750	20,741	11,423	-	5	12	14,569
Income (loss) from equity investments	2,972	-	-	-	8,138	-	(5,166)
Operating income (loss) from continuing operations	80,122	65,456	22,073	-	11,154	10,855	(29,416)
Income tax expense (benefit)	20,657	24,839	8,386	-	(2,054)	691	(11,205)
Income (loss) from continuing operations	$ 59,465	$ 40,617	$ 13,687	-	$ 13,208	$10,164	$ (18,211)
Income from discontinued operations	1,868						
Net income	$ 61,333						
Total assets	$1,807,798	$990,040	$313,709	-	$289,025	$36,434	$ 3,457
Accumulated depreciation	$ 582,075	$492,674	$ 84,715	-	$ 5	-	-
Accumulated amortization	$ 435	-	-	-	-	$ 435	-
Construction work in progress	$ 27,619	$ 21,865	$ 5,754	-	-	-	-

Purchased July 1, 1995.
Includes $3.7 million of minority interest.
Includes $8.2 million of tax benefits. (See Note 14.)
Includes $4.1 million of minority interest.
Includes a $6.4 million pre-tax provision from exiting the equipment manufacturing business.
Includes $18.4 million of tax benefits. (See Note 14.)
Includes a $19.1 million pre-tax gain from the sale of certain water plant assets.

Includes a $10.1 million pre-tax loss from the write-off of an investment.
Includes $3.6 million of income related to escrow funds.
Includes $2.5 million of minority interest.
Includes $175.1 million related to operations discontinued in 1995.
Includes $4.7 million related to operations discontinued in 1995.

2 Operations and Significant Accounting Policies

Financial Statement Preparation. Minnesota Power prepares its financial statements in conformity with generally accepted accounting principles. These principles require management to make informed judgments and best estimates and assumptions that (1) affect the reported amounts of assets and liabilities, (2) disclose contingent assets and liabilities at the date of the financial statements, and (3) report amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and all of its 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.

Nature of Operations and Revenue Recognition. Minnesota Power is a diversified utility that has operations in four principal business segments.

Electric Operations. Electric service is provided to 135,000 customers in northern Minnesota and northwestern Wisconsin. Large power customers, which include Minnesota's taconite producers, paper and wood products manufacturers and two pipeline companies, purchase under contracts, which extend from October 1999 through December 2007, about half of the electricity the Company sells. 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 Minnesota Power with 71% of its output under a long-term contract. (See Note 17.)

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 yet billed. Electric rates include adjustment clauses which 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.

During 1996, 1995 and 1994, revenue derived from one major customer was $57.1, $60.4 and $60.2 million, respectively. Revenue derived from another major customer was $41.2, $44.9 and $45.3 million, respectively.

Water Services. Florida Water, formerly Southern States Utilities, Inc., a wholly owned subsidiary, is the largest investor owned supplier of water and wastewater utility services in Florida. Heater, another wholly owned subsidiary, provides water and wastewater services in North Carolina and South Carolina. ISI, a wholly owned subsidiary, provides predictive maintenance services to water utility companies and other industrial operations in North Carolina, South Carolina, Florida, Georgia, Tennessee, Virginia and Texas. In total, 142,000 water and 56,000 wastewater treatment customers are served. 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 water sold but not billed.

Automotive Services. ADESA, a wholly owned subsidiary, owns and operates 24 automobile auctions in the US and Canada. ADESA acts as an agent in the sales process, receiving fees from both buyers and sellers of automobiles. During the sales process, ADESA does not generally take title to vehicles. ADESA also provides a wide range of related services such as auto reconditioning, title processing and vehicle transport. Floorplan financing is provided by AFC. Revenue is recognized when services are performed.

Investments. The Company's securities portfolio provides funds for reinvestment and business acquisitions. The Company has a 21% ownership in Capital Re, a financial guaranty reinsurance company, accounted for using the equity method, and an 80% ownership in Lehigh, a Florida real estate business. Real estate revenue is recognized on the accrual basis.

Income Taxes. The Company accounts for income taxes under SFAS 109, "Accounting for Income Taxes." SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities.

Plant Depreciation. Plant is recorded at original cost. The cost of additions to plant and replacement of retirement units of property are capitalized. Maintenance costs and replacements of minor items of property are charged to expense as incurred. Costs of depreciable units of plant retired are eliminated from the plant accounts. Such costs plus removal expenses less salvage are charged to accumulated depreciation for utility plant. Plant stated on the balance sheet includes construction work in progress and is net of accumulated depreciation. Various pollution abatement facilities are leased from municipalities which have issued pollution control revenue bonds to finance the cost of the facilities. The cost of the facilities and the related debt obligation, which is guaranteed by the Company, has been recorded as electric plant and long-term debt, respectively.

Depreciation of utility plant is computed using rates based on estimated useful lives of the various classes of property. Provisions for depreciation of the average original cost of depreciable property approximated 3.2% in 1996, 3.3% in 1995 and 3% in 1994. Contributions in aid of construction (CIAC) relate to water and wastewater plant contributed to the Company by developers and cash from customers. CIAC is amortized on a straight-line basis over the estimated life of the asset to which it relates when placed in service. Amortization of CIAC reduces depreciation expense.

Fuel, Material and Supplies. Fuel, material and supplies are stated at the lower of cost or market. Cost is determined by the average cost method.

Goodwill. Goodwill represents the excess of cost over net assets of businesses acquired and is amortized on a straight-line basis over forty years. The Company continually evaluates whether events or circumstances have occurred indicating that the remaining estimated useful life of goodwill may not be appropriate. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of the acquired business' undiscounted future cash flows compared to the carrying value of goodwill to determine if a write-off is necessary.

Deferred Regulatory Charges and Credits. The Company's utility operations are subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." The Company capitalizes 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. (See Note 4.)

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. The Company considers all investments purchased with maturities of three months or less to be cash equivalents.

Foreign Currency Translation. Results of operations for ADESA's foreign subsidiaries are translated into US dollars using the average exchange rates during the period. Assets and liabilities are translated into US dollars using the exchange rate at the balance sheet date, except for intangibles and fixed assets, which are translated at historical rates. Resulting translation adjustments are recorded as cumulative translation adjustment under the heading Capitalization on the Company's consolidated balance sheet.

3 Acquisitions and Divestitures

Acquisition of Palm Coast. In April 1996 Palm Coast Holdings, Inc., a wholly owned subsidiary of Lehigh Acquisition Corporation, acquired real estate assets (Palm Coast) from ITT Community Development Corp. and other affiliates of ITT Industries, Inc. (ITT) for $34 million. These assets include developed residential lots, a real estate contract receivables portfolio and approximately 13,000 acres of commercial and other land. Palm Coast is a planned community located between St. Augustine and Daytona Beach, Florida.

ITT's wholly owned subsidiary, Palm Coast Utility Corporation (PCUC), has granted an option to the Company to acquire PCUC's water and wastewater utility assets in Palm Coast. PCUC provides services to approximately 12,000 customers in Flagler County, Florida. If the option is exercised, closing of the transaction will be subject to various regulatory approvals.

