FORM 10-K

United States
Securities and Exchange Commission
Washington, D.C. 20549

(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, 2002

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

For the transition period from _____ to _____

Commission File No. 1-3548

ALLETE, INC.
(Exact name of registrant as specified in its charter)

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

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

(218) 279-5000
(Registrant's telephone number, including area code)

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

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

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

None

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

Yes /X/ No / /

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes /X/ No / /

The aggregate market value of voting stock held by nonaffiliates on June 30, 2002 was $2,296,176,078.

As of February 7, 2003 there were 85,715,304 shares of ALLETE Common Stock, without par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2003 Annual Meeting of Shareholders are incorporated by reference in Part III.

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DEFINITIONS

ABBREVIATION OR ACRONYM	TERM
ACE	ACE Limited
ADESA	ADESA Corporation
ADESA Canada	ADESA Canada Inc.
AFC	Automotive Finance Corporation
ALLETE	ALLETE, Inc. and its subsidiaries
APB	Accounting Principles Board
AutoVIN	AutoVIN, Inc.
BNI Coal	BNI Coal, Ltd.
Boswell	Boswell Energy Center
Capital Re	Capital Re Corporation
CIP	Conservation Improvement Program(s)
Company	ALLETE, Inc. and its subsidiaries
ComSearch	ComSearch, Inc.
EBITDAL	Earnings Before Interest, Taxes, Depreciation, Amortization and Lease Expense
EndTrust	EndTrust Lease End Services, LLC
Enventis Telecom	Enventis Telecom, Inc.
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
EITF	Emerging Issues Task Force
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
Form 8-K	ALLETE Current Report on Form 8-K
Form 10-K	ALLETE Annual Report on Form 10-K
Form 10-Q	ALLETE Quarterly Report on Form 10-Q
FPSC	Florida Public Service Commission
FWSA	Florida Water Service Authority
Hibbard	M.L. Hibbard Station
Impact Auto	Impact Auto Auctions Ltd. and Suburban Auto Parts Inc., collectively
Invest Direct	ALLETE's Direct Stock Purchase and Dividend Reinvestment Plan
kWh	Kilowatthour(s)
kV	Kilovolt(s)
Laskin	Laskin Energy Center
Lehigh	Lehigh Acquisition Corporation
LTV	LTV Steel Mining Co.
MAPP	Mid-Continent Area Power Pool
MBtu	Million British thermal units
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MISO	Midwest Independent Transmission System Operator, Inc.
MPCA	Minnesota Pollution Control Agency
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
MWh	Megawatthour(s)
NCUC	North Carolina Utilities Commission
Note ___	Note ___ to the consolidated financial statements indexed in Item 15(a) of this Form 10-K
NPDES	National Pollutant Discharge Elimination System
NRG Energy	NRG Energy, Inc.
PAR	PAR, Inc.
PSCW	Public Service Commission of Wisconsin
Rainy River Energy	Rainy River Energy Corporation
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards No.
Split Rock Energy	Split Rock Energy LLC
Square Butte	Square Butte Electric Cooperative
SWL&P	Superior Water, Light and Power Company
Taconite Harbor	Taconite Harbor Energy Center
WPPI	Wisconsin Public Power, Inc.

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

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we are hereby filing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) made by or on behalf of ALLETE in this Annual Report on Form 10-K, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "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, risks and uncertainties and are qualified in their entirety by reference to, and are accompanied by, the following important factors, which are difficult to predict, contain uncertainties, are beyond our control and may cause actual results or outcomes to differ materially from those contained in forward-looking statements:

- war and acts of terrorism;
- prevailing governmental policies and regulatory actions, including those of the United States Congress, state legislatures, the FERC, the MPUC, the FPSC, the NCUC, the PSCW and various county regulators, about allowed rates of return, financings, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of purchased power and capital investments, and present or prospective wholesale and retail competition (including but not limited to transmission costs) as well as general vehicle-related laws, including vehicle brokerage and auction laws;
- unanticipated impacts of restructuring initiatives in the electric industry;
- economic and geographic factors, including political and economic risks;
- changes in and compliance with environmental and safety laws and policies;
- weather conditions;
- natural disasters;
- market factors affecting supply and demand for used vehicles;
- wholesale power market conditions;
- population growth rates and demographic patterns;
- the effects of competition, including competition for retail and wholesale customers, as well as suppliers and purchasers of vehicles;
- pricing and transportation of commodities;
- changes in tax rates or policies or in rates of inflation;
- unanticipated project delays or changes in project costs;
- unanticipated changes in operating expenses and capital expenditures;
- capital market conditions;
- competition for economic expansion or development opportunities;
- our ability to manage expansion and integrate recent acquisitions; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

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

PART 1

ITEM 1. BUSINESS

ALLETE is a diversified company incorporated under the laws of Minnesota since 1906. References in this report to "we" and "our" are to ALLETE and its subsidiaries, collectively.

ALLETE files annual, quarterly and other reports and other information with the SEC. You can read and copy any information filed by ALLETE with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain additional information about the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including ALLETE. ALLETE also maintains an Internet site (www.allete.com) that contains documents as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

As of December 31, 2002 we had approximately 14,000 employees, 4,600 of which were part time. Our core operations in 42 states, nine Canadian provinces and Mexico focus on two segments: ENERGY SERVICES which includes electric and gas services, coal mining and telecommunications; and AUTOMOTIVE SERVICES which includes a network of wholesale and total loss vehicle auctions, a finance company, a vehicle remarketing company, a company that provides vehicle inspection services to the automotive industry and its lenders, and a company that provides Internet-based parts location and insurance claim audit services nationwide.

INVESTMENTS AND CORPORATE CHARGES include our real estate operations, investments in emerging technologies related to the electric utility industry and corporate charges. Corporate charges represent general corporate expenses, including interest, not specifically related to any one business segment.

In 2002 Energy Services completed the restarting of the nonregulated generating facilities at Taconite Harbor. We integrated our MPEX division into Split Rock Energy and combined Minnesota Power Telecom, Inc. and Enventis, Inc. operations into Enventis Telecom. During 2002 we also cancelled a generation project in Grand Rapids, Minnesota, and indefinitely delayed one that was under way in Superior, Wisconsin. The construction of the transmission line from Duluth, Minnesota, to Wausau, Wisconsin, has been delayed. (See Energy Services.)

In 2002 Automotive Services opened ADESA Golden Gate, the largest vehicle auction in California, and ADESA Vancouver in Richmond, British Columbia. Both were built to replace aging facilities that were too small to efficiently serve our growing customer demand. Wholesale auction facilities in Long Island, New York; Atlanta, Georgia; and Edmonton, Alberta, are also under construction and slated to open in 2003. A small auction has been initiated in Mexico at a Ford Motor Company facility. Finally, we increased our total loss vehicle auctions by two, buying one and building another.

In 2002 Investments purchased additional real estate for sale in Florida and liquidated the trading securities portfolio.

YEAR ENDED DECEMBER 31	2002	2001	2000
Consolidated Operating Revenue - Millions	$1,507	$1,526	$1,186
Percentage of Consolidated Operating Revenue			
Energy Services			
Utility			
Industrial			
Taconite Producers	10%	10%	14%
Paper and Wood Products	4	4	5
Pipelines and Other Industries	2	3	3
Total Industrial	16	17	22
Residential	5	4	6
Commercial	5	5	6
Wholesale	5	6	7
Other Revenue	3	3	4
Total Utility	34	35	45
Nonregulated/Nonutility	8	5	4
Total Energy Services	42	40	49
Automotive Services	56	55	44
Investments	2	5	7
	100%	100%	100%

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

In 2002 we executed plans developed in a 2001 strategic review of all of the Company's businesses to identify ways of unlocking shareholder value not reflected in the price of our common stock. Businesses identified as having more value if operated by potential purchasers than by us include our Water Services businesses in Florida, North Carolina and Georgia, our auto transport business and the retail store. We sold our auto transport business and exited our retail store at the end of first quarter 2002.

In 2002 Florida Water signed an asset purchase agreement for the sale of substantially all of its assets to the Florida Water Services Authority (FWSA), a governmental authority formed under the laws of the state of Florida, for $492.5 million. Florida Water anticipates receiving approximately $420 million

at closing and an additional $36.5 million three years after closing once certain contingencies have been satisfied. In addition, Florida Water expects to receive up to $36 million of future customer hookup fees to be paid over the next six years. Cash proceeds to ALLETE after taxes and

repayment of existing debt are expected to be approximately $180 million in 2003, and $250 million for the entire transaction. The gain on the transaction is estimated at $100 million after taxes and related costs. While the majority of the cash will be received at closing, the gain is expected to be recognized in future years as required by accounting rules.

Eleven lawsuits seeking to halt the sale of Florida Water assets to the FWSA have been filed, primarily by local governments which had hoped to purchase Florida Water's assets through a competing buyer. Pursuant to notice given on January 28, 2003, the FPSC held an agenda conference on February 4, 2003 in which it ordered Florida Water to file, in advance of closing the transaction, an application requesting approval of the transfer of its assets to the FWSA, and further ordered Florida Water to refrain from closing the transaction before FPSC approval. Florida Water is asking a court to determine that the FPSC may not delay closing of the sale and is required by law to approve this transfer as a matter of right. Florida Water considers the lawsuits to be without merit and is vigorously contesting these lawsuits. Litigation challenging this transaction continues to delay its closing.

We anticipate selling our Water Services businesses in North Carolina and Georgia by the end of 2003.

ENERGY SERVICES

We categorize our Energy Services businesses as utility, nonregulated, or nonutility. Utility operations include rate regulated activities associated with generation, transmission and distribution of electricity under the jurisdiction of state and federal regulatory authorities. Nonregulated generation operations consist primarily of Taconite Harbor in northern Minnesota and generation obtained from a facility near Chicago, Illinois, through a 15-year power purchase agreement with NRG Energy. Nonregulated generation is non-rate base generation sold at wholesale at market-based rates, pursuant to authority from the FERC. Coal mining and telecommunications are also included in Energy Services and are categorized as nonutility. The discussion below summarizes the major businesses we include in Energy Services. Statistical information is presented as of December 31, 2002 unless otherwise indicated. All subsidiaries are wholly owned unless otherwise specifically indicated.

MINNESOTA POWER, an operating division of ALLETE, provides electricity in a 26,000 square mile electric service territory located in northeastern Minnesota. Minnesota Power supplies utility electric service to 133,000 retail customers and wholesale electric service to 16 municipalities. SWL&P sells electricity and natural gas, and provides water service in northwestern Wisconsin. SWL&P has 14,000 electric customers, 12,000 natural gas customers and 10,000 water customers.

Minnesota Power had an annual net peak load of 1,402 MW on January 7, 2002. Our power supply sources are listed on the following page.

We have electric transmission and distribution lines of 500 kV (8 miles), 230 kV (606 miles), 161 kV (43 miles), 138 kV (66 miles), 115 kV (1,259 miles) and less than 115 kV (6,557 miles). We own and operate 180 substations with a total capacity of 8,550 megavoltamperes. Some of our transmission and distribution lines interconnect with other utilities.

We own offices and service buildings, an energy control center and repair shops; and lease offices and storerooms in various localities. Substantially all of our electric plant is subject to mortgages which collateralize the outstanding first mortgage bonds of Minnesota Power and of SWL&P. Generally, the Company holds fee interest in its real properties subject only to the lien of the mortgages. Most of our electric lines are located on land not owned in fee, but are covered by appropriate easement rights or by necessary permits from governmental authorities. WPPI owns 20% of Boswell Unit 4. WPPI has the right to use our transmission line facilities to transport its share of Boswell generation. (See Note 7.)

In early 2002 Minnesota Power integrated its power marketing division into Split Rock Energy. (See discussion of Split Rock Energy below.)

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 under cost-plus coal supply agreements expiring in 2027. (See Fuel and Note 13.)

ENVENTIS TELECOM. In early 2002 our telecommunications subsidiaries, Minnesota Power Telecom, Inc. and Enventis, Inc. which was acquired in July 2001, were merged to operate as Enventis Telecom. Enventis Telecom is an integrated data services provider offering fiber optic-based communication and advanced data services to businesses and communities in Minnesota, Wisconsin and Missouri. Enventis Telecom provides converged IP (or Internet protocol) services that allow all communications (voice, video and data) to use the same optic-based delivery technology. Enventis Telecom owns or has rights to approximately 1,500 route miles of fiber optic cable. These route miles contain multiple fibers that total approximately 48,000 fiber miles. Enventis Telecom also owns optronic and data switching equipment that is used to "light up" the fiber optic cable. Enventis Telecom services customers from facilities that are primarily leased from third parties.

RAINY RIVER ENERGY is engaged in the acquisition and development of nonregulated generation and wholesale power marketing.