Acquisition of ISI. In April 1996 MP Water Resources acquired all the outstanding common stock of Instrumentation Services, Inc., a predictive maintenance service business, in exchange for 96,526 shares of Minnesota Power common stock. The acquisition was accounted for as a pooling of interest. Prior period financial results for 1996 have not been restated due to immateriality.

Acquisition of Orange Osceola. In December 1995 Florida Water acquired the operating assets of Orange Osceola Utilities for approximately $13 million. The acquisition added over 17,000 water customers.

Sale of Water Plant Assets. In March 1996 Heater of Seabrook, Inc., a wholly owned subsidiary of Heater, sold all of its water and wastewater utility assets to the Town of Seabrook Island, South Carolina for $5.9 million. This sale was negotiated in anticipation of an eminent domain action by the Town of Seabrook Island, South Carolina. In December 1996 Heater sold its Columbia, South Carolina area water systems to South Carolina Water and Sewer, L.L.C. Water services on the Company's consolidated statement of income includes pre-tax gains of $1.7 million from these sales.

In December 1994 Florida Water sold all of the assets of its Venice Gardens water and wastewater utilities to Sarasota County in Florida (the County) for $37.6 million. The sale increased 1994 net income by $11.8 million and contributed 42 cents to 1994 earnings per share. Water services on the Company's consolidated statement of income includes a pre-tax gain of $19.1 million from the sale. This sale was negotiated in anticipation of an eminent domain action by the County.

Acquisition of ADESA. The Company acquired 80% of ADESA on July 1, 1995, for $167 million in cash. The Company accounted for the acquisition as a purchase. Acquired goodwill and other intangible assets associated with this acquisition are being amortized on a straight line basis over periods not exceeding 40 years. In January 1996 the Company provided an additional $15 million of capital in exchange for 1,982,346 original issue common stock shares of ADESA. This capital contribution increased the Company's ownership interest in ADESA to 83%. In August 1996 the Company acquired the remaining 17% ownership interest of ADESA from the ADESA management shareholders. Financial results for ADESA have been included in the Company's consolidated financial statements as of July 1, 1995.

The following summary presents unaudited pro forma consolidated results as if the Company acquired a 100% ownership interest in ADESA on Jan. 1, 1995. The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of 1995, nor are they necessarily indicative of future consolidated results. The pro forma results should be read in conjunction with the historical consolidated financial statements and related notes of Minnesota Power.

Summary Pro Forma Financial Information -- Unaudited

Year Ended December 31	1996	1995
	In thousands	
Operating revenue and income	$846,928	$729,674
Income from continuing operations	$68,720	$59,800
Net income	$68,720	$62,648
Earnings per share of common stock from continuing operations	$2.26	$1.99
Total earnings per share of common stock	$2.26	$2.09

In September 1996 Minnesota Power exchanged 473,006 shares of its common stock for all the outstanding common stock of Alamo Auto Auction, Inc. and Alamo Auto Auction Houston, Inc. These acquisitions were accounted for as pooling of interests. Prior period financial results for 1996 have not been restated due to immateriality. Three other auction facilities were also acquired in 1996 and

were accounted for using the purchase method. Pro forma consolidated results reflecting these purchases have not been presented due to immateriality.

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Discontinued Operations. On June 30, 1995, Minnesota Power sold its interest in the paper and pulp business to Consolidated Papers, Inc. (CPI) for $118 million in cash, plus CPI's assumption of certain debt and lease obligations. The Company is still committed to a maximum guaranty of $95 million to ensure a portion of a $33.4 million annual lease obligation for paper mill equipment under an operating lease extending to 2012. CPI has agreed to indemnify the Company for any payments the Company may make as a result of the Company's obligation relating to this operating lease. The financial results of the paper and pulp business, including the loss on disposition, have been accounted for as discontinued operations.

Summary of Discontinued Operations

Year Ended December 31	1995	1994
	In thousands	
Operating revenue and income	$44,324	$55,615
Income from equity investments	$7,496	$2,327
Income from operations	$7,476	$2,677
Income tax expense	3,117	809
	4,359	1,868
Loss on disposal	(1,786)	-
Income tax benefit	275	-
	(1,511)	-
Income from discontinued operations	$2,848	$1,868

Exit from Equipment Manufacturing Business. In June 1995 Reach All ceased operations and sold its operating assets. Pre-tax losses from Reach All were $6.4 million in 1995 and $5.2 million in 1994.

4 Regulatory Matters

The Company files 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. The MPUC had regulatory authority over approximately 69% in 1996, 73% in 1995 and 75% in 1994 of the Company's total electric operating revenue. Interim rates in Minnesota and Florida are placed into effect, subject to refund with interest, pending a final decision by the appropriate commission.

Electric Rate Proceedings. The Company's most recent Minnesota retail case was filed Jan. 3, 1994. Interim rates were in effect from March 1, 1994, until final rates became effective on June 1, 1995. The MPUC approved an 11.6% return on common equity and an overall increase in annual revenue of $19 million. The MPUC also approved revenue neutral rate adjustments which increased residential rates 3.5% on Jan. 1, 1996 and 3.5% on Jan. 1, 1997. The residential increases were offset by lower large power demand charge rates.

The MPUC also allows the Company to collect the cost of fuel burned (over what is already included in the base rate) and the expenditures and lost margins related to conservation improvement programs (CIP). These expenses are being collected through an adjustment on the customers' bills known as the "resource adjustment."

Water and Wastewater Rates. 1995 Rate Case. Florida Water requested an $18.1 million rate increase in June 1995. On Oct. 30, 1996, the FPSC issued its final order in the Florida Water rate case. The final order established water and wastewater rates for all customers of Florida Water regulated by the FPSC. The new rates, which became effective on Sept. 20, 1996, resulted in an annualized increase in revenue of approximately $11.1 million. This increase included, and was not in addition to, the $7.9 million increase in annualized revenue granted as interim rates effective on Jan. 23, 1996. The FPSC approved a new rate structure called "capband," which replaces uniform rates. The new structure combines the concept of a "cap" on monthly bills at a certain usage level for 85 of Florida Water's facilities that are more expensive to operate, with a "banding," or grouping, of rates paid by customers served by the 56 less expensive facilities. On Nov. 1, 1996, Florida Water filed with the Florida First District Court of Appeals (Court) an appeal of the FPSC's final order seeking judicial review of issues relating to the amount of investment in utility facilities recoverable in rates from current customers. Motions for reconsideration of the FPSC's final order were subsequently filed by other parties to the rate case. Therefore, the Court has postponed Florida Water's appeal pending the FPSC's disposition of the reconsideration requests. The Company is unable to predict the outcome of this matter. Florida law provides that the new rates be implemented while the order is under appeal.

1991 Rate Case Refund Order. Responding to a Florida Supreme Court decision addressing the issue of retroactive ratemaking with respect to another company, in March 1996 the FPSC voted to reconsider an October 1995 order (Refund Order) which would have required Florida Water to refund about $13 million, which includes interest, to customers who paid more since October 1993 under uniform rates than they would have paid under stand-alone rates. Under the Refund Order, the collection of the $13 million from customers who paid less under uniform rates would not be permitted. The Refund Order was in response to the Florida First District Court of Appeals reversal in April 1995 of the 1993 FPSC order which imposed uniform rates for most of Florida Water's service areas in Florida. With "uniform rates," all customers in the uniform rate areas pay the same rates for water and wastewater services. Uniform rates are an alternative to "stand-alone" rates which are based on the cost of serving each service area. The FPSC reconsidered the Refund Order, but upheld its decision to order refunds in August 1996. Florida Water filed an appeal of this decision with the First District Court of Appeals. A decision on the appeal is anticipated by early 1998. The Company continues to believe that it would be improper for the FPSC to

order a refund to one group of customers without permitting recovery of a similar amount from the remaining customers since the First District Court of Appeals affirmed the Company's total revenue requirement for operations in Florida.

No provision for refund has been recorded. The Company is unable to predict the outcome of this matter.

Florida Jurisdictional Issues. In June 1995 the FPSC issued an order assuming jurisdiction over Florida Water facilities statewide following an investigation of all of Florida Water's facilities. Several counties in Florida appealed this FPSC decision to the First District Court of Appeals. In December 1996 the Court issued an opinion reversing the FPSC order. In December 1996, the FPSC filed a motion for clarification and for rehearing with the Court. The Court denied this motion in January 1997. The FPSC voted in January 1997 to require Florida Water to charge rates to customers in Hernando County based on a modified stand-alone rate structure. The imposition of this rate structure would reduce Florida Water revenue by $1.6 million on a prospective annual basis. No order has yet been issued reflecting this vote. Florida Water is considering an appeal of such an order. In the event county regulation of water and wastewater rates prevails, the Company anticipates that the regulatory process will become significantly more complex and expensive.

Deferred Regulatory Charges and Credits. Based on current rate treatment, the Company believes all deferred regulatory charges are probable of recovery.

Summary of Deferred Regulatory Charges and Credits

December 31	1996	1995
	In thousands	
Deferred Charges		
Income taxes	$22,080	$22,726
Conservation improvement programs	21,301	15,793
Early retirement plan	8,188	14,290
Postretirement benefits	8,123	10,801
Premium on reacquired debt	7,466	8,293
Other	16,338	16,728
	83,496	88,631
Deferred Credits		
Income taxes	64,394	57,950
Net deferred regulatory charges and credits	$19,102	$30,681

5 Financial Instruments

Securities Investments. The majority of the Company's securities investments are primarily stocks of other utility companies with investment grade debt securities outstanding and are considered by the Company to be conservative investments. The Company also has investments in four limited partnerships that invest in equity and debt securities.

Investments in equity and debt securities are classified in two categories on the balance sheet: Trading securities are those bought and held principally for near-term sale. They are recorded at fair value as part of current assets, with changes in fair value during the period included in earnings. Available-for-sale securities, which are held for an indefinite period of time, are recorded at fair value in investments. Changes in fair value during the period are recorded net of tax as a separate component of common stock equity. If the fair value of any available-for-sale securities declines below cost and the decline is considered other than temporary, the securities are written down to fair value and the losses charged to earnings. Realized gains and losses are computed on each specific investment sold.

Summary of Securities

	Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
		In thousands		
December 31, 1996				
Trading				$86,819
Available-for-sale				
Common stock	$ 2,599	$ -	$ (551)	$ 2,048
Preferred stock	65,363	1,962	(1,557)	65,768
	$67,962	$1,962	$(2,108)	$67,816
December 31, 1995				
Trading				$40,007
Available-for-sale				
Common stock	$ 2,599	$ -	$ (451)	$ 2,148
Preferred stock	64,506	1,969	(3,090)	63,385
	$67,105	$1,969	$(3,541)	$65,533

The net unrealized gain on securities investments on the balance sheet at Dec. 31, 1996 and 1995, also included $2.8 and $4.1 million from the Company's share of Capital Re's unrealized holding gains and losses.

Year Ended December 31	1996	1995	1994
		In thousands	
Trading securities			
Change in net unrealized			

holding gains included in earnings	$943	$1,518	$253
Available-for-sale securities			
Proceeds from sales	$43,129	$97,139	$53,559
Gross realized gains	$910	$2,974	$1,194
Gross realized (losses)	$(1,362)	$(3,313)	$(2,902)

Off-Balance-Sheet Risks. In portfolio strategies designed to reduce market risks, the Company sells common stock securities short and enters into short sales of treasury futures contracts.

Selling common stock securities short is intended to reduce market price risks associated with holding common stock securities in the Company's trading securities portfolio. Realized and unrealized gains and losses from short sales of common stock securities are included in investment income.

Treasury futures are used as a cross hedge to reduce interest rate risks associated with holding fixed dividend preferred stocks included in the Company's available-for-sale portfolio. Changes in market values of treasury futures are recognized as an adjustment to the carrying amount of the underlying hedged item. Gains and losses on treasury futures are deferred and recognized in investment income concurrently with gains and losses arising from the underlying hedged item. Generally, treasury futures contracts entered into have a maturity date of 90 days.

As a consequence of refunding industrial revenue bonds, in July 1996 Florida Water entered into a five-year interest rate

swap agreement to exchange fixed for floating interest rates, which are reset quarterly, over the life of the swap agreement without the exchange of the underlying notional amounts totaling $30 million. The interest rate swap is subject to market risk due to fluctuation of interest rates.

Under the swap agreement, Florida Water is required to make quarterly interest payments to the counterparty at a variable rate based upon a weighted average of the PSA Municipal Swap Index (4.11% at Dec. 31, 1996), while the counterpart is required to make quarterly interest payments to Florida Water at an annual fixed rate (4.79% at Dec. 31, 1996).

The notional amounts summarized below do not represent amounts exchanged and are not a measure of the Company's financial exposure. The amounts exchanged are calculated on the basis of these notional amounts and other terms which relate to the change in interest rates and securities prices. The Company continually evaluates the credit standing of counterparties and market conditions with respect to its off-balance-sheet financial instruments. The Company does not expect any counterparties to fail to meet their obligations or any material adverse impact to its financial position from these financial instruments.

Summary of Off-Balance-Sheet
Financial Instrument

December 31	1996	1995
	In thousands	
Short stock sales outstanding	$31,662	$16,714
Treasury futures	$20,800	$12,700
Interest rate swap	$30,000	-

Fair Value of Financial Instruments. The carrying amount of cash and cash equivalents, trading securities, notes and other accounts receivable, and notes payable approximates fair value because of the short maturity of those instruments. The Company records its trading and available-for-sale securities at fair value based on quoted market prices. The fair values for all other financial instruments were based on quoted market prices for the same or similar issues.