PART I

POWER SUPPLY

UTILITY	UNIT NO.	YEAR INSTALLED	NET WINTER CAPABILITY	FOR THE YEAR ENDED DECEMBER 31, 2002 ELECTRIC REQUIREMENTS	
			MW	MWH	%
Steam					
Coal-Fired					
Boswell Energy Center	1	1958	69		
near Grand Rapids, MN	2	1960	69		
	3	1973	351		
	4	1980	425		
			914	6,518,081	55.3%
Laskin Energy Center	1	1953	55		
in Hoyt Lakes, MN	2	1953	55		
			110	622,586	5.3
Purchased Steam					
M.L. Hibbard in Duluth, MN	3 & 4	1949, 1951	51	17,611	0.1
Total Steam			1,075	7,158,278	60.7
Hydro					
Group consisting of ten stations in MN		Various	115	555,857	4.7
Purchased Power					
Square Butte burns lignite coal near Center, ND			322	2,320,085	19.7
All Other - Net			-	1,763,183	14.9
Total Purchased Power			322	4,083,268	34.6
Total			1,512	11,797,403	100.0%

NONREGULATED	UNIT NO.	YEAR INSTALLED	YEAR ACQUIRED	NET CAPABILITY
				MW
Steam				
Coal-Fired				
Taconite Harbor Energy Center in Taconite Harbor, MN	1, 2 & 3	1957, 1957, 1967	2001	200
Cloquet Energy Center in Cloquet, MN	5	2001	2001	23
Rapids Energy Center in Grand Rapids, MN	6 & 7	1980	2000	30
Hydro				
Conventional Run-of-River				
Rapids Energy Center in Grand Rapids, MN	4 & 5	1917	2000	1
Power Purchase Agreement				
Kendall County (RAINY RIVER ENERGY) located southwest of Chicago, IL	3	2002	2002	275

THE NET GENERATION IS PRIMARILY DEDICATED TO THE NEEDS OF ONE CUSTOMER.

PART I

UTILITY ELECTRIC SALES

Our utility operations include retail and wholesale rate regulated activities under the jurisdiction of state and federal regulatory authorities. (See Regulatory Issues.)

UTILITY ELECTRIC SALES

FOR THE YEAR ENDED DECEMBER 31	2002	2001	2000
MILLIONS OF KILOWATTHOURS			
Retail			
Residential	1,044	998	980
Commercial	1,257	1,234	1,208
Industrial	6,946	6,549	7,194
Other	77	75	76
Wholesale			
Municipals	820	787	779
Others	987	1,299	1,494
	11,131	10,942	11,731

Minnesota Power has wholesale contracts with 16 municipal customers. (See Regulatory Issues - Federal Energy Regulatory Commission.)

Approximately 60% of the ore consumed by integrated steel facilities in the United States originates from six taconite customers of Minnesota Power. Taconite, an iron-bearing rock of relatively low iron content that is abundantly available in Minnesota, is an important domestic source of raw material for the steel industry. Taconite processing plants use large quantities of electric power to grind the ore-bearing rock, and agglomerate and pelletize the iron particles into taconite pellets. Annual taconite production in Minnesota was 39 million tons in 2002 (33 million tons in 2001; 47 million tons in 2000). The decrease in 2001 taconite production was due to the closing of LTV and the reduced demand for iron ore from the operating mines as a result of high steel import levels and a softer economy. LTV, which was not a Large Power Customer (defined below), formerly produced 7 million to 8 million tons of taconite annually. Based on our research of the taconite industry, Minnesota taconite production for 2003 is anticipated to be about 37 million tons. As a result of continuing consolidation in the integrated steel business and its resulting impact on taconite producers, Minnesota Power is unable to predict taconite production levels for the next two to five years. We expect any excess energy not used by our retail customers will be marketed primarily through Split Rock Energy to the wholesale market.

LARGE POWER CUSTOMER CONTRACTS. Minnesota Power has large power customer contracts with 13 customers (Large Power Customers), each of which requires 10 MW or more of generating capacity. Large Power Customer contracts require Minnesota Power to have a certain amount of generating capacity available. (See table below.) In turn, each Large Power Customer is required to pay a minimum monthly demand charge that covers the fixed costs associated with having this capacity available to serve the customer, including a return on common equity. Most contracts allow customers to establish the level of megawatts subject to a demand charge on a biannual (power pool season) basis and require that a portion of their megawatt needs be committed on a take-or-pay basis for the entire term of the agreement. In addition to the demand charge, each Large Power Customer is billed an energy charge for each kilowatthour used that recovers the variable costs incurred in generating electricity. Six of the Large Power Customers have interruptible service for a portion of their needs which provides a discounted demand rate and energy priced at Minnesota Power's incremental cost after serving all firm power obligations. Minnesota Power also provides incremental production service for customer demand levels above the contract take-or-pay levels. There is no demand charge for this service and energy is priced at an increment above Minnesota Power's cost. Incremental production service is interruptible. Contracts with 11 of the 13 Large Power Customers provide for deferral without interest of one-half of demand charge obligations incurred during the first three months of a strike or illegal walkout at a customer's facilities, with repayment required over the 12-month period following resolution of the work stoppage.

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

MINIMUM REVENUE AND DEMAND UNDER CONTRACT
AS OF FEBRUARY 1, 2003

	MINIMUM ANNUAL REVENUE	MONTHLY MEGAWATTS
2003	$85.5 million	523
2004	$62.8 million	382
2005	$46.3 million	282

2006	$32.2 million	193
2007	$29.2 million	178

BASED ON PAST EXPERIENCE, WE BELIEVE REVENUE FROM LARGE POWER CUSTOMERS WILL BE SUBSTANTIALLY IN EXCESS OF THE MINIMUM CONTRACT AMOUNTS.

PART I

CONTRACT STATUS FOR MINNESOTA POWER LARGE POWER CUSTOMERS
AS OF FEBRUARY 1, 2003

CUSTOMER	INDUSTRY	LOCATION	OWNERSHIP	EARLIEST TERMINATION DATE
Eveleth Mines LLC	Taconite	Eveleth, MN	45% Rouge Steel Co. 40% AK Steel Co. 15% Stelco Inc.	October 31, 2008
Hibbing Taconite Co.	Taconite	Hibbing, MN	62.3% Bethlehem Steel Corp. 23% Cleveland-Cliffs Inc. 14.7% Stelco Inc.	December 31, 2008
Ispat Inland Mining Company	Taconite	Virginia, MN	Ispat Inland Steel Company	December 31, 2007
National Steel Pellet Co.	Taconite	Keewatin, MN	National Steel Corp.	February 28, 2007
U.S. Steel Corp.	Taconite	Mt. Iron, MN	U.S. Steel Corp.	December 31, 2007
Blandin Paper Company	Paper	Grand Rapids, MN	UPM-Kymmene Corporation	April 30, 2006
Boise Paper Solutions	Paper	International Falls, MN	Boise Cascade Corporation	December 31, 2008
Potlatch Corporation	Paper	Brainerd, MN Grand Rapids, MN	Potlatch Corporation	December 31, 2008
Sappi Cloquet LLC	Paper	Cloquet, MN	Sappi Limited	December 31, 2008
Stora Enso North America, Duluth Paper Mill and Duluth Recycled Pulp Mill	Paper and Pulp	Duluth, MN	Stora Enso Oyj	July 31, 2008
USG Interiors, Inc.	Manufacturer	Cloquet, MN	USG Corporation	December 31, 2005
Enbridge Energy Company, Limited Partnership	Pipeline	Deer River, MN Floodwood, MN	Enbridge Energy Company, Limited Partnership	May 31, 2004
Minnesota Pipeline Company	Pipeline	Staples, MN	60% Koch Pipeline Co. L.P.	September 30, 2004
		Little Falls, MN Park Rapids, MN	40% Marathon Ashland Petroleum LLC	

AS OF FEBRUARY 7, 2003 EVELETH MINES LLC HAD ANNOUNCED THAT APPROXIMATELY 35% OF THE PLANT'S ANNUAL CAPACITY FOR TACONITE PRODUCTION IS ON ORDER FOR 2003 MAKING PLANT CLOSURE A POSSIBILITY.

IN FEBRUARY 2003 BETHLEHEM STEEL CORP. ACCEPTED INTERNATIONAL STEEL GROUP, INC.'S (ISG) OFFER TO BUY BETHLEHEM STEEL CORP.'S MILLS AND OTHER PROPERTY FOR $1.5 BILLION. BETHLEHEM STEEL CORP. FILED FOR BANKRUPTCY PROTECTION UNDER CHAPTER 11 IN 2001. THE AGREEMENT IS SUBJECT TO REVIEW BY THE U. S. BANKRUPTCY COURT. BETHLEHEM STEEL CORP.'S SHARE OF HIBBING TACONITE IS INCLUDED IN THE SALE AGREEMENT.

IN MARCH 2002 NATIONAL STEEL CORPORATION FILED FOR BANKRUPTCY PROTECTION UNDER CHAPTER 11. ON JANUARY 30, 2003 AK STEEL HOLDING COMPANY SIGNED AN AGREEMENT TO PURCHASE SUBSTANTIALLY ALL OF NATIONAL STEEL CORPORATION, INCLUDING NATIONAL STEEL PELLET COMPANY, FOR $1.1 BILLION. THE TRANSACTION IS CONTINGENT ON APPROVAL BY THE COURTS AND REGULATORS, AND THE UNITED STEELWORKERS OF AMERICA'S WILLINGNESS TO RENEGOTIATE ITS LABOR CONTRACTS. ON FEBRUARY 6, 2003 AK STEEL WAS GIVEN PRIORITY STATUS BY THE U. S. BANKRUPTCY COURT.

IN OCTOBER 2002 U.S. STEEL CORP. ANNOUNCED THE SALE OF 80% OF ITS TACONITE PRODUCTION FACILITY TO AN ENTITY FORMED BY APOLLO MANAGEMENT, LP, A VENTURE CAPITAL FIRM IN NEW YORK. WE ANTICIPATE THAT THE SALE WILL HAVE NO EFFECT ON CURRENT TACONITE PRODUCTION ESTIMATES OR MINNESOTA POWER'S LARGE POWER CONTRACT WITH THE FACILITY.

IN JANUARY 2003 BLANDIN PAPER COMPANY SHUT DOWN TWO OF ITS FOUR PRODUCTION LINES REPRESENTING APPROXIMATELY 30% OF ITS PRODUCTION CAPABILITIES.

IN MAY 2002 SAPPI LIMITED PURCHASED THE CLOQUET PAPER MILL FROM POTLATCH CORPORATION. MINNESOTA POWER SIGNED NEW CONTRACTS WITH BOTH POTLATCH CORPORATION AND SAPPI LIMITED.

PART I

UTILITY PURCHASED POWER

Minnesota Power has contracts to purchase capacity and energy from various entities. The largest contract is with Square Butte. Under an agreement with Square Butte, expiring at the end of 2026, Minnesota Power is currently entitled to approximately 71% of the output of a 455-MW coal-fired generating unit located near Center, North Dakota. (See Note 13.)

In October 2000 Minnesota Power entered into a power purchase agreement with Great River Energy. Under this agreement, as amended in 2002, Minnesota Power purchases 240 MW beginning June 2001 until April 2003 and 80 MW from May 2003 to October 2003 from Lakefield Junction Station, a natural gas-fired peaking plant located in southern Minnesota.

FUEL

Minnesota Power purchases low-sulfur, sub-bituminous coal from the Powder River Basin coal field located in Montana. Coal consumption in 2002 for electric generation at Minnesota Power's Minnesota coal-fired generating stations was about 5.3 million tons. As of December 31, 2002 Minnesota Power had a coal inventory of about 635,000 tons. Minnesota Power has four coal supply agreements with various expiration dates extending through 2006. Under these agreements Minnesota Power has the tonnage flexibility to procure 70% to 100% of its total coal requirements. Minnesota Power will obtain coal in 2003 under these agreements and in the spot market. This mix of coal supply options allows Minnesota Power to manage market price and supply risk and to take advantage of favorable spot market prices. Although Minnesota Power is exploring future coal supply options, it believes that adequate supplies of low-sulfur, sub-bituminous coal will continue to be available.

The Burlington Northern and Santa Fe Railway Company transports coal by unit train from the Powder River Basin to Minnesota Power's generating stations. In 2001 Minnesota Power and Burlington Northern entered into a 10-year agreement under which Burlington Northern will ship all of Minnesota Power's coal.

COAL DELIVERED TO MINNESOTA POWER

YEAR ENDED DECEMBER 31	2002	2001	2000
Average Price Per Ton	$21.48	$20.52	$21.19
Average Price Per MBtu	$1.19	$1.18	$1.16

The Square Butte generating unit operated by Minnkota Power burns North Dakota lignite coal supplied by BNI Coal, in accordance with the terms of a contract expiring in 2027. Square Butte's cost of lignite burned in 2002 was approximately 61 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.

NONREGULATED GENERATION AND POWER MARKETING

SPLIT ROCK ENERGY. Split Rock Energy LLC, is a joint venture of Minnesota Power and Great River Energy. Great River Energy is a consumer-owned generation and transmission cooperative and is Minnesota's second largest utility in terms of generating capacity. The joint venture combines the two companies' power supply capabilities and customer loads for power pool operations and generation outage protection. Ownership of generation assets and current customer supply arrangements have not changed for either company. Split Rock Energy has access to members' resources, assets and financial support. Split Rock Energy provides power marketing, energy sourcing and risk management services to both Minnesota Power and Great River Energy. Split Rock Energy's risk management policies are consistent with Minnesota Power's. In a volatile wholesale marketplace, Split Rock Energy mitigates marketplace risk while creating additional marketing opportunities for both Minnesota Power and Great River Energy.