Summary of Fair Values

December 31	1996	
	In thousands	
	Carrying Amount	Fair Value
Long-term debt	$(694,423)	$(690,709)
Redeemable serial preferred stock	$(20,000)	$(21,200)
Quarterly income preferred securities	$(75,000)	$(73,890)
Short stock sales outstanding (trading)	-	$31,644
Treasury futures	-	$23,426
Interest rate swap	-	$150

Summary of Fair Values

December 31	1995	
	In thousands	
	Carrying Amount	Fair Value
Long-term debt	$(639,548)	$(660,277)
Redeemable serial preferred stock	$(20,000)	$(21,050)
Short stock sales outstanding (trading)	-	$17,840
Treasury futures	-	$15,427

Concentration of Credit Risk. Financial instruments that subject the Company to concentrations of credit risk consist primarily of trade and other receivables. The Company sells electricity to about 14 customers in northern Minnesota's taconite, and paper and wood products industries. At Dec. 31, 1996 and 1995, receivables from these customers totaled $6.9 and $7.6 million. The Company does not obtain collateral to support utility receivables, but monitors the credit standing of major customers. The Company has not incurred and does not expect to incur significant credit losses. At Dec. 31, 1996 and 1995 approximately $23 and $29 million of trade accounts receivable at AFC were due from automobile dealers. AFC has possession of car titles collateralizing these amounts.

Sale of Finance Receivables. Effective Dec. 31, 1996, AFC sold a $50 million participation in its finance receivables to a third party purchaser. Under the terms of the purchase agreement, the purchaser agrees to make reinvestments of up to $100 million to the extent that such reinvestments are supported by eligible receivables. The purchase agreement terminates Dec. 31, 2001.

6 Investment in Capital Re

The Company has an equity investment in Capital Re, a company engaged in financial guaranty reinsurance. The Company uses the equity method to account for this investment.

Summary of Capital Re
Financial Information

Year Ended December 31	1996	1995	1994
		In thousands	
Investment portfolio	$901,102	$771,767	$638,751
Other assets	$255,299	$210,118	$171,289

Liabilities	$254,951	$180,491	$134,610
Deferred revenue	$337,104	$314,451	$274,916
Net revenue	$144,945	$107,032	$101,462
Net income	$56,524	$45,527	$39,806

Summary of Minnesota Power's Ownership in Capital Re

Year Ended December 31	1996	1995	1994
		In thousands	
Equity in earnings	$11,810	$9,811	$8,138
Accumulated equity in undistributed earnings	$53,685	$42,755	$33,683
Equity investment	$102,290	$92,851	$72,054
Fair value of equity investment	$152,265	$100,422	$86,662
Equity ownership	21%	22%	21%

7 Common Stock and Retained Earnings

The Articles of Incorporation, mortgage, and preferred stock purchase agreements contain provisions that, under certain circumstances, would restrict the payment of common stock dividends. As of Dec. 31, 1996, no retained earnings were restricted as a result of these provisions.

Summary of Common Stock	Shares	Equity
	In thousands	
Balance Dec. 31, 1993	31,207	$370,681
1994 ESPP	40	1,033
Other	-	(536)
Balance Dec. 31, 1994	31,247	371,178
1995 ESPP	32	786
DRIP	189	5,653
Other	-	67
Balance Dec. 31, 1995	31,468	377,684
1996 ESPP	27	718
DRIP	669	18,541
Other	594	(2,756)
Balance Dec. 31, 1996	32,758	$394,187

Shareholder Rights Plan. On July 24, 1996, the Board of Directors of the Company adopted a rights plan (Rights Plan) pursuant to which it declared a dividend distribution of one preferred share purchase right (Right) for each outstanding share of common stock to shareholders of record at the close of business on July 24, 1996, (the Record Date) and authorized the issuance of one Right with respect to each share of common stock that becomes outstanding between the Record Date and July 23, 2006, or such earlier time as the Rights are redeemed.

Each Right will be exercisable to purchase one one-hundredth of a share of Junior Serial Preferred Stock A, without par value, at an exercise price of $90, subject to adjustment, following a distribution date which shall be the earlier to occur of (i) 10 days following a public announcement that a person or group (Acquiring Person) has acquired, or obtained the right to acquire, beneficial ownership of 15% or more of the outstanding shares of common stock (Stock Acquisition Date) or (ii) 15 business days (or such later date as may be determined by the Board of Directors prior to the time that any person becomes an Acquiring Person) following the commencement of, or a public announcement of an intention to make, a tender or exchange offer if, upon consummation thereof, such person would meet the 15% threshold.

Subject to certain exempt transactions, in the event that the 15% threshold is met, each holder of a Right (other than the Acquiring Person) will thereafter have the right to receive, upon exercise at the then current exercise price of the Right, common stock (or, in certain circumstances, cash, property or other securities of the Company) having a value equal to two times the exercise price of the Right. If, at any time following the Stock Acquisition Date, the Company is acquired in a merger or other business combination transaction or 50% or more of the Company's assets or earning power are sold, each Right will entitle the holder (other than the Acquiring Person) to receive, upon exercise at the then current exercise price of the Right, common stock of the acquiring or surviving company having a value equal to two times 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 common stock.

The Rights are nonvoting and expire on July 23, 2006, unless redeemed by the Company at a price of $.01 per Right at any time prior to the time a person becomes an Acquiring Person. The Board of Directors has authorized the reservation of one million shares of Junior Serial Preferred Stock A for issuance under the Rights Plan in the event of exercise of the Rights.

8 Preferred Stock

Summary of Cumulative Preferred Stock December 31	1996	1995
	In thousands	
Preferred stock, $100 par value, 116,000 shares authorized; 5% Series - 113,358 shares outstanding, callable at $102.50 per share	$11,492	$11,492
Serial preferred stock, $7.36 Series - 170,000 shares outstanding	-	17,055
Total cumulative preferred stock	$11,492	$28,547

In May 1996 Minnesota Power redeemed all of the 170,000 outstanding shares of its Serial Preferred Stock, $7.36 Series. The redemption price was $103.34 per share plus accrued and unpaid dividends in the amount of $.86 per share.

Summary of Redeemable Serial Preferred Stock December 31	1996	1995
	In thousands	
Serial preferred stock A, without		

par value, 2,500,000 shares authorized;		
$6.70 Series - 100,000 shares outstanding, noncallable, redeemable in 2000 at $100 per share	$10,000	$10,000
$7.125 Series - 100,000 shares outstanding, noncallable, redeemable in 2000 at $100 per share	10,000	10,000
Total redeemable serial preferred stock	$20,000	$20,000

9 Long-Term Debt

Schedule of Long-Term Debt

December 31	1996	1995
	In thousands	
Minnesota Power		
First mortgage bonds		
7 3/8% Series due 1997	$ 60,000	$ 60,000
6 1/2% Series due 1998	18,000	18,000
6 1/4% Series due 2003	25,000	25,000
7 1/2% Series due 2007	35,000	35,000
7 3/4% Series due 2007	55,000	55,000
7% Series due 2008	50,000	50,000
6% Pollution control Series E due 2022	111,000	111,000
Pollution control revenue bonds,		
5-6 7/8%, due 1997-2010	33,880	34,655
Leveraged ESOP loan,		
9.125%, due 1997-2004	12,175	13,039
Other long-term debt, variable,		
due 2001-2013	17,330	17,194
Subsidiary companies		
First mortgage bonds,		
8.75%, due 2013	45,000	45,000
Senior Notes, Series A,		
7.70%, due 2006	90,000	-
Industrial development		
revenue bonds, 6.50%, due 2025	33,599	-
Note payable, 10.44%, due 1999	30,000	30,000
Notes payable, variable	-	57,926
Other long-term debt,		
6.1-8 7/8%, due 1997-2026	85,647	97,477
Less due within one year	(7,208)	(9,743)
Total long-term debt	$694,423	$639,548

Aggregate amounts of long-term debt maturing during each of the next five years are $7.2, $24.2, $66.8, $10.7 and $11.8 million in 1997, 1998, 1999, 2000 and 2001. Substantially all Company electric and water plant is subject to the lien of the mortgages securing various first mortgage bonds.

In January 1996 Florida Water issued $35.1 million of 6.5% Industrial Development Refunding Revenue Bonds Series 1996 due Oct. 1, 2025. Proceeds were used to refund four industrial development bond issues totaling $33.8 million that Florida Water had outstanding at Dec. 31, 1995.

In May 1996 ADESA issued $90 million of 7.70% Senior Notes, Series A, Due 2006 in a Rule 144A offering. Proceeds were used by ADESA to repay $76 million of existing indebtedness, including borrowings under ADESA's revolving bank credit agreement, floating rate option notes and certain borrowings from Minnesota Power.

In June 1996 Lehigh obtained a $20 million adjustable rate revolving line of credit due in 2003. The proceeds were used to partially finance the acquisition of real estate near Palm Coast, Florida.

At Dec. 31, 1996 and 1995, subsidiaries of the Company had long-term bank lines of credit, aggregating $50 and $18 million, respectively. One line of credit requires a commitment fee of 1/20 of 1%. Drawn portions on these lines of credit aggregate $20 and $18 million at Dec. 31, 1996 and 1995, and are included in subsidiary companies other long-term debt.

On Feb. 20, 1997, the Company sold $60 million of First Mortgage Bonds, 7% Series due Feb. 15, 2007. The proceeds from the issuance were used for the retirement of $60 million in principal amount of the Company's First Mortgage Bonds, 7 3/8% Series due March 1, 1997.

10 Short-Term Borrowings and Compensating Balances

The Company had bank lines of credit, which make short-term financing available through short-term bank loans and provide support for commercial paper. At Dec. 31, 1996 and 1995 the Company had bank lines of credit aggregating $84 and $118 million, respectively, of which $84 million was available for use at the end of each year. At Dec. 31, 1996 and 1995, the Company had issued commercial paper with face values of $155 and $63 million, respectively, with liquidity provided by bank lines of credit and the Company's securities portfolio.

Certain lines of credit require a commitment fee of 1/10 of 1% and/or a 5% compensating balance. Interest rates on commercial paper and borrowings under the lines of credit range from 6.0% to 8.0% at Dec. 31, 1996, and 6.0% to 9.5% at Dec. 31, 1995. The weighted average interest rate on short-term borrowings at Dec. 31, 1996 and 1995, was 5.7% and 6.1%. The total amount of compensating balances at Dec. 31, 1996 and 1995, was immaterial.

11 Jointly Owned Electric Facility

The Company owns 80% of Boswell Unit 4. While the Company operates the plant, certain decisions with respect to the operations of Boswell Unit 4 are subject to the oversight of a committee on which the Company and Wisconsin Public Power, Inc. SYSTEM (WPPI), the owner of the other 20% of Boswell Unit 4, have equal representation and voting rights. Each owner must provide its own financing and is obligated to pay its ownership share of operating costs. The Company's share of direct operating expenses of Boswell Unit 4 is included in operating expense on the consolidated statement of income. The Company's 80% share of the original cost included in electric plant at Dec. 31, 1996 and 1995, was $304 and $303 million. The corresponding provisions for accumulated depreciation were $129 and

$123 million.

12 Leasing Agreements

ADESA leases auction facilities located in North Carolina, Massachusetts and Tennessee from an unrelated third party. The term of these leases is for five years ending 2001 with no renewal options. However, at the beginning of the fourth year of the lease term, ADESA has the option to purchase the leased facilities at an aggregate price of $26.5 million. In the event ADESA does not exercise its option to purchase, ADESA is required to guarantee any deficiency in sales proceeds the lessor realizes in disposing of the leased properties should the selling price fall below $25.7 million. ADESA is entitled to any excess sales proceeds over the option price. ADESA has guaranteed the payment of principal and interest on the lessor's indebtedness which consists of $25.7 million of mortgage notes, due Aug. 1, 2000. Interest on the notes accrues at 9.82% per annum and is payable monthly.

The Company leases other properties and equipment in addition to those listed above pursuant to operating and capital lease agreements with terms expiring through 2008. Aggregate amounts of future minimum lease payments for capital and operating leases during each of the next five years are $10.7, $7.5, $10.0, $3.8 and $2.9 million in 1997, 1998, 1999, 2000 and 2001. Total rent expense was $7.4, $1.6 and $2.0 million in 1996, 1995 and 1994, respectively.

13 Mandatorily Redeemable Preferred Securities of MP&L Capital I

MP&L 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). On March 20, 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 of the sale of the QUIPS, and of common securities of the Trust to the Company, were used by the Trust to purchase from the Company $77.5 million of 8.05% Junior Subordinated Debentures, Series A, Due 2015 (Subordinated Debentures), resulting in net proceeds to the Company 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. The Company has 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 of up to 20 consecutive quarters, provided that no single distribution payment period, as extended, may exceed 20 consecutive quarterly interest payment periods or extend beyond the maturity of the Junior Subordinated Debentures. The Company is 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 the Subordinated Debentures, interest on which is deductible by the Company 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. The Company has the option at any time on or after March 20, 2001, to redeem the Subordinated Debentures, in whole or in part. The Company also has the option, upon the occurrence of certain events, (i) to redeem at any time the Subordinated Debentures, in whole but not in part, which would result in the redemption of all the Trust Securities, or (ii) to terminate the Trust and cause the pro rata distribution of the Subordinated Debentures to the holders of the Trust Securities.

In addition to the Company's obligations under the Subordinated Debentures, the Company has guaranteed, on a subordinated basis, payment of distributions on the Trust Securities, to the extent the Trust has funds available to pay such distributions, and has agreed to pay all of the expenses of the Trust (such additional obligations collectively, the Back-up Undertakings). Considered together, the Back-up Undertakings constitute a full and unconditional guarantee by the Company of the Trust's obligations under the QUIPS.