TACONITE HARBOR. In 2002 we restarted the Taconite Harbor generating facilities. The generation output is primarily being sold in the wholesale market and is allocated in limited circumstances to Minnesota Power's utility customers.

KENDALL COUNTY. In September 1999 Rainy River Energy entered into an amended 15-year power purchase agreement (Kendall County) with a company that was subsequently purchased by NRG Energy, an independent power producer. The Kendall County agreement includes the purchase of the output of one entire unit (approximately 275 MW) of a four unit (approximately 1,100 MW) natural gas-fired combined cycle generation facility located near Chicago, Illinois. Construction of the generation facility began in 2000 and was completed in 2002. Rainy River Energy's obligation to pay fixed capacity related charges began May 1, 2002. We currently have two long-term forward capacity and energy contracts related to generation obtained through the Kendall County agreement. Each is for 50 MW with one having a 10-year term and the other a 15-year term. Our strategy is to sell a significant portion of the remaining nonregulated generation through long-term contracts of various durations. Any balance will be sold in the spot market through short-term agreements.

OTHER. In 2002 Minnesota Power canceled plans to construct a 225-MW combined-heat-and-power facility in Grand Rapids, Minnesota, because its cost was too high. Minnesota Power also indefinitely delayed plans to build a $70 million 160-MW natural gas-fired electric generating facility in Superior, Wisconsin, due to lack of growth in the region and the unsettled nature of both the economy and wholesale power markets. As a result of this indefinite delay, ALLETE's 2002 earnings included a $5.5 million charge.

In 2002 the Company sold 1.2 million MWh of nonregulated generation (0.2 million in both 2001 and 2000).

REGULATORY ISSUES

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

We are subject to the jurisdiction of various regulatory authorities. The MPUC has regulatory authority over Minnesota Power's service area in Minnesota, retail rates, retail services, issuance of securities and other matters. The FERC has jurisdiction over the licensing of hydroelectric projects, the establishment of rates and charges for the sale of electricity for resale and transmission of electricity in interstate commerce, and certain accounting and record keeping practices. The PSCW has regulatory authority over the retail sales of electricity, water and gas by SWL&P. The MPUC, FERC and PSCW had regulatory authority over 25%, 3% and 3%, respectively, of our 2002 consolidated operating revenue.

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

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

Minnesota Power requires that all large industrial and commercial customers under contract specify the date when power is first required, and thereafter the customer is billed monthly for at least the minimum power for which they contracted. These conditions are part of all contracts covering power to be supplied to new large industrial and commercial customers and to current customers as their contracts expire or are amended. All rates and other contract terms are subject to approval by appropriate regulatory authorities.

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

Minnesota Power has long-term contracts with 16 Minnesota municipalities receiving wholesale electric service. Two contracts are for service through 2005, while the other 14 are for service through at least 2007. All contracts limit FERC rate increases on a cumulative basis. In 2002 municipal customers purchased 715,000 MWh from Minnesota Power.

In February 2001 Minnesota Power and SWL&P became members of the MISO pursuant to FERC's Order No. 2000 and Wisconsin state law. Minnesota Power and SWL&P retain ownership of their respective transmission assets and control area functions, but now operate their transmission network under the regional operational control of the MISO and take and provide transmission service under the MISO open access transmission tariff. In December 2001 FERC approved the MISO as the nation's first regional transmission organization (RTO) under Order No. 2000 criteria, noting that it believes the MISO will benefit the public interest by enhancing the reliability of the Midwest electric grid and facilitating and enhancing wholesale competition. The MISO will accomplish this primarily through standardization of rates, terms and conditions of transmission service over a broad region encompassing all or parts of 20 states and one Canadian province, and over 120,000 MW of generating capacity. MISO operations were phased in during the first half of 2002.

The FERC is currently developing rules for a standard market design intended to further define the functions and transmission tariff of the MISO and other regional transmission providers. The MISO has filed proposed energy market rules with FERC for day-ahead and real time energy markets and financial transmission rights. The MISO has requested assurances from FERC that all start-up costs will be recoverable from market participants.

Minnesota Power also participates in MAPP, a power pool operating in parts of eight states in the Upper Midwest and in three provinces in Canada. MAPP functions include a regional reliability council that maintains generation reserve sharing requirements and a wholesale power and energy market committee.

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

Minnesota requires investor owned electric utilities to spend a minimum of 1.5% of gross annual retail electric revenue on CIP each year. These investments are recovered from retail customers through a billing adjustment and amounts included in retail base rates. The MPUC allows utilities to accumulate, in a deferred account for future recovery, all CIP expenditures as well as a carrying charge on the deferred account balance. Minnesota Power's 2000/2001 CIP investment goal was $2.7 million each year with actual spending at $1.9 million and $2.6 million, respectively. Minnesota Power's 2002/2003 CIP investment goal is $2.9 million each year. During 2002 Minnesota Power invested $4.0 million which satisfied current spending requirements and all prior years' spending shortfalls.

PUBLIC SERVICE COMMISSION OF WISCONSIN. SWL&P's current retail rates are based on a September 2001 PSCW retail rate order that allows for a 12.25% return on common equity.

In May 2002 SWL&P filed an application with the PSCW for authority to increase retail utility rates 4.5%. This average increase is comprised of a 6.8% increase in gas rates, a 19.2% increase in water rates and no change in electric rates. The

proposed increases are due in part to the completion of construction projects that added a second gas supply line into Superior, Wisconsin, and replaced an aging well system in the water utility. SWL&P is requesting a 12.25% return on common equity. Hearings have been held and a final order is expected in the spring of 2003.

Minnesota Power, the American Transmission Company (ATC) and Wisconsin Public Service Corporation, filed new cost estimates with the PSCW estimating that the Wausau-to-Duluth electric transmission line will cost $396 million. When it was proposed, the line had been projected to cost about $215 million. The increased costs for the 220-mile, 345-kV line are attributable to higher prices for construction materials, increased payments to landowners, more aggressive environmental safeguards and a different estimating system used by ATC. Despite the cost increase, Minnesota Power and transmission planners throughout the region believe the transmission line is necessary. Minnesota Power will be actively involved in the permitting and construction activities; however, it does not intend to finance nor own the proposed line.

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

COMPETITION

INDUSTRY RESTRUCTURING. State and federal efforts to restructure the electric utility industry have slowed amid concerns fueled by California's retail competition experience and Enron Corp.'s collapse, among others. At the wholesale level, the FERC is in the midst of a major rulemaking called Standard Market Design (SMD). Once implemented, SMD should facilitate wholesale transactions by improving the functionality of the wholesale electric transmission market.

New federal legislation has been proposed that, among other things and in concert with the FERC's efforts, aims to maintain reliability, assures adequate energy supply and addresses wholesale price volatility while encouraging wholesale competition. Legislation or regulation that initiates a process which may lead to retail customer choice of their electric service provider currently lacks momentum in both Minnesota and Wisconsin. Federal and state legislative and regulatory activity, as well as the actions of competitors, affect the way Minnesota Power strategically plans for its future. We cannot predict the timing or substance of any future legislation or regulation.

FRANCHISES

Minnesota Power holds franchises to construct and maintain an electric distribution and transmission system in 90 cities and towns located within its electric service territory. SWL&P holds similar franchises for electric, natural gas and/or water systems in 15 cities and towns within its service territory. The remaining cities and towns served do not require a franchise to operate within their boundaries. Our exclusive service territories are established by state regulatory agencies.

ENVIRONMENTAL MATTERS

Certain businesses included in our Energy Services segment are subject to regulation by various federal, state and local authorities of air quality, water quality, solid wastes and other environmental matters. We consider these businesses to be in substantial compliance with those environmental regulations currently applicable to their operations and believe all necessary permits to conduct such operations have been obtained. Environmental laws and regulations are constantly evolving. Due to their uncertainty, the character, scope and ultimate costs of emerging environmental compliance requirements cannot be estimated.

AIR. Minnesota Power's generating facilities in Minnesota burn mainly low-sulfur western sub-bituminous coal and Square Butte, located in North Dakota, burns lignite coal. All of these facilities are equipped with pollution control equipment such as scrubbers, baghouses or electrostatic precipitators. The federal Clean Air Act Amendments of 1990 (Clean Air Act) created emission allowances for sulfur dioxide. Each allowance is an authorization to emit one ton of sulfur dioxide, and each utility must have sufficient allowances to cover its annual emissions. Sulfur dioxide emission requirements are currently being met by all of Minnesota Power's generating facilities. Most Minnesota Power facilities have surplus allowances. Taconite Harbor expects to meet its sulfur dioxide requirements by annually purchasing allowances, since it receives no allowance allocation. Square Butte anticipates meeting its sulfur dioxide requirements through increased use of existing scrubbers and by annually purchasing additional allowances as necessary.

In accordance with the Clean Air Act, the EPA has established nitrogen oxide limitations for electric generating units. To meet nitrogen oxide limitations, Minnesota Power installed advanced low-emission burner technology and associated control equipment to operate the Boswell and Laskin facilities at or below the compliance emission limits. Nitrogen oxide limitations at Square Butte are being met by combustion tuning.

Minnesota Power has obtained all necessary Title V air operating permits from the MPCA for its applicable facilities to conduct electric operations.

In December 2000 the EPA announced its decision to regulate mercury emissions from coal and oil-fired power plants under Section 112 of the Clean Air Act. Section 112 will require all such power plants in the United States to adhere to the EPA maximum achievable control technology (MACT) standards for mercury. Final regulations defining control requirements are planned for December 2004. Cost estimates would be premature at this time.

In May 2002 Minnesota Power received and subsequently responded to a third request from the EPA, under Section 114 of the Clean Air Act, seeking additional information

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

In December 2002 the EPA issued changes to the existing New Source Review rules. These changes are not expected to result in any significant additional costs to Minnesota Power. The EPA also proposed changes clarifying application of certain sections of the New Source Review rules. Minnesota Power is evaluating the proposal. After taking comments in early 2003, the EPA plans to go through a new rule making process over the next one to two years.

In June 2002 Minnkota Power, the operator of Square Butte, received a Notice of Violation from the EPA regarding alleged New Source Review violations at the M.R. Young Station which includes the Square Butte generating unit. The EPA claims certain capital projects completed by Minnkota Power should have gone through the New Source Review process potentially resulting in new air permit operating conditions. The Company is unable to predict the outcome of this matter or the magnitude of costs should additional pollution controls be required. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to the Square Butte generating unit's output. (See Note 13.)

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

Minnesota Power holds FERC licenses authorizing the ownership and operation of seven hydroelectric generating projects with a total generating capacity of about 115 MW. In June 1996 Minnesota Power filed in the U.S. Court of Appeals for the District of Columbia Circuit a petition for review of the license as issued by the FERC for Minnesota Power's St. Louis River Hydro Project. Separate petitions for review were also filed by the U.S. Department of the Interior and the Fond du Lac Band of Lake Superior Chippewa (Fond du Lac Band), two intervenors in the licensing proceedings. The court consolidated the three petitions for review and suspended the briefing schedule while Minnesota Power and the Fond du Lac Band negotiate the reasonable fee for use of tribal lands as mandated by the new license. Both parties informed the court that these negotiations may resolve other disputed issues, and they are obligated to report periodically to the court the status of these discussions. Beginning in 1996, and most recently in January 2002, Minnesota Power filed requests with the FERC for extensions of time to comply with certain plans and studies required by the license that might conflict with the settlement discussions. The Fond du Lac Band and Minnesota Power have reached a confidential settlement agreement for the St. Louis River Hydro Project and have included the U.S. Department of the Interior in the settlement process in an effort to achieve a comprehensive agreement with all intervening parties to the project license. Any final settlement must be approved by the FERC, who would then amend the project license in accordance with the settlement agreement.

SOLID AND HAZARDOUS WASTE. The Resource Conservation and Recovery Act of 1976 regulates the management and disposal of solid wastes and hazardous wastes. As a result of this legislation, the EPA has promulgated various hazardous waste rules. Minnesota Power is required to notify the EPA of hazardous waste activity and routinely submits the necessary annual reports to the EPA. The MPCA and the Wisconsin Department of Natural Resources (WDNR) are responsible for administering solid and hazardous waste rules on the state level with oversight by the EPA.

During 2002 Minnesota Power constructed a dry ash disposal landfill to handle ash generated from Taconite Harbor. The landfill cost approximately $800,000.

In response to EPA Region V's request for utilities to participate in the Great Lakes Initiative by voluntarily removing remaining polychlorinated biphenyl (PCB) inventories, Minnesota Power has scheduled replacement of PCB-contaminated oil by the end of 2004. The total cost is expected to be about $2.0 million of which $1.3 million was spent through December 31, 2002.

In May 2001 SWL&P received notice from the WDNR that the City of Superior had found soil contamination on property adjoining a former Manufactured Gas Plant (MGP) site owned and operated by SWL&P's predecessors from 1889 to 1904. The WDNR requested an environmental investigation be initiated. The WDNR also issued SWL&P a Responsible Party letter in February 2002 to initiate tracking of the project in the WDNR database so that progress can be monitored. The environmental investigation is underway and the Company is unable to predict the outcome of this matter at this time.