14 Income Tax Expense

Schedule of Income Tax Expense	1996	1995	1994
		In thousands	
Continuing operations			
Current tax expense			
Federal	$23,625	$ 8,559	$19,308
Foreign	1,701	573	-
State	6,069	4,224	4,808
	31,395	13,356	24,116
Deferred tax expense			
Federal	330	6,820	(511)
State	(1,900)	244	(470)
	(1,570)	7,064	(981)
Change in valuation allowance	(8,200)	(18,400)	-
Deferred tax credits	(1,986)	(865)	(2,478)
Income tax -- continuing operations	19,639	1,155	20,657
Discontinued operations			
Current tax expense			

Federal	-	13,396	(4,302)
State	-	4,192	(2,071)
	-	17,588	(6,373)
Deferred tax expense			
Federal	-	(11,851)	5,677
State	-	(2,895)	1,505
	-	(14,746)	7,182
Income tax -- discontinued operations	-	2,842	809
Total income tax expense	$19,639	$ 3,997	$21,466

The Company's overall effective tax rates were 22.1%, 5.8% and 25.9% in 1996, 1995 and 1994 compared to the federal statutory rate of 35%.

Reconciliation of Federal Statutory Rate to Effective Tax Rate	1996	1995	1994
	In thousands		
Tax computed at federal statutory rate	$31,101	$24,046	$28,979
Increase in tax from state income taxes, net of federal income tax benefit	2,890	3,504	2,608
Basis difference in land	293	(72)	(2,433)
Change in valuation allowance	(8,200)	(18,400)	-
Income from escrow funds	-	-	(1,550)
Dividend received deduction	(1,882)	(2,284)	(2,867)
Tax credits	(1,908)	(1,916)	(2,478)
Other	(2,655)	(881)	(793)
Total income tax expense	$19,639	$ 3,997	$21,466

Schedule of Deferred Tax Assets and Liabilities December 31	1996	1995
	In thousands	
Deferred tax assets		
Contributions in aid of construction	$ 18,775	$ 17,528
Lehigh basis difference	23,565	25,071
Deferred compensation plans	12,085	9,346
Depreciation	15,029	11,950
Investment tax credits	22,813	23,904
Other	35,143	32,056
Gross deferred tax assets	127,410	119,855
Deferred tax asset valuation allowance	(743)	(8,943)
Total deferred tax assets	126,667	110,912
Deferred tax liabilities		
Depreciation	188,818	188,804
AFDC	18,688	19,399
Investment tax credits	32,590	34,369
Other	35,502	33,077
Total deferred tax liabilities	275,598	275,649
Accumulated deferred income taxes	$148,931	$164,737

Tax Benefits. The Company, through Lehigh, a 67% owned subsidiary at the time, acquired the stock of Lehigh Corporation in a bargain purchase in 1991. Lehigh then began execution of a business strategy pursuant to which the majority of the acquired real estate assets would be disposed of over a five year period. An additional interest in Lehigh was purchased in 1993 bringing the Company's ownership interest to 80%. The structure of the transactions involved the acquisition of stock so the tax bases of the underlying acquired assets were carried over for income tax purposes. The carried-over tax bases exceeded the book bases assigned in purchase accounting. The Internal Revenue Code (IRC) limits the use of tax losses resulting from the higher tax basis over the fair market value of the underlying assets for a period of five years. The 1993 increase in ownership by the Company to 80%, which resulted in the inclusion of Lehigh and Lehigh Corporation in the Company's consolidated tax return, started another five year limitation period.

SFAS 109 was adopted on a prospective basis effective Jan. 1, 1993. Upon adoption, a valuation reserve was established for the entire amount of the tax benefits attributable to the bases differences and alternative minimum tax credits because, in management's judgment, realization of the tax benefits was not "more likely than not." This judgment was based on the unlikelihood of realizing the tax benefits due to the IRC restrictions, in light of management's existing five year property disposal plan. This situation continued through 1994.

In 1995 Lehigh implemented a business strategy which called for Lehigh to dispose of its remaining real estate assets with a specific view towards maximizing realization of the tax benefits. The new strategy was adopted after the Board of Directors of Lehigh, including the minority shareholders, were convinced of the cash flow benefit to Lehigh of deferring the liquidation of the remaining real estate assets. Accordingly, in 1995 the valuation reserve was reduced by $18.4 million based on a detailed analysis of the projected future taxable income based on the new business strategy.

In 1996 the remaining $8.2 million valuation reserve was reversed based on the projected positive impact the acquisition of $34 million of real estate assets at Palm Coast would have on Lehigh's taxable income. The Palm Coast assets were not considered in the 1995 revised strategy.

No provision has been made for taxes on $19.1 million of pre-1993 undistributed earnings of Capital Re, an investment accounted for under the equity method. Those earnings have been and are expected to continue to be reinvested. The Company estimates that $7.9 million of tax would be payable on the pre-1993 undistributed earnings of Capital Re if the Company should sell its investment. The Company has recognized the income tax impact on undistributed earnings of Capital Re earned since Jan. 1, 1993.

15 Pension Plans and Benefits

The Company's Minnesota and Wisconsin utility operations have noncontributory defined benefit pension plans covering eligible employees. Pension benefits for employees in Minnesota and Wisconsin are fully vested after five years and are based on years of service and the highest average monthly compensation earned during four consecutive years within the last 15 years of employment. Company policy is to fund accrued pension costs, including amortization of past service costs, over 5 to 30 years. Part of the pension cost is capitalized as a cost of plant construction. Benefits under the Company's noncontributory defined benefit pension plan for Florida utility operations were frozen as of Dec. 31, 1996.

Schedule of Pension Costs	1996	1995	1994
		In thousands	
Service cost	$ 3,663	$ 4,290	$ 4,130
Interest cost	15,091	13,025	11,753
Actual return on assets	(21,153)	(34,515)	(15,103)
Net amortization	3,284	17,823	454
Amortization of early retirement cost	4,748	1,978	-
Net cost	$ 5,633	$ 2,601	$ 1,234

At Dec. 31, 1996, approximately 54% of pension plan assets were invested in equity securities, 27% in fixed income securities, 12% in other investments and 7% in Company common stock.

Pension Plans Funded Status October 1	1996	1995
	In thousands	
Actuarial present value of benefit obligations		
Vested benefit obligation	$(173,204)	$(167,590)
Nonvested benefit obligation	(9,635)	(7,326)
Accumulated benefit obligation	(182,839)	(174,916)
Excess of projected benefit obligation over accumulated benefit obligation	(22,684)	(25,991)
Projected benefit obligation	(205,523)	(200,907)
Plan assets at fair value	233,033	222,755
Plan assets in excess of projected benefit obligation	27,510	21,848
Unrecognized net gain	(40,886)	(35,474)
Prior service cost not yet recognized in net periodic pension cost	5,684	6,166
Unrecognized net obligation at Oct. 1, 1985, being recognized over 20 years	1,634	1,898
Unrecognized early retirement expense	7,517	12,265
Prepaid (accrued) pension cost recognized on the consolidated balance sheet	$ 1,459	$ 6,703

The weighted average discount rate for 1996 and 1995 was 8% and 7.75%. Projected pension obligations assume pay increases averaging 6% in 1996 and 1995. The assumed long-term rate of return on assets was 9% in 1996 and 8.75% for 1995.

BNI Coal, ADESA and Heater have defined contribution pension plans covering eligible employees. The aggregate annual pension cost for these plans was about $900,000 in 1996 and 1995, and $600,000 in 1994.

Postretirement Benefits. The Company provides certain health care and life insurance benefits for retired employees. The regulatory asset for deferred postretirement benefits is being amortized in electric rates over a five year period which began in 1995.