AUTOMOTIVE SERVICES

Automotive Services includes several subsidiaries that are integral parts of the vehicle redistribution business. Automotive Services plans to grow through increased sales at existing businesses, selective acquisitions in both wholesale and total loss vehicle auction facilities, integration of total loss vehicle services at certain wholesale vehicle auction facilities and expansion of services to customers. The discussion below summarizes the major businesses we include in Automotive Services. Statistical information is presented as of December 31, 2002 unless otherwise indicated. All subsidiaries are wholly owned unless otherwise specifically indicated.

ADESA is the second largest wholesale vehicle auction network in North America. Headquartered in Indianapolis, Indiana, ADESA owns (or leases) and operates 52 wholesale vehicle auction facilities in the United States and Canada through which used cars and other vehicles are sold to franchised automobile dealers and licensed used car dealers. Initiated in 2002, ADESA holds auctions in Mexico City, Mexico, in partnership with Ford Motor Company at Ford's facilities. Sellers at ADESA's auctions include domestic and foreign auto manufacturers, car dealers, automotive fleet/lease companies, banks and finance companies. During the sales process, ADESA does not typically take title to vehicles.

The table on the next page lists the wholesale vehicle auctions owned or leased by ADESA. Each auction is a multi-lane, drive-through facility, and has additional buildings for reconditioning, registration, maintenance, bodywork, and other ancillary and administrative services. Each auction also has secure parking areas to store vehicles for auction.

New facilities are under construction in Atlanta, Georgia; Long Island, New York; and Edmonton, Alberta. The new facility in Long Island is a greenfield (a newly constructed facility in a new market), while the new facilities in Atlanta and Edmonton will replace aging facilities that are too small to efficiently serve our growing customer demand. All three are expected to open in 2003.

ADESA IMPACT in the U.S. and IMPACT AUTO in Canada, collectively ADESA Impact, represent the third largest total loss vehicle service business in North America. They provide total loss vehicle auction services to the property and casualty insurance industry, and vehicle leasing and rental car companies. Buyers reclaim and recycle total loss vehicles. ADESA Impact provides total loss vehicle claim services such as vehicle appraisals, inspections, evaluations, titling and settlement administration to its clients. Auto imaging, Internet bidding and vehicle enhancement services are provided through an array of total loss management programs. ADESA Impact has 25 total loss auction facilities in the United States and Canada. United States operations are headquartered in Indianapolis, Indiana, and Canadian operations are headquartered in Toronto, Ontario.

COMSEARCH provides professional claim outsourcing services to the property and casualty insurance industry and is the nation's largest automobile recycled part locating service, processing over 100,000 part searches a month. Our locating service has over 2,300 customers. ComSearch's services complement ADESA Impact's business. ComSearch is headquartered in Warren, Rhode Island.

AFC provides inventory financing for automobile dealers who purchase vehicles from ADESA auctions, independent auctions, other auction chains and outside sources. AFC is headquartered in Indianapolis, Indiana, and, as of February 1, 2003, has 81 loan production offices at or near auto auctions across North America. These offices provide qualified dealers credit to purchase vehicles at any of the 500 plus auctions and other outside sources approved by AFC. AFC's computer-based system follows each loan from origination to payoff and allows AFC to better manage its business, while expediting services through its branch network to 17,000 registered dealers.

PAR, which is doing business as PAR North America, provides customized vehicle remarketing services to various companies such as banks, non-prime finance companies, captive finance, leasing companies, commercial fleets and rental car companies throughout the United States. PAR's services include nationwide repossessions, remarketing, pre- and post-term lease-end management, 50-state titling services and Canadian registrations turned to U.S. titles. PAR offers its telemarketing service through its affiliate company, EndTrust. PAR has its headquarters in Carmel, Indiana.

AUTOVIN provides technology-enabled vehicle inspection services and inventory auditing to the automotive industry and the industry's secured lenders. AutoVIN's services include vehicle condition reporting, inventory verification auditing, program compliance auditing and facility inspection.

COMPETITION

In the wholesale vehicle market, ADESA competes with Manheim Auctions, a subsidiary of Cox Enterprises, Inc., as well as several smaller chains of auctions, and independent auctions some of which are affiliated through their membership in an industry organization named ServNet(R). Due to ADESA's national presence, competition is strongest with Manheim for the supply of vehicles from the national level accounts such as manufacturers, fleet/lease companies, banks and finance companies. Although the supply of these vehicles is dispersed among all of the auctions in the wholesale vehicle market, ADESA competes most heavily with the independent auctions (as well as Manheim and all others in the market) for the supply of vehicles from both the franchised used car dealers and the independent used car dealers. Due to the increased acceptance of e-business as a standard business practice, new competition has arisen over the years from Internet-based companies and our own customers who supply vehicles for auction. ADESA

PART I

ADESA AUCTIONS	CITY	STATE/ PROVINCE	YEAR OPERATIONS COMMENCED	NUMBER OF AUCTION LANES
United States				
ADESA Birmingham	Moody	Alabama	1987	10
ADESA Phoenix	Chandler	Arizona	1988	12
ADESA Little Rock	North Little Rock	Arkansas	1984	10
ADESA Los Angeles	Mira Loma	California	2000	6
ADESA Sacramento	Sacramento	California	1997	5
ADESA San Diego	San Diego	California	1982	6
ADESA Golden Gate	Tracy	California	2002	12
ADESA Colorado Springs	Colorado Springs	Colorado	1982	5
ADESA Clearwater	Clearwater	Florida	1972	4
ADESA Jacksonville	Jacksonville	Florida	1996	6
ADESA Ocala	Ocala	Florida	1996	5
ADESA Orlando-Sanford	Sanford	Florida	1987	8
ADESA Tampa	Tampa	Florida	1989	8
ADESA Atlanta	Newnan	Georgia	1986	6
ADESA Southern Indiana	Edinburgh	Indiana	1997	3
ADESA Indianapolis	Plainfield	Indiana	1983	10
ADESA Des Moines	Grimes	Iowa	1967	5
ADESA Lexington	Lexington	Kentucky	1982	6
ADESA Ark-La-Tex	Shreveport	Louisiana	1979	5
ADESA Concord	Acton	Massachusetts	1947	5
ADESA Boston	Framingham	Massachusetts	1995	11
ADESA Lansing	Dimondale	Michigan	1976	5
ADESA St. Louis	Barnhart	Missouri	1987	3
ADESA Kansas City	Lee's Summit	Missouri	1963	7
ADESA New Jersey	Manville	New Jersey	1996	8
ADESA Buffalo	Akron	New York	1992	10
ADESA Charlotte	Charlotte	North Carolina	1994	10
ADESA Cincinnati/Dayton	Franklin	Ohio	1986	8
ADESA Cleveland	Northfield	Ohio	1994	8
ADESA Tulsa	Tulsa	Oklahoma	1987	6
ADESA Pittsburgh	Mercer	Pennsylvania	1971	8
ADESA Knoxville	Lenoir City	Tennessee	1984	6
ADESA Memphis	Memphis	Tennessee	1990	6
ADESA Austin	Austin	Texas	1990	6
ADESA Houston	Houston	Texas	1995	8
ADESA Dallas	Mesquite	Texas	1990	8
ADESA San Antonio	San Antonio	Texas	1989	8
ADESA Seattle	Auburn	Washington	1984	4
ADESA Wisconsin	Portage	Wisconsin	1984	5
Canada				
ADESA Calgary	Airdrie	Alberta	2000	4
ADESA Edmonton	Edmonton	Alberta	1988	3
ADESA Vancouver	Richmond	British Columbia	2002	7
CAG Vancouver	Surrey	British Columbia	1986	2
ADESA Winnipeg	Winnipeg	Manitoba	1987	4
ADESA Moncton	Moncton	New Brunswick	1987	2
ADESA St. John's	St. John's	Newfoundland	1994	1
ADESA Halifax	Enfield	Nova Scotia	1993	5
ADESA Kitchener	Ayr	Ontario	1988	4
ADESA Toronto	Brampton	Ontario	1987	8
ADESA Ottawa	Vars	Ontario	1990	5
ADESA Montreal	St. Eustache	Quebec	1974	12
ADESA Saskatoon	Saskatoon	Saskatchewan	1980	2

INITIATED IN 2002, ADESA HOLDS AUCTIONS IN MEXICO CITY, MEXICO IN PARTNERSHIP WITH FORD MOTOR COMPANY AT FORD'S FACILITIES.

LEASED AUCTION FACILITIES. (SEE NOTE 13.)

ADESA OWNS 51% OF THIS AUCTION BUSINESS.

competes for these customers by attempting to attract a large number of dealers to purchase vehicles, which ensures competitive prices and supports the volume of vehicles auctioned. ADESA is also competitive by providing a full range of automotive services, including dealer inventory financing, reconditioning services that prepare vehicles for auction and processing of sales transactions.

Other factors affect the competition for supply of vehicles sold at auction. The rental car market has yet to re-fleet up to levels prior to September 11, 2001, and manufacturer incentives on new vehicles temporarily, but significantly, disrupted the price spreads between new and used vehicles. During most of 2002 and into 2003 aggressive financing incentives offered by vehicle manufacturers have lowered the cost of owning a new vehicle, which, in turn, has depressed prices for late-model used vehicles. This reduced the number of vehicles sold at auctions because car dealers restocked their inventories from the increased volume of late-model vehicles traded in for new vehicles, and sellers at auction tended to hold their vehicles rather than immediately accept the lower prices. Vehicle manufacturers have also begun to offer their end-of-term lease vehicles and other program vehicles for sale online electronically prior to the vehicles being offered for sale at a physical auction location. As a result, there has been a negative effect on the value and quantity of the vehicles that are offered for sale at ADESA auction facilities.

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

AFC is the largest provider of dealer floorplan financing to independent automobile dealers in North America. AFC's competition includes other specialty lenders, banks and other financial institutions. AFC has distinguished itself from its competitors by convenience of payment, quality of service and scope of services offered.

PAR provides customized remarketing services throughout North America. Although other providers are larger in size and volume, PAR's competition comes from a handful of similar service providers, none of which offer as many diverse services. PAR offers an interactive website, electronically connecting customers with its services and includes interactive connection with repossession agents and auction vendor networks. PAR's affiliation with EndTrust gives it a competitive edge in gaining market share in the lease-end management services arena.

In the total loss vehicle market, ADESA Impact competes against Copart, Inc., Insurance Auto Auctions, Inc., independent auctions, some of which are affiliated through their membership in an industry organization named SADISCO(R), and wholesale vehicle auctions that regularly remarket total loss vehicles in certain locations. Additionally, the dismantlers of total loss vehicles and internet based companies have entered the market thus providing alternate avenues for the suppliers to remarket their total loss vehicles. We believe through strategic acquisitions, shared facilities with ADESA, and greenfield expansion that ADESA Impact can become a prominent total loss services provider to the insurance industry in the United States. We believe further consolidation of the total loss vehicle auction industry will occur and are evaluating various means by which we can continue our growth plan. In Canada, ADESA Impact is the largest provider of total loss vehicle services. Its competitors include auto recyclers and dismantlers, independent auto auctions, brokers and Internet auction companies. ADESA Impact believes it is strategically positioned in this niche market in providing a full array of value-added services to its insurance clients including auctions, Internet programs, data analyses, consultation, the services of ComSearch and other total loss vehicle services throughout North America.

ENVIRONMENTAL MATTERS

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

INVESTMENTS AND CORPORATE CHARGES

Our Investments and Corporate Charges segment consists of real estate operations, investments in emerging technologies related to the electric utility industry and corporate charges. Corporate Charges represent general corporate expenses, including interest, not specifically related to any one business segment. The trading securities portfolio, previously a significant part of this segment, was liquidated during the third quarter of 2002. The discussion below summarizes the major components of the Investments and Corporate Charges segment. Statistical information is presented as of December 31, 2002 unless otherwise noted. All subsidiaries are wholly owned unless otherwise specifically indicated.

REAL ESTATE OPERATIONS. Our real estate operations include CAPE CORAL HOLDINGS, INC.; PALM COAST LAND, LLC; PALM COAST FOREST, LLC; TOMOKA HOLDINGS, LLC; WINTER HAVEN CITI CENTRE, LLC; and an 80% ownership in LEHIGH. Through subsidiaries, we own Florida real estate operations in six different locations:

- Lehigh Acres with 1,000 acres of residential and commercial land, east of Fort Myers, Florida;
- Cape Coral, located west of Fort Myers, Florida, with 185 acres of mostly commercially zoned land;
- Palm Coast, a planned community between St. Augustine and Daytona Beach, Florida, with 16,000 acres of residential,commercial and industrial land;
- Tomoka, located near Ormand Beach, Florida with 6,200 acres of property;
- Winter Haven, located in central Florida, with a retail shopping center and several parcels of land adjacent to the shopping center that are available for sale; and
- Sugarmill Woods with 330 home sites and some commercially and residentially zoned acreage in Citrus County, Florida.

Our real estate operations may, from time to time, acquire packages of diversified properties at low cost, then add value through entitlements and infrastructure enhancements, and sell the properties at current market prices.

EMERGING TECHNOLOGY INVESTMENTS. From 1985 through 2002 we have invested $49.9 million in start-up companies which are developing technologies that may be utilized by the electric utility industry. We are committed to invest an additional $7.7 million through 2007. The investments were first made through emerging technology funds (Funds) initiated by other electric utilities and us. More recently, we have made investments directly in privately held companies. The majority of our direct investments relate to distributed generation technology, such as micro generation and fuel cell technology. Many of these direct investments are also investments in the Funds' portfolios.

The Funds have also made investments in companies that develop advanced technologies to be used by the utility industry, including electrotechnologies, renewable energy technologies, and software and communications technologies related to utility customer support systems.

Several of the companies in the Funds' portfolios completed initial public offerings (IPOs) in 2000. Subsequent to the public trading of the IPO companies, the Funds will, in some instances, distribute publicly tradable shares to us. Some restrictions on sale may apply, including, but not limited to, underwriter lock-up periods that typically extend for 180 days following an IPO. As companies included in our emerging technology investments are sold, we will recognize a gain or loss.

Since going public, the market value of the publicly traded investments has experienced significant volatility. Our direct investment in the companies that have gone public had a cost basis of approximately $10 million at December 31, 2002 ($7 million at December 31, 2001). The aggregate market value of these investments at December 31, 2002 was approximately $6 million ($12 million at December 31, 2001).

We also have several minority investments in the Funds and privately-held start-up companies. These investments are accounted for under the cost method and included with Investments on our consolidated balance sheet. The total carrying value of these investments was $38.7 million at December 31, 2002 ($40.6 million at December 31, 2001).

Our policy is to periodically review these investments for impairment by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment.

ENVIRONMENTAL MATTERS

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

EXECUTIVE OFFICERS OF THE REGISTRANT

EXECUTIVE OFFICERS	INITIAL EFFECTIVE DATE
DAVID G. GARTZKE, AGE 59	
Chairman, President and Chief Executive Officer	January 23, 2002
President	August 28, 2001
Senior Vice President - Finance and Chief Financial Officer	December 1, 1994
DONNIE R. CRANDELL, AGE 59	
Executive Vice President - ALLETE;	
President - ALLETE Water Services, Inc.; and	September 6, 2001
President and Chief Executive Officer - Florida Water	
Executive Vice President - ALLETE and President - ALLETE Properties, Inc.	January 15, 1999
Senior Vice President - ALLETE and President - ALLETE Properties, Inc.	January 1, 1996
ROBERT D. EDWARDS, AGE 58	
Executive Vice President - ALLETE and	
Chief Executive Officer - Minnesota Power	December 19, 2001
Executive Vice President - ALLETE and President - Minnesota Power	July 26, 1995
BRENDA J. FLAYTON, AGE 47	
Vice President - Human Resources	July 22, 1998
JAMES P. HALLETT, AGE 49	
Executive Vice President - ALLETE and	
President and Chief Executive Officer - ALLETE Automotive Services, Inc.	November 5, 2001
Executive Vice President - ALLETE and Chief Executive Officer - ADESA	October 1, 2001
Executive Vice President - ALLETE and President and Chief Executive Officer - ADESA	April 23, 1997
PHILIP R. HALVERSON, AGE 54	
Vice President, General Counsel and Secretary	January 1, 1996
MARK A. SCHOBER, AGE 47	
Vice President and Controller	April 18, 2001
Controller	March 1, 1993
DONALD J. SHIPPAR, AGE 53	
President and Chief Operating Officer - Minnesota Power	January 1, 2001
TIMOTHY J. THORP, AGE 48	
Vice President - Investor Relations and Corporate Communications	November 16, 2001
JAMES K. VIZANKO, AGE 49	
Vice President, Chief Financial Officer and Treasurer	August 28, 2001
Vice President and Treasurer	April 18, 2001
Treasurer	March 1, 1993

PART I

All of the executive officers have been employed by us for more than five years in executive or management positions. In the five years prior to election to the positions shown on the previous page, Ms. Flayton was director of human resources, Mr. Shippar was Minnesota Power's chief operating officer, senior vice president and vice president of transmission and distribution, and Mr. Thorp was director of investor relations.

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

The present term of office of the executive officers listed on the previous page extends to the first meeting of our Board of Directors after the next annual meeting of shareholders. Both meetings are scheduled for May 13, 2003.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

PART II

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

We have paid dividends without interruption on our common stock since 1948. A quarterly dividend of $0.2825 per share on our common stock will be paid on March 1, 2003 to the holders of record on February 15, 2003. Our common stock is listed on the New York Stock Exchange under the symbol ALE. Dividends paid per share, and the high and low prices for our common stock for the periods indicated as reported by the New York Stock Exchange on its NYSEnet website, are in the accompanying chart.

The amount and timing of dividends payable on our common stock are within the sole discretion of our Board of Directors. In 2002 we paid out 66% of our per share earnings in dividends.

Our Articles of Incorporation, and Mortgage and Deed of Trust contain provisions which under certain circumstances would restrict the payment of common stock dividends. As of December 31, 2002 no retained earnings were restricted as a result of these provisions. At January 31, 2003 there were approximately 38,000 common stock shareholders of record.

	PRICE RANGE		
QUARTER	HIGH	LOW	DIVIDENDS PAID
2002 - First	$29.43	$24.25	$0.275
Second	31.10	27.09	0.275
Third	27.62	18.50	0.275
Fourth	23.80	18.65	0.275
Annual Total			$1.10
2001 - First	$26.00	$20.19	$0.2675
Second	26.13	22.04	0.2675
Third	26.89	21.50	0.2675
Fourth	25.85	21.14	0.2675
Annual Total			$1.07

PART II

ITEM 6. SELECTED FINANCIAL DATA

Operating results of our Water Services businesses, our auto transport business and our retail store are included in discontinued operations and, accordingly, amounts have been adjusted for all periods presented. Common share and per share amounts have also been adjusted for all periods to reflect our March 2, 1999 two-for-one common stock split.

	2002	2001	2000	1999	1998	1997
MILLIONS						
BALANCE SHEET						
Assets						
Current Assets	$ 631.1	$ 853.3	$ 677.2	$ 506.0	$ 444.6	$ 354.9
Discontinued Operations - Current	27.3	42.2	41.5	43.7	29.1	21.9
Property, Plant and Equipment	1,364.9	1,323.3	1,201.1	1,003.4	955.5	948.1
Investments	170.9	155.4	128.7	212.0	277.3	261.4
Goodwill	499.8	494.4	472.8	181.0	169.8	158.9
Other Assets	107.3	103.6	87.3	82.4	91.2	98.2
Discontinued Operations - Other	345.9	310.3	305.4	284.1	241.4	242.9
	$3,147.2	$3,282.5	$2,914.0	$2,312.6	$2,208.9	$2,086.3
Liabilities and Shareholders' Equity						
Current Liabilities	$ 708.8	$ 658.6	$ 661.9	$ 366.1	$ 326.3	$ 317.7
Discontinued Operations - Current	29.4	45.9	45.1	32.2	19.7	24.9
Long-Term Debt	661.3	933.8	817.2	577.9	540.6	553.0
Other Liabilities	277.4	270.5	257.5	265.3	286.1	288.6
Discontinued Operations - Other	162.9	154.9	156.5	158.8	144.1	145.6
Mandatorily Redeemable Preferred Securities of ALLETE Capital I	75.0	75.0	75.0	75.0	75.0	75.0
Redeemable Preferred Stock	-	-	-	20.0	20.0	20.0
Shareholders' Equity	1,232.4	1,143.8	900.8	817.3	797.1	661.5
	$3,147.2	$3,282.5	$2,914.0	$2,312.6	$2,208.9	$2,086.3
INCOME STATEMENT						
Operating Revenue						
Energy Services	$ 630.3	$ 618.7	$ 586.4	$ 553.1	$ 558.9	$ 541.2
Automotive Services	844.1	832.1	522.6	383.2	305.5	242.4
Investments	32.5	74.8	77.4	57.8	55.5	60.7
	1,506.9	1,525.6	1,186.4	994.1	919.9	844.3
Expenses						
Fuel and Purchased Power	239.1	233.1	229.0	200.2	205.7	194.1
Operations	1,008.0	1,007.3	725.3	595.8	538.7	492.8
Interest Expense	62.2	74.7	58.8	49.5	54.6	53.2
	1,309.3	1,315.1	1,013.1	845.5	799.0	740.1
Operating Income Before Capital Re and ACE	197.6	210.5	173.3	148.6	120.9	104.2
Income (Loss) from Investment in Capital Re and Related Disposition of ACE	-	-	48.0	(34.5)	15.2	14.8
Operating Income from Continuing Operations	197.6	210.5	221.3	114.1	136.1	119.0
Distributions on Redeemable Preferred Securities of ALLETE Capital I	6.0	6.0	6.0	6.0	6.0	6.0
Income Tax Expense	72.6	74.2	77.0	50.9	49.1	42.7
Income from Continuing Operations	119.0	130.3	138.3	57.2	81.0	70.3
Income from Discontinued Operations	18.2	8.4	10.3	10.8	7.5	7.3
Net Income	137.2	138.7	148.6	68.0	88.5	77.6
Preferred Dividends	-	-	0.9	2.0	2.0	2.0
Earnings Available for Common Stock	137.2	138.7	147.7	66.0	86.5	75.6
Common Stock Dividends	89.2	81.8	74.5	73.0	65.0	62.5
Retained (Deficit) in the Business	$ 48.0	$ 56.9	$ 73.2	$ (7.0)	$ 21.5	$ 13.1

	2002	2001	2000	1999	1998	1997
Shares Outstanding - Millions						
Year-End	85.6	83.9	74.7	73.5	72.3	67.1
Average						
Basic	81.1	75.8	69.8	68.4	64.0	61.2
Diluted	81.7	76.5	70.1	68.6	64.2	61.2
Diluted Earnings Per Share						
Continuing Operations	$1.46	$1.70	$1.96	$0.81	$1.23	$1.12
Discontinued Operations	0.22	0.11	0.15	0.16	0.12	0.12
	$1.68	$1.81	$2.11	$0.97	$1.35	$1.24
Return on Common Equity	11.4%	13.3%	17.1%	8.3%	12.4%	12.1%
Common Equity Ratio	51.7%	49.9%	46.3%	49.3%	49.9%	44.9%
Dividends Paid Per Share	$1.10	$1.07	$1.07	$1.07	$1.02	$1.02
Dividend Payout	66%	59%	51%	110%	76%	83%
Book Value Per Share at Year-End	$14.39	$13.63	$12.06	$10.97	$10.86	$9.69
Market Price Per Share						
High	$31.10	$26.89	$25.50	$22.09	$23.13	$22.00
Low	$18.50	$20.19	$14.75	$16.00	$19.03	$13.50
Close	$22.68	$25.20	$24.81	$16.94	$22.00	$21.78
Market/Book at Year-End	1.58	1.85	2.06	1.54	2.03	2.25
Price Earnings Ratio at Year-End	13.5	13.9	11.8	17.5	16.3	17.6
Dividend Yield at Year-End	4.9%	4.2%	4.3%	6.3%	4.6%	4.7%
Employees	14,181	13,763	12,633	8,246	7,003	6,817
Net Income						
Energy Services	$ 41.8	$ 51.7	$ 44.5	$ 46.0	$ 48.3	$ 44.2
Automotive Services	92.9	74.8	49.9	40.3	24.6	13.8
Investments and Corporate Charges	(15.7)	3.8	43.9	(29.1)	8.1	12.3
	119.0	130.3	138.3	57.2	81.0	70.3
Discontinued Operations	18.2	8.4	10.3	10.8	7.5	7.3
	$137.2	$138.7	$148.6	$68.0	$88.5	$77.6
Electric Customers - Thousands	147.0	145.0	144.0	139.7	138.1	135.8
Electric Sales - Millions of MWh						
Utility	11.1	10.9	11.7	11.3	12.0	12.4
Nonregulated	1.2	0.2	0.2	-	-	-
Regulated Power Supply - Millions of MWh						
Steam Generation	7.2	6.9	6.4	6.2	6.3	6.1
Hydro Generation	0.5	0.5	0.5	0.7	0.6	0.6
Long-Term Purchase - Square Butte	2.3	1.9	2.4	2.3	2.1	2.3
Purchased Power	1.8	2.3	3.1	2.6	3.2	3.8
	11.8	11.6	12.4	11.8	12.2	12.8
Coal Sold - Millions of Tons	4.6	4.1	4.4	4.5	4.2	4.2
Vehicles Sold - Thousands						
Wholesale	1,741	1,761	1,287	1,037	897	769
Total Loss	175	148	33	-	-	-
Vehicles Financed - Thousands	946	904	795	695	531	323
Capital Expenditures - Millions	$205.8	$153.0	$168.7	$99.7	$80.8	$72.2

EXCLUDES UNALLOCATED ESOP SHARES.

INCLUDED A $5.5 MILLION, OR $0.07 PER SHARE, CHARGE RELATED TO THE INDEFINITE DELAY OF A GENERATION PROJECT IN SUPERIOR, WISCONSIN.