Schedule of Postretirement Benefit Costs	1996	1995
	In thousands	
Service cost	$ 2,687	$2,544
Interest cost	4,228	3,624
Actual return on plan assets	(883)	(103)
Amortization of transition obligation	2,416	1,213
Net periodic cost	8,448	7,278
Net amortization (deferral)	2,630	2,015
Net cost	$11,078	$9,293

Company policy is to fund the net periodic postretirement costs and the amortization of the costs deferred as the amounts are collected in rates. The Company is funding these benefits using Voluntary Employee Benefit Association (VEBA) trusts and an irrevocable grantor trust. The maximum tax deductible contributions are made to the VEBAs. The remainder of the funds are placed in the irrevocable grantor trust until the funds can be used to make tax deductible contributions to the VEBAs. The funds in the irrevocable grantor trust do not qualify as plan assets for purposes of SFAS 106 "Employers' Accounting for

Postretirement Benefits Other Than Pensions."

Postretirement Benefit Plan Funded Status - December 31	1996	1995
	In thousands	
Accumulated postretirement benefit obligation		
Retirees	$(29,675)	$(35,056)
Fully eligible participants	(10,541)	(9,414)
Other active participants	(12,952)	(15,090)
	(53,168)	(59,560)
Plan assets	10,872	5,702
Accumulated postretirement benefit in excess of plan assets	(42,296)	(53,858)
Unrecognized transition obligation	23,112	39,397
Accrued postretirement benefit obligation	$(19,184)	$(14,461)

For measurement purposes, it was assumed per capita health care benefit costs would increase 10.25% in 1996 and that cost increases would thereafter decrease 1% each year until stabilizing at 5.25% in 2002. Accelerating the rate of assumed health care cost increases by 1% each year would raise the 1996 transition obligation by $3.2 million and service and interest costs by a total of $1.1 million. The weighted average discount rate used in estimating accumulated postretirement benefit obligations was 7.75% in 1996 and 1995. The expected long-term rate of return on plan assets was 9% in 1996 and 8.75% for 1995.

16 Employee Stock and Incentive Plans

Employee Stock Ownership Plan. The Company has sponsored an ESOP since 1975, amending it in 1989 and 1990 to establish two leveraged accounts. The Company accounts for the ESOP in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement of Position 93-6 (SOP 93-6).

The 1989 leveraged ESOP account covers all nonunion Minnesota and Wisconsin employees who work more than 1,000 hours per year and have one year of service. The ESOP used the proceeds from a $16.5 million 15-year loan at 9.125%, guaranteed by the Company, to purchase 633,489 shares of Minnesota Power common stock on the open market in early 1990. These shares fund employee benefits totaling not less than 2% of the participants' salaries.

The 1990 leveraged ESOP account covers Minnesota and Wisconsin employees who participated in the non-leveraged ESOP plan prior to Aug. 4, 1989. The ESOP issued a $75 million promissory note at 10.25% with a term not to exceed 25 years to the Company (Employer Loan) as consideration for 2.8 million shares of newly issued Minnesota Power common stock in November 1990. These shares are used to fund a benefit at least equal to the value of the following: (a) dividends on shares held in participants' 1990 leveraged ESOP accounts which are used to make loan payments, and (b) the tax savings generated from deducting all dividends paid on shares currently in the ESOP which were held by the plan on Aug. 4, 1989.

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.

Schedule of ESOP Compensation and Interest Expense

Year Ended December 31	1996	1995	1994
		In thousands	
Interest expense	$1,190	$1,258	$1,328
Compensation expense	1,812	1,823	2,037
Total	$3,002	$3,081	$3,365

Schedule of ESOP Shares

December 31	1996	1995
	In thousands	
Allocated shares	1,783	1,820
Shares released for allocation	38	41
Unreleased shares	2,615	2,757
Total ESOP shares	4,436	4,618
Fair value of unreleased shares	$71,907	$78,241

Employee Stock Purchase Plan. The Company has an Employee Stock Purchase Plan (ESPP). At Dec. 31, 1996, 195,097 shares of common stock were held in reserve for future issuance under the ESPP. The ESPP permits eligible employees to buy up to $23,750 per year in Company common stock. Purchases are at 95% of the stock's closing market price on the first day of each month. At Dec. 31, 1996, 449,195 shares had been issued under the ESPP.

Stock Option and Award Plans. In May 1996 Company shareholders approved an Executive Long-Term Incentive Compensation Plan (the Executive Plan) and a Director Long-Term Stock Incentive Plan (the Director Plan), both effective as of Jan. 1, 1996.

The Executive Plan allows for the grant of up to an aggregate of 2.1 million shares of common stock to key employees of the Company. Such grants may be in the form of stock options and other awards, including stock appreciation rights, restricted stock, performance units and performance shares. In January 1996 the Company granted non-qualified stock options to purchase 118,708 shares of common stock and granted 80,788 performance shares. Additionally, 24,000 restricted shares of common stock were granted, with the restriction expiring over a four-year period. The Director Plan provides for the grant of up to 150,000 shares of common stock to nonemployee directors of the Company. Pursuant to the Director Plan each nonemployee director receives an annual grant of 725 stock options and a biennial grant of performance shares equal to $10,000 in value of common stock on the date of grant.

The exercise price for stock options is equal to the market value of the common stock on the date of a grant. Stock options may be exercised 50% on the first anniversary date of the grant and the remaining 50% on the second anniversary, and expire on the tenth anniversary. Grants of performance shares are earned over multi-year time periods upon the achievement of performance objectives.

The Company has elected to recognize compensation cost for its stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Generally, no compensation expense is recognized for stock options with exercise prices equal to the market value of the underlying shares of stock at the date of the grant. Compensation cost is recognized over the vesting periods for performance and restricted share awards based on the market value of the underlying shares of stock.

Pro forma amounts of net income and earnings per share reflecting compensation cost determined based on the fair value at the grant dates for awards under these plans consistent with the method of SFAS 123, "Accounting for Stock-Based Compensation," have not been presented because the amounts are not material. The initial effects of applying SFAS 123 may not be representative of the pro forma effects on reported net income and earnings per share for future years if additional awards are granted.

17 Square Butte Purchased Power Contract

Under the terms of a 30-year contract with Square Butte that extends through 2007, the Company is purchasing 71% of the output from a mine-mouth, lignite-fired generating plant capable of generating up to 470 MW. This generating unit (Project) is located near Center, N.D. Reductions to about 49% of the output are provided for in the contract and, at the option of Square Butte, could begin after a five-year advance notice to the Company and continue for the remaining economic life of the Project. The Company has the option but not the obligation to continue to purchase 49% of the output after 2007.

The Project is leased to Square Butte through Dec. 31, 2007, by certain banks and their affiliates which have beneficial ownership in the Project. Square Butte has options to renew the lease after 2007 for essentially the entire remaining economic life of the Project.