INCLUDES $3.9 MILLION, OR $0.05 PER SHARE, IN CHARGES TO COMPLETE THE EXIT FROM THE AUTO TRANSPORT BUSINESS AND THE RETAIL STORE.

INCLUDED A $4.4 MILLION, OR $0.06 PER SHARE, ESTIMATED CHARGE TO EXIT THE AUTO TRANSPORT BUSINESS.

IN 2000 WE RECORDED A $30.4 MILLION, OR $0.44 PER SHARE, GAIN ON THE SALE OF 4.7 MILLION SHARES OF ACE THAT WE RECEIVED IN 1999 WHEN CAPITAL RE MERGED WITH ACE. AS A RESULT OF THE MERGER, IN 1999 WE RECORDED A $36.2 MILLION, OR $0.52 PER SHARE, CHARGE. EXCLUDING THE CAPITAL RE AND ACE TRANSACTIONS, DILUTED EARNINGS PER SHARE WERE $1.67 IN 2000 ($1.49 IN 1999), THE RETURN ON COMMON EQUITY WAS 13.6% IN 2000 (12.9% IN 1999), THE DIVIDEND PAYOUT WAS 64% IN 2000 (72% IN 1999), THE PRICE EARNINGS RATIO WAS 14.9 IN 2000 (11.4 IN 1999) AND NET INCOME FROM INVESTMENTS AND CORPORATE CHARGES WAS $29.3 MILLION IN 2000 ($26.8 MILLION IN 1999).

PART II

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

CONSOLIDATED OVERVIEW

MILLIONS EXCEPT PER SHARE AMOUNTS	2002	2001	2000
Operating Revenue			
Energy Services	$ 630.3	$ 618.7	$ 586.4
Automotive Services	844.1	832.1	522.6
Investments	32.5	74.8	77.4
	$1,506.9	$1,525.6	$1,186.4
Operating Expenses			
Energy Services	$ 562.4	$ 532.2	$ 510.7
Automotive Services	691.8	713.1	438.6
Investments and Corporate Charges	55.1	69.8	63.8
	$1,309.3	$1,315.1	$1,013.1
Net Income			
Energy Services	$ 41.8	$ 51.7	$ 44.5
Automotive Services	92.9	74.8	49.9
Investments and Corporate Charges	(15.7)	3.8	43.9
Continuing Operations	119.0	130.3	138.3
Discontinued Operations	18.2	8.4	10.3
Net Income	$137.2	$138.7	$148.6
ADJUSTMENTS	9.4	4.4	(30.4)
PRO FORMA	$146.6	$143.1	$118.2
Diluted Average Shares of Common Stock	81.7	76.5	70.1
Diluted Earnings Per Share of Common Stock			
Continuing Operations	$1.46	$1.70	$1.96
Discontinued Operations	0.22	0.11	0.15
Diluted Earnings Per Share	$1.68	$1.81	$2.11
ADJUSTMENTS	0.12	0.06	(0.44)
PRO FORMA	$1.80	$1.87	$1.67
Return on Common Equity	11.4%	13.3%	17.1%

INCLUDED INCOME AND EXPENSE ITEMS RELATED TO SIGNIFICANT EXIT AND DISPOSAL ACTIVITIES.

2002 ENERGY SERVICES INCLUDED A $5.5 MILLION, OR $0.07 PER SHARE, CHARGE RELATED TO THE INDEFINITE DELAY OF A GENERATION PROJECT IN SUPERIOR, WISCONSIN. DISCONTINUED OPERATIONS INCLUDED $3.9 MILLION, OR $0.05 PER SHARE, OF CHARGES TO EXIT THE AUTO TRANSPORT BUSINESS AND THE RETAIL STORE.

2001 DISCONTINUED OPERATIONS INCLUDED A $4.4 MILLION, OR $0.06 PER SHARE, CHARGE TO EXIT THE AUTO TRANSPORT BUSINESS.

2000 INVESTMENTS AND CORPORATE CHARGES INCLUDED A $30.4 MILLION, OR $0.44 PER SHARE, GAIN ON THE SALE OF ACE COMMONSTOCK. EXCLUDING THIS GAIN, 2000 NET INCOME FROM INVESTMENTS AND CORPORATE CHARGES WAS $13.5 MILLION AND THE RETURN ON EQUITY WAS 13.6%. (SEE NOTE 6.)

During 2002 we accomplished several important goals. We began simplifying our Company by exiting non-strategic businesses and liquidating the trading securities portfolio. In doing so we will strengthen our balance sheet. We also made progress on the sale of our Water Services businesses and continued our efforts to communicate to investors our focus on our two core businesses, Energy Services and Automotive Services.

Net income and earnings per share for 2002 decreased 1% and 7%, respectively, from the same period in 2001. Factors reflected in the comparison of 2002 with 2001 include:

- CHARGES. Net income for 2002 included $9.4 million of charges related to our exit from non-strategic businesses and the indefinite delay of a generation project in Superior, Wisconsin ($4.4 million in 2001).
- GOODWILL. Earnings for 2001 included $11.3 million, or $0.15 per share, of goodwill amortization expense. As required by SFAS 142, goodwill amortization was discontinued in 2002.
- REAL ESTATE TRANSACTION. Earnings for 2001 included an $11.1 million, or $0.15 per share, gain associated with our largest ever single real estate transaction.
- COMMON STOCK ISSUANCE. The decrease in earnings per share was in part due to the issuance of 6.6 million shares of our common stock in the second

quarter of 2001.

We measure performance of our operations through careful budgeting and monitoring of contributions to consolidated net income by each business segment.

NET INCOME

ENERGY SERVICES. Net income was down $9.9 million, or 19%, in 2002. Excluding a charge related to the indefinite delay of a generation project in Superior, Wisconsin, net income was down $4.4 million, or 8%. The decrease was primarily due to weak wholesale power prices which negatively impacted wholesale power marketing activities. In 2001 our wholesale power marketing activities were more profitable due to warmer summer weather and overall market conditions. Weak wholesale power prices in 2002 more than offset the positive impact of an 11% increase in megawatthour sales. Total megawatthour sales were 12.3 million in 2002 (11.1 million in 2001; 11.9 million in 2000). The megawatthour increase was mainly attributable to about 500 MW of nonregulated wholesale generation that came online in 2002; 1.2 million megawatthours of nonregulated generation were sold in 2002 (0.2 million in both 2001 and 2000). Megawatthour sales in 2001 reflected decreased sales to our taconite customers because of planned shutdowns and reduced taconite production. Net income in 2001 also included the recovery of $2.6 million for 1998 CIP lost margins.

AUTOMOTIVE SERVICES. Net income in 2002 increased $18.1 million, or 24%, over 2001. The continued growth in net income during 2002 was due to a mandated goodwill amortization accounting change, lower interest expense and

improved operating efficiencies, while during 2001 and 2000 acquisitions and increased sales at both ADESA and AFC were the contributing factors. During 2001 ADESA acquired or opened 13 auction facilities (10 in 2000) that provide total loss vehicle services to insurance companies, and added one wholesale vehicle auction facility (28 in 2000).

At ADESA wholesale auction facilities 1.7 million vehicles were sold in 2002 (1.8 million in 2001; 1.3 million in 2000). Volumes were lower in 2002 because the rental car market has yet to re-fleet up to levels prior to the events of September 11, 2001, and manufacturer incentives on new vehicles temporarily, but significantly, disrupted the price spreads between new and used vehicles. Aggressive financing incentives offered by vehicle manufacturers lowered the cost of owning a new vehicle, which, in turn, depressed prices for late-model used vehicles. This reduced the number of vehicles sold at auctions because car dealers restocked their inventories from the increased volume of late-model vehicles traded in for new vehicles, and sellers at auction tended to hold their vehicles rather than immediately accept the lower prices. In 2001 increased costs and reduced sales volumes because of inclement weather in early 2001 hampered financial results, as did the events of September 11. For 2001 we estimated that the impact of the events of September 11 resulted in a $3.5 million decrease to net income. Costs of assimilating the 28 wholesale vehicle auction facilities acquired or opened in 2000 also impacted 2001 results.

Conversion rates are the percentage of vehicles sold from those that were run through auction lanes. We achieved a 59% conversion rate related to our wholesale vehicles sold for 2002 (58% for 2001; 59% for 2000).

Despite unseasonably dry weather conditions in 2002 which usually means fewer total loss vehicles, the number of vehicles sold at our total loss vehicle auction facilities was higher in 2002 reflecting expansion into new markets, which included adding total loss auctions at some of our wholesale vehicle auction facilities. At our total loss vehicle auctions 175,000 vehicles were sold in 2002 (148,000 in 2001; 33,000 in 2000).

AFC contributed 38% of the net income from Automotive Services in 2002 (40% in 2001; 47% in 2000). AFC has 81 loan production offices (82 in 2001; 86 in 2000). The growth of AFC's dealer/customer base from 15,000 in 2000 to 17,000 in 2002 has enabled AFC to finance more vehicles; 946,000 vehicles in 2002 (904,000 in 2001; 795,000 in 2000). AFC managed total receivables of $495 million at December 31, 2002 ($500 million at December 31, 2001; $436 million at December 31, 2000).

INVESTMENTS AND CORPORATE CHARGES reported $19.5 million less net income in 2002 due to smaller real estate transactions in 2002 and the liquidation of the trading securities portfolio in the second half of 2002. In 2001 our real estate operations reported stronger sales including an $11.1 million gain on its largest single sale ever. Our trading securities portfolio earned a negative 1.5% after-tax annualized return prior to liquidation in 2002 compared to a positive 5.6% in 2001 (7.0% in 2000). The 2001 return on our trading securities portfolio reflected earnings on a lower average balance. During 2000 we reduced the size of our trading securities portfolio to partially fund significant acquisitions made by Automotive Services. Net income in 2000 reflected a $30.4 million, or $0.44 per share, after-tax gain on the sale of 4.7 million shares of ACE that we received in 1999 when Capital Re merged with ACE.

Corporate charges in 2002 and 2001 reflected higher interest expense as a result of debt issued to fund strategic initiatives in early 2001. Incentive compensation expenses, however, were lower in 2002. The decrease was attributed in part to lower 2002 earnings. Also, 2001 included additional expenses for severance packages. In 2000 financial results reflected the resolution of various federal and state tax issues which increased net income.

DISCONTINUED OPERATIONS included the operating results of our Water Services businesses, which are currently held for sale, our auto transport business and our retail store.

Income from discontinued operations was up $9.8 million from 2001 primarily due to the suspension of depreciation on our Water Services assets. Income from discontinued operations included $7.5 million of depreciation expense after tax in 2001 ($8.1 million in 2000).

Our Water Services businesses reported an 8% increase in water consumption during 2002 as a result of drier weather conditions and increased customers. Organic customer growth was 4.5% in 2002. Strategic acquisitions and customer growth since 1999 within our Water Services businesses helped temper the negative financial impact of above-average rainfall in Florida and North Carolina during the majority of 2001 and conservation efforts in Florida. In addition, operating results for Water Services reflected gains related to the disposal of certain assets in 2001, an October 2000 rate increase implemented by Heater Utilities, Inc. and regulatory relief granted in Florida in 2000.

Income from discontinued operations also reflected $3.9 million of exit charges associated with the auto transport business and the retail store in 2002 and a $4.4 million charge to exit the auto transport business in 2001.

2002 COMPARED TO 2001

ENERGY SERVICES

Utility operations include retail and wholesale rate regulated activities under the jurisdiction of state and federal regulatory authorities. Nonregulated/nonutility operations consist of nonregulated electric generation (non-rate base generation sold at wholesale at market-based rates), coal mining and telecommunications activities. Nonregulated generation operations consist primarily of Taconite Harbor in northern Minnesota and generation secured through the

Kendall County power purchase agreement, a 15-year agreement with NRG Energy at a facility near Chicago, Illinois.

OPERATING REVENUE in total was up $11.6 million, or 2%, in 2002 as increased revenue from nonregulated/nonutility operations was partially offset by a decrease in utility revenue. Despite a slight increase in utility megawatthour sales, utility revenue decreased $33.1 million, or 6%, due to lower wholesale prices and fuel clause recoveries. Fuel clause recoveries decreased due to lower purchased power costs in 2002. Total utility megawatthour sales were up 2% over the prior year reflecting increased retail sales to taconite customers. In addition, utility revenue in 2001 included the recovery of $4.5 million for 1998 CIP lost margins. Nonregulated/nonutility revenue increased $44.7 million, or 56%, in 2002 primarily as a result of about 500 MW of nonregulated generation that came online in 2002. There were 1.2 million megawatthours of nonregulated generation sold in 2002.

OPERATING EXPENSES in total increased $30.2 million, or 6%, in 2002. Excluding the charge related to the indefinite delay of a generation project in Superior, Wisconsin, total operating expenses increased $20.7 million, or 4%, over 2001. The increase was attributable to additional expenses for nonregulated generation that came online in 2002 which were partially offset by lower utility operating expenses. Utility operating expenses were down $36.3 million, or 8%, in 2002 primarily due to lower purchased power costs. Lower purchased power costs resulted from both lower wholesale prices and a reduction in the quantity of power purchased. Extended planned maintenance outages in 2001 necessitated higher quantities of purchased power last year. Nonregulated/ nonutility operating expenses increased $66.5 million, or 88%, over the prior year mainly due to expenses for nonregulated generation that came online in 2002. The increase in nonregulated/nonutility operating expenses also included the $9.5 million charge related to the indefinite delay of the generation project in Superior, Wisconsin.

AUTOMOTIVE SERVICES

OPERATING REVENUE was up $12.0 million, or 1%, in 2002. At ADESA wholesale auction facilities the number of vehicles sold in 2002 were similar to 2001 because the rental car market has yet to re-fleet up to levels prior to the events of September 11, 2001, and manufacturer incentives on new vehicles temporarily, but significantly, disrupted the price spreads between new and used vehicles.

Despite unseasonably dry weather conditions in 2002 which usually means fewer total loss vehicles, vehicles sold at our total loss vehicle auction facilities were up 18% reflecting expansion into new markets, which included adding total loss auctions at some of our wholesale vehicle auction facilities. Operating revenue from AFC was higher in 2002 due to a 5% increase in vehicles financed through our loan production offices.

OPERATING EXPENSES were down $21.3 million, or 3%, in 2002 due to reduced interest expense ($14.1 million) as a result of lower interest rates and a lower debt balance, the discontinuance of goodwill amortization ($13.7 million) and improved operating efficiencies. These decreases were partially offset by an increase in operating expenses incurred to standardize operations at all our total loss auction facilities and expenditures for information technology initiatives.

INVESTMENTS AND CORPORATE CHARGES

OPERATING REVENUE was down $42.3 million, or 57%, in 2002 primarily due to a large real estate transaction recorded in 2001. Five large real estate sales in 2002 contributed $8.5 million to revenue, while in 2001 six large real estate sales contributed $37.5 million to revenue, one of which was our real estate operations' largest single transaction ever. Operating revenue in 2002 also reflected less income from our trading securities portfolio which was substantially liquidated during the second half of the year and had significantly lower returns during the year.

OPERATING EXPENSES were down $14.7 million, or 21%, in 2002 because of expenses associated with larger real estate sales in 2001. Also, in 2001 additional expenses were incurred for incentive compensation.

2001 COMPARED TO 2000

ENERGY SERVICES

OPERATING REVENUE in total was up $32.3 million, or 6%, in 2001 reflecting increased revenue from nonregulated/ nonutility operations, as well as a small increase in utility revenue. Despite a decrease in utility megawatthour sales, utility revenue increased $6.6 million, or 1%, due to improved wholesale market conditions and higher fuel clause recoveries, as well as more demand revenue from Large Power Customers. Total utility megawatthour sales decreased 7% from the prior year mainly due to planned shutdowns and reduced production by taconite customers. In addition, utility revenue in 2001 included the recovery of $4.5 million for 1998 CIP lost margins. Nonregulated/nonutility revenue increased $25.7 million, or 47%, in 2001 primarily due to the acquisition of Enventis, Inc. which was acquired in July 2001 and accounted for as a pooling of interests.

OPERATING EXPENSES in total increased $21.5 million, or 4%, in 2001 mainly due to additional nonregulated/nonutility expenses. Nonregulated/nonutility operating expenses increased $22.9 million, or 43%, over 2000 primarily due to the inclusion of Enventis, Inc.

AUTOMOTIVE SERVICES

Both operating revenue and expenses for Automotive Services were up in 2001 due to significant acquisitions made in 2000 and early 2001. Financial results for 2001 included 12 full months of operations from 28 wholesale and 10 total loss vehicle auction facilities acquired or opened primarily in the

second half of 2000 and results from acquisitions made in January and May 2001.

OPERATING REVENUE was up $309.5 million, or 59%, in 2001 reflecting a 37% increase in vehicles sold at ADESA wholesale auction facilities, the inclusion of revenue related to total loss vehicle services and a 14% increase in vehicles financed at AFC's loan production offices. Sales volumes in 2001, however, were negatively impacted by the events of September 11 and the impact of aggressive new vehicle financing incentives offered by vehicle manufacturers. Also, inclement weather earlier in the year resulted in both low attendance at and canceled auctions.

OPERATING EXPENSES were up $274.5 million, or 63%, in 2001 reflecting additional expenses associated with increased vehicle sales and financing activity. Expenses in 2001 included increased direct costs associated with processing vehicles multiple times that did not sell as a result of depressed wholesale prices resulting from the events of September 11 and aggressive new vehicle financing incentives offered by vehicle manufacturers. Operating expenses in 2001 also included integration costs, additional amortization of goodwill, additional interest expense related to debt issued in late 2000 to finance acquisitions, higher utility expense and more labor costs incurred as a result of inclement weather in early 2001.

INVESTMENTS AND CORPORATE CHARGES

OPERATING REVENUE was down $2.6 million, or 3%, in 2001 reflecting less revenue from our trading securities portfolio, partially due to a lower average balance for most of the year. The decrease in revenue was also attributed to $4.9 million less from our emerging technology investments as a result of fewer sales of these investments in 2001. Our real estate operations, however, reported stronger sales in 2001, including its largest sale ever. Six large real estate sales in 2001 contributed $37.5 million to revenue, while in 2000 seven large real estate sales contributed $31.9 million to revenue.

OPERATING EXPENSES in 2001 were up $6.0 million, or 9%, as a result of increased interest expense and additional expenses for incentive compensation. These increases were tempered by lower expenses at our real estate operations.

CRITICAL ACCOUNTING POLICIES

Certain accounting measurements under applicable generally accepted accounting principles involve management's judgment about subjective factors and estimates, the effects of which are inherently uncertain. The following summarizes those accounting measurements we believe are most critical to our reported results of operations and financial condition.

ACCOUNTING POLICY	JUDGMENTS/UNCERTAINTIES AFFECTING APPLICATION	SEE ADDITIONAL DISCUSSION
Uncollectible Receivables and Allowance for Doubtful Accounts	- Economic conditions affecting customers, suppliers and market prices - Outcome of negotiations, ligigation and bankruptcy proceedings - Current sales, payment and write off histories	Liquidity and Capital Resources - Off-Balance Sheet Arrangements on page 42
Impairment of Goodwill and Long-Lived Assets	- Economic conditions affecting market valuations - Changes in business strategy - Forecast of future operating cash flows and earnings	Note 2. on page 63 and Note 3. on page 65
Pension and Postretirement Health and Life Actuarial Assumptions	- Expected long-term rates of return on assets - Discount rates	Note 18. on page 74
Valuation of Investments	- Continued commercial viability of products - Projected earnings and cash flow	Market Risk on page 44

The allowance for doubtful accounts and related bad debt expense is primarily attributable to the financing activities of AFC. In establishing a proper allowance for doubtful accounts, AFC's evaluation includes consideration of historical charge-off experience and current economic conditions. Changes to historical charge-off experience or existing economic conditions would necessitate a corresponding increase or decrease in the allowance for doubtful accounts. The credit quality of AFC's finance receivable portfolio has remained strong and the total amount of the allowance for doubtful accounts has not changed materially over the last three years. A 10% increase in AFC's current allowance for doubtful accounts would increase bad debt expense by approximately $1 million after tax; likewise, a 10% decrease in the current allowance for doubtful accounts would decrease expense by aproximately $1 million after tax.

An important actuarial assumption for pension and other postretirement benefit plans is the expected long-term rate of return on plan assets. In establishing this assumption, we consider the allocation and diversification of our plan assets, current economic conditions, actual historical investment performance, the historical performance of equity and debt securities in

general, and our performance versus similar sized plans. Our pension asset allocation is approximately 70% equity and 30% fixed-rate securities. Equity securities consist of a mix of market capitalization sizes and also include investments in real estate and venture capital. In response to changing market conditions, we have lowered our actuarial assumption for the expected long-term rate of return and used

9.5% in the September 30, 2002 pension actuarial study (10% at September 30, 2001; 10.25% at September 30, 2000). We annually review our expected long-term rate of return assumption, and will continue to adjust it to respond to any changing market conditions. A 1% decrease in the expected long-term rate of return would increase the annual expense for pension and other postretirement benefits by approximately $2 million after tax; likewise, a 1% increase in the expected long-term rate of return would decrease expense by approximately $2 million after tax.

OUTLOOK

CORPORATE. Our operations in 42 states, nine Canadian provinces and Mexico employ approximately 14,000 employees. Since 1980 our annual total shareholder return averaged 16%. Approximately 50% of this average was attributed to dividends. By comparison, the Standard & Poor's 500 Index averaged 12% for the same period, of which approximately 25% of the average was attributed to dividends.

We remain focused on continuously improving the performance of our two core businesses, Energy and Automotive Services, and monetizing those businesses that are non-strategic or non-core. Our two core businesses remain strong and are poised for earnings growth in their respective markets as economic conditions improve.

Once we have sold our Water Services businesses in Florida, North Carolina and Georgia, we will have further simplified our Company. The pending sale of Florida Water for $492.5 million has been delayed by legal challenges. Cash proceeds to ALLETE after taxes and repayment of existing debt are expected to be approximately $180 million in 2003, and $250 million for the entire transaction. The gain on the transaction is estimated at $100 million after taxes and related costs. While the majority of the cash will be received at closing, the gain is expected to be recognized in future years as required by accounting rules. The proceeds from the sale will give us the ability to reduce debt, which will further strengthen our balance sheet. We anticipate selling our Water Services businesses in North Carolina and Georgia in 2003. (See Item 1.)

Our Board of Directors and management remain committed to unlocking the value of ALLETE. In 2002 we undertook an examination of the benefits of separating our Energy and Automotive businesses into separate companies. At that time we chose not to separate because all of the businesses of our Company benefited from the cash flow and credit position of the consolidated company. We are again reviewing this issue both internally and with outside advisors.

ENERGY SERVICES continues to generate strong cash flow from operations. We anticipate, however, net income for 2003 from Energy Services to decrease slightly from 2002 levels. If wholesale power prices improve, so too will our profitability from Energy Services. To combat continuing depressed prices in wholesale energy markets, minimal growth in our service area and uncertain state and national economies, we will focus on cost reductions while seeking new ways to maintain or enhance revenue.

Our access to and ownership of low-cost power are Energy Services' greatest strengths. We have adequate generation to serve our native load. Power over and above our customers' requirements is and will continue to be marketed primarily through Split Rock Energy.

Over one-half of Minnesota Power's utility power sales are made to taconite mines, paper producers and oil pipeline operators. Minnesota Power's paper and taconite customers supply industries that are undergoing significant structural change in the face of continued globalization and consolidation. For taconite producers, the ongoing consolidation of the domestic integrated steel industry has both positive and negative implications. As steel companies divest themselves of raw material operations and address decades of legacy cost accumulation, they will use acquisitions to position themselves for future successes in a worldwide steel market that rewards low-cost, efficient producers.

Unfortunately, the process of rationalizing steel production capacity may lead to a reduction in the number of iron ore mines required to supply United States and Canadian blast furnaces. The near term impacts of a taconite plant closure would be significant for Minnesota Power and northeastern Minnesota. In the long term, however, improving the cost competitiveness of the domestic integrated steelmakers is critical to assuring a stable production base for Minnesota iron ore once steel import tariff protections are lifted. The annual taconite production in Minnesota was 39 million tons in 2002 (33 million tons in 2001; 47 million tons in 2000). Based on our research of the taconite industry, Minnesota taconite production for 2003 is anticipated to be about 37 million tons. As a result of continuing consolidation in the integrated steel business and its resulting impact on taconite producers, Minnesota Power is unable to predict taconite production levels for the next two to five years. Minnesota Power believes it is positioned to mitigate the impacts of reduced load, if necessary, by selling any excess low-cost generation in the wholesale power marketplace.

The paper manufacturing business is also weathering significant structural change as international consolidation continues and North American producers aggressively cut costs and look for an end to the current down cycle in paper pricing. Three of Minnesota Power's four major pulp and paper producing customers are now owned by international firms. As these firms seek to rationalize world production capacity with demand, they are removing older paper machines from their asset portfolios and focusing on improving efficiency and cost competitiveness at their newer and larger machines. Actions by Potlatch Corporation and UPM-Kymmene Corporation (the owner of Blandin Paper Company) to stop producing paper from their oldest and

smallest machines in 2002 and 2003 reflect this trend. We believe that the papermaking assets that remain in our service area have the ability to be cost competitive in the region or global markets they serve. Minnesota Power's ongoing focus has been and will continue to be on providing energy at prices that enable these mills to maintain or improve their competitive positions.

Nonregulated generation operations, which began in 2002 at Taconite Harbor in northern Minnesota and generation obtained through a 15-year agreement with NRG Energy at the Kendall County facility near Chicago, Illinois, help position Minnesota Power to generate more electricity, move it more readily, manage more transactions with less risk and benefit system reliability.

Plans to construct a 220-mile, 345-kV Duluth-to-Wausau electric transmission line proposed by Minnesota Power, American Transmission Company and Wisconsin Public Service Corporation continue to be developed. The new line addresses the pressing need for more dependable electricity in Wisconsin and the Upper Midwest. (See Item 1. - Energy Services - Regulatory Issues.)