The Company is obligated to pay Square Butte all Square Butte's leasing, operating and debt service costs (less any amounts collected from the sale of power or energy to others) that shall not have been paid by Square Butte when due. These costs include the price of lignite coal purchased by Square Butte under a cost-plus contract with BNI Coal. The Company's cost of power and energy purchased from Square Butte during 1996, 1995 and 1994 was $58.2, $57.6 and $55.4 million, respectively. The leasing costs of Square Butte included in the cost of power delivered to the Company totaled $19.1 million in 1996, and $19.3 million in 1995 and in 1994, which included approximately $10.2, $11 and $12 million, respectively, of interest expense. The annual fixed lease obligations of the Company for Square Butte are $20.1 million from 1997 through 2001. At Dec. 31, 1996, Square Butte had total debt outstanding of $207 million. The Company's obligation is absolute and unconditional whether or not any power is actually delivered to the Company.

The Company's payments to Square Butte for power and energy are approved as purchased power expense for ratemaking purposes by both the MPUC and FERC.

One principal reason the Company entered into the agreement with Square Butte was to obtain a power supply for large industrial customers. Present electric service contracts with these customers require payment of minimum monthly demand charges that cover a portion of the fixed costs associated with having capacity available to serve them. These contracts minimize the negative impact on earnings that could result from significant reductions in kilowatthour sales to industrial customers. The initial minimum contract term for the large power customers is 10 years, with a four-year cancellation notice required for termination of the contract at or beyond the end of the tenth year. Under the terms of existing contracts as of Feb. 1, 1997, the Company would collect approximately $101.6, $89.2, $80.3, $70.1 and $61.9 million under current rate levels for firm power during the years 1997, 1998, 1999, 2000 and 2001, respectively, even if no power or energy were supplied to these customers after Dec. 31, 1996. The minimum contract provisions are expressed in megawatts of demand, and if rates change, the amounts the Company would collect under the contracts will change in proportion to the change in the demand rate.

18 Quarterly Financial Data (Unaudited)

Information for any one quarterly period is not necessarily indicative of the results which may be expected for the year. Previously reported quarterly information has been revised to reflect reclassifications to conform with the 1996 method of presentation. These reclassifications had no effect on previously reported consolidated net income.

Quarter Ended	March 31	June 30	Sept. 30	Dec. 31
	In thousands except earnings per share			
1996				
Operating revenue and income	$202,676	$208,503	$215,150	$220,599
Operating income	$28,828	$21,094	$21,724	$21,943
Net income	$18,303	$14,832	$17,514	$18,572
Earnings available for common stock	$17,503	$14,198	$17,027	$18,085
Earnings per share of common stock	$0.61	$0.49	$0.58	$0.60
1995				
Operating revenue and income	$146,686	$147,336	$186,121	$192,774
Operating income from continuing operations	$8,404	$16,431	$23,663	$14,514
Income				
Continuing operations	$23,805	$10,923	$15,685	$11,444
Discontinued operations	1,652	1,190	33	(27)
Net income	$25,457	$12,113	$15,718	$11,417
Earnings available for common stock	$24,657	$11,313	$14,918	$10,617
Earnings per share of common stock				
Continuing operations	$0.81	$0.36	$0.52	$0.37
Discontinued operations	0.06	0.04	-	-
	$0.87	$0.40	$0.52	$0.37

Definitions

These abbreviations or acronyms are used throughout this document.

Abbreviations or Acronyms	Term
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
APB	Accounting Principles Board
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center Units No. 1, 2, 3 and 4
Capital Re	Capital Re Corporation
CIP	Conservation Improvement Programs
Company	Minnesota Power & Light Company and its Subsidiaries
DRIP	Dividend Reinvestment and Stock Purchase Plan
ESOP	Employee Stock Ownership Plan
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
Heater	Heater Utilities, Inc.
Hibbard	M.L. Hibbard Station
ISI	Instrumentation Services, Inc.
kWh	Kilowatthour(s)
Lehigh	Lehigh Acquisition Corporation
Minnesota Power	Minnesota Power & Light Company and its Subsidiaries
MPUC	Minnesota Public Utilities Commission
MP Water Resources	MP Water Resources Group, Inc.
MW	Megawatt(s)
NCUC	North Carolina Utilities Commission
Note ___	Note ___ to the consolidated financial statements in the Minnesota Power 1996 Annual Report
Orange Osceola	Orange Osceola Utilities
PSCW	Public Service Commission of Wisconsin
QUIPS	Quarterly Income Preferred Securities
Reach All	Reach All Partnership
SCPSC	South Carolina Public Service Commission
SFAS	Statement of Financial Accounting Standards No.
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
USX	Minntac (USX)

Price Ranges and Dividends

	New York Stock Exchange			American Stock Exchange		
	Common			5% Preferred		
Quarter	High	Low	Dividends Paid	High	Low	Dividends Paid
1996 - First	$29 3/4	$26 1/8	$0.51	$73	$67	$1.25
Second	29	26	0.51	70	62 1/2	1.25
Third	28 3/4	26	0.51	65 1/8	62 1/2	1.25
Fourth	28 7/8	26 3/8	0.51	68 1/4	62	1.25
Annual			$2.04			$5.00
1995 - First	$26 3/8	$24 1/4	$0.51	$62	$54 3/4	$1.25
Second	28	25 1/4	0.51	65 1/4	59 1/2	1.25
Third	28 1/8	26 3/8	0.51	75	62 3/4	1.25
Fourth	29 1/4	27 1/2	0.51	69	64 1/2	1.25
Annual			$2.04			$5.00

The Company has paid dividends without interruption on its common stock since 1948, the date of initial distribution of the Company's common stock by American Power & Light Company, the former holder of all such stock. Listed above are dividends paid and the high and low prices for the Company's common stock and 5% preferred stock as reported by The Wall Street Journal, Midwest Edition. On Dec. 31, 1996, there were approximately 24,300 common stock shareholders. On Jan. 28, 1997, the Board of Directors declared a quarterly dividend of 51 cents, payable March 1, 1997, to common stock shareholders of record on Feb. 14, 1997.

Exhibit 23(a)

Exhibit 23(a)

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 33-51989, 33-32033, 333-16463, 333-16445) of Minnesota Power & Light Company of our report dated January 27, 1997 appearing on page 23 of the Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 32 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. 33-51941, 33-50143, 333-07963, 333-13445, 333-02109, 333-20745, 33-45551) of Minnesota Power & Light Company of our report dated January 27, 1997 appearing on page 23 of the Annual Report to Shareholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 32 of this Form 10-K.

Price Waterhouse LLP

PRICE WATERHOUSE LLP
Minneapolis, Minnesota
March 28, 1997

Exhibit 23(b)

Exhibit 23(b)

Consent of General Counsel

The statements of law and legal conclusions under "Item 1. Business" in the Company's Annual Report on Form 10-K for the year ended December 31, 1996, 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. 33-51941, 33-50143, 333-07963, 333-13445, 333-02109, 333-20745, and 33-45551 on Form S-3, and Registration Statement Nos. 33-51989, 33-32033, 333-16463 and 333-16445 on Form S-8.

Philip R. Halverson

Philip R. Halverson
Duluth, Minnesota
March 28, 1997