Our telecommunications business, Enventis Telecom, grew its revenue in 2002 by approximately 19% despite the challenging economy and drop in overall information technology spending. Enventis Telecom is well recognized in the Upper Midwest as one of the leading integrated data services providers offering a mix of transport, complex network integration, and related application development services. Our plan is to continue to leverage our excellent reputation and key industry partners to further our success in the marketplace.

AUTOMOTIVE SERVICES continues to be our largest contributor to net income. We anticipate earnings from Automotive Services to increase by about 15% in 2003. While we believe that the volume of used vehicles sold within the auto auction industry will rise at a rate of 2% compounded annually through 2007, we anticipate vehicles sold through our wholesale and total loss auction facilities combined will increase by 4% to 7% in 2003, and vehicles financed through AFC will increase by about 11% in 2003. Automotive Services continues to focus on growth in the volume of vehicles sold and financed, increased ancillary services, and operating and technological efficiencies. Selective fee increases will also be considered.

By offering an expanding circle of customers new levels of service in the vehicle remarketing industry, Automotive Services expects to expand its presence in the North American auto industry. In 2002 we opened ADESA Golden Gate, the largest vehicle auction facility in California, and ADESA Vancouver in Richmond, British Columbia. Both were built to replace aging facilities that were too small to efficiently serve our growing customer demand. New wholesale auction facilities in Long Island, New York; Atlanta, Georgia; and Edmonton, Alberta, are also under construction and slated to open in 2003. The new facility in Long Island is a greenfield (a newly constructed facility in a new market), while the new facilities in Atlanta and Edmonton will replace aging facilities. In addition to internally growing our existing auctions and dealer floorplan financing business, we will continue to consider accretive acquisitions in both the wholesale and total loss vehicle auction businesses. We will also consider greenfield sites as appropriate and the integration of total loss vehicle services at certain wholesale vehicle auction facilities. We believe further consolidation of the total loss vehicle auction industry will occur and are evaluating various means by which we can continue our growth plan.

ADESA's leadership expects to adapt to changing used vehicle markets by better serving used vehicle dealers, who are the bread and butter of wholesale vehicle auctions and the backbone of AFC's customer base. The number of vehicles coming off lease is expected to slow down in mid-2003, which will place an even higher premium on catering to individual dealers seeking to replenish inventory at auctions.

The vehicle remarketing industry has been challenged by the events of September 11, 2001, by a softening economy and by lower wholesale prices resulting from high used vehicle inventories and zero-percent financing on new vehicles. The rental car market has yet to re-fleet up to levels prior to September 11, and manufacturer incentives on new vehicles temporarily, but significantly, disrupted the price spreads between new and used vehicles. Aggressive financing incentives offered by vehicle manufacturers lowered the cost of owning a new vehicle, which, in turn, depressed prices for late-model used vehicles. This reduced the number of vehicles sold at auctions because car dealers restocked their inventories from the increased volume of late-model vehicles traded in for new vehicles, and sellers at auction tended to hold their vehicles rather than immediately accept the lower prices.

If the economy improves, retail demand should improve as well, and this will allow a welcome resumption of the used vehicle sales growth we saw earlier in 2002.

INVESTMENTS AND CORPORATE CHARGES. We anticipate net income from our real estate operations to remain stable in 2003, while corporate charges are expected to reflect less unallocated interest expense as a result of lower debt obligations.

Revenue from property sales by real estate operations continues to be three to four times more than the acquisition cost, creating strong cash generation and profitability. Our real estate operations may, from time to time, acquire packages of diversified properties at low cost, add value through entitlements and infrastructure enhancements, and sell the properties at current market prices.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW ACTIVITIES

A primary goal of our strategic plan is to improve cash flow from operations. Our strategy includes growing the businesses both internally with expanded facilities, services and operations (see Capital Requirements), and externally through acquisitions.

During 2002 strong cash flow from operating activities reflected operating results and continued focus on working capital management. Cash flow from operating activities was higher in 2002 due to the substantial liquidation of the trading securities portfolio and the timing of the collection of certain finance receivables outstanding at December 31, 2001. Also, in 2001 additional trading securities were purchased with a portion of the proceeds from a common stock issuance. Cash flow from operations was also affected by a number of factors representative of normal operations.

WORKING CAPITAL. At December 31, 2002 working capital needs included $275 million of long-term debt due in 2003. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. During 2002 we liquidated our trading securities portfolio and used the proceeds to reduce our short-term debt. Approximately 4.6 million original issue shares of our common stock are available for issuance through INVEST DIRECT, our direct stock purchase and dividend reinvestment plan. ALLETE's $175 million bank line of credit provides credit support for our commercial paper program. The amount and timing of future sales of our securities will depend upon market conditions and our specific needs. We may sell securities to meet capital requirements, to provide for the retirement or early redemption of issues of long-term debt, to reduce short-term debt and for other corporate purposes.

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

OFF-BALANCE SHEET ARRANGEMENTS

In July 2001 ADESA entered into a lease agreement for the ADESA Golden Gate facility in Tracy, California, which was completed in the third quarter of 2002. The term of the lease is through July 2006 with no renewal options. The cost to the lessor of the facility was approximately $45 million. ADESA has guaranteed up to $38 million of any deficiency in sales proceeds that the lessor realizes in disposing of the leased property. ADESA will receive any sales proceeds in excess of cost.

ADESA has guaranteed the payment of principal and interest up to $38 million on the lessor's indebtedness. Terms of the mortgage notes payable require, among other things, that ADESA maintain certain minimum financial ratios. It is not practical to estimate the fair value of the guarantee; however, ADESA does not anticipate that it will incur losses as a result of this guarantee. We have guaranteed ADESA's obligation under this lease.

In April 2000 leases for three ADESA auction facilities (Boston, Charlotte and Knoxville) were refinanced in a $28.4 million lease transaction. The new lease is treated as an operating lease for financial reporting purposes and expires in April 2010 with no renewal options. ADESA has guaranteed up to $23 million of any deficiency in sales proceeds that the lessor realizes in disposing of the leased properties. ADESA is entitled to receive any sales proceeds in excess of $29.3 million.

ADESA has guaranteed the payment of principal and interest up to $23 million on the lessor's indebtedness, which consists of $28.4 million mortgage notes payable, due April 1, 2020. Terms of the mortgage notes payable require, among other things, that ADESA maintain certain minimum financial ratios. Interest on the notes varies and is payable monthly. It is not practical to estimate the fair value of the guarantee; however, ADESA does not anticipate that it will incur losses as a result of this guarantee. We have guaranteed ADESA's obligations under this lease.

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

AFC, through a wholly owned subsidiary, sells certain finance receivables through a revolving private securitization structure. In May 2002 AFC and its subsidiary entered into a revised securitization agreement that allows for the revolving sale by the subsidiary to third parties of up to $500 million in undivided interests in eligible finance receivables. The revised agreement expires in 2005. The securitization agreement in place prior to May 31, 2002 limited the sale of undivided interests to $325 million. In accordance with SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which became applicable to AFC upon amendment of the securitization agreement, AFC, for accounting purposes, began consolidating the subsidiary used in the securitization structure on June 1, 2002. Previously, AFC's interest in this subsidiary was recorded by ALLETE as residual interest in other current assets ($103 million at December 31, 2001) net of the subsidiary's allowance for doubtful accounts. The residual interest

previously reflected in prior periods has been reclassified by ALLETE to accounts receivable to conform to current year presentations.

AFC managed total receivables of $495.1 million at December 31, 2002 ($500.2 million at December 31, 2001); $191.3 million represent receivables which were included in accounts receivable on our consolidated balance sheet ($233.2 million at December 31, 2001) and $303.8 million represent receivables sold in undivided interests through the securitization agreement ($267.0 million at December 31, 2001) which are off-balance sheet. AFC's proceeds from the sale of the receivables to third parties were used to repay borrowings from ALLETE and fund new loans to AFC's customers. AFC and the subsidiary must each maintain certain financial covenants such as minimum tangible net worth to comply with the terms of the securitization agreement. AFC has historically performed better than the covenant thresholds set forth in the securitization agreement. We are not currently aware of any changing circumstances that would put AFC in noncompliance with the covenants.

SECURITIES

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

INVESTMENTS

As investments in emerging technology companies are sold, we recognize a gain or loss. Our direct investment in the companies that have gone public, which we account for as available-for-sale securities, had a cost basis of approximately $10 million at December 31, 2002 ($7 million at December 31, 2001). The aggregate market value of our investment in these companies at December 31, 2002 was $6 million ($12 million at December 31, 2001). We believe the decline in market value that has occurred since second quarter 2002 is temporary. We have the ability and intent to hold these investments until the market recovers. These investments provide us with access to developing technologies before their commercial debut, as well as potential financial returns. We view these investments as a source of capital for redeployment in existing businesses.

	PAYMENTS DUE BY PERIOD				
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1 TO 3 YEARS	4 TO 5 YEARS	AFTER 5 YEARS
MILLIONS					
Long-Term Debt	$ 945.0	$283.7	$108.9	$344.6	$207.8
Quarterly Income Preferred Securities	75.0	-	-	-	75.0
Operating Lease Obligations	120.0	17.5	34.5	15.6	52.4
Unconditional Purchase Obligations	772.6	75.1	128.5	77.2	491.8
	$1,912.6	$376.3	$271.9	$437.4	$827.0

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Our long-term debt obligations, including long-term debt due within one year, represent the principal amount of bonds, notes and loans which are recorded on our consolidated balance sheet.

Quarterly Income Preferred Securities represent all of the preferred trust securities issued by ALLETE Capital I, a wholly owned statutory trust of the Company. ALLETE owns all of the common trust securities issued by ALLETE Capital I. (See Note 14.)

Unconditional purchase obligations represent our Square Butte and Kendall County power purchase agreements, and minimum purchase commitments under coal and rail contracts.

Under our power purchase agreement with Square Butte that extends through 2026, we are obligated to pay our pro rata share of Square Butte's costs based on our entitlement to the output of Square Butte's 455 MW coal-fired generating unit near Center, North Dakota. Our payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. The table above reflects our share of future debt service based on our current output entitlement of 71%. After 2005 Minnkota Power has the option to reduce our entitlement by 5% annually, to a minimum of 50%. (See Note 13.)

Under the Kendall County agreement, we pay a fixed capacity charge for the right, but not the obligation, to utilize one 275 MW generating unit near Chicago, Illinois. We are responsible for arranging the natural gas fuel supply and are entitled to the electricity produced. (See Note 13.)

SPLIT ROCK ENERGY. We provide up to $50.0 million in credit support, in the form of letters of credit and financial guarantees, to facilitate the power marketing activities of Split Rock Energy. At December 31, 2002 $10.5 million was used to support actual obligations ($3.4 million at December 31, 2001). The credit support generally expires within one year from the date of issuance.

EMERGING TECHNOLOGY INVESTMENTS. We have investments in emerging technologies through the minority ownership of preferred stock, common stock and equity interests in limited liability companies. The investments are in both privately-held and publicly-held entities. We have committed to make additional investments in certain emerging technology holdings. The total future commitment was $7.7 million at December 31, 2002 ($11.0 million at December 31, 2001). We expect approximately $1 million of the future commitment to be invested in 2003, with the balance to be invested at various times through 2007.

CREDIT RATINGS

Our securities have been rated by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (Standard & Poor's) and by Moody's Investors Service, Inc. (Moody's). On January 27, 2003 Standard & Poor's placed our BBB+ corporate credit rating on CREDITWATCH DEVELOPING following our public acknowledgement that we are considering a major corporate restructuring that could ultimately result in a separation of our two core businesses. We are unable to predict if such a separation would have a significant effect on our credit quality.

CREDIT RATINGS	STANDARD & POOR'S	MOODY'S
Issuer Credit Rating	BBB+	Baa2
Commercial Paper	A-2	P-2
Senior Secured		
First Mortgage Bonds	A	Baa1
Pollution Control Bonds	A	Baa1
Senior Unsecured		
Senior Notes	BBB	Baa2
Unsecured Debt	BBB	Baa2
Quarterly Income Preferred		
Securities	BBB-	Baa3

Rating agencies use both quantitative and qualitative measures in determining a company's credit rating. These measures include business risk, liquidity risk, competitive position, capital mix, financial condition, predictability of cash flows, management strength and future direction. Some of the quantitative measures can be analyzed through a few key financial ratios, while the qualitative ones are more subjective. The disclosure of these credit ratings is not a recommendation to buy, sell or hold our securities. Ratings are subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

PAYOUT RATIO

In 2002 we paid out 66% (59% in 2001; 51% in 2000) of our per share earnings in dividends. Excluding the gain related to the ACE transaction, in 2000 we paid out 64% of our per share earnings in dividends.

CAPITAL REQUIREMENTS

Consolidated capital expenditures totaled $205.8 million in 2002 ($153.0 million in 2001; $168.7 million in 2000). Expenditures for 2002 included $80.9 million for Energy Services, $71.1 million for Automotive Services and $5.7 million for Investments and Corporate Charges. Expenditures for 2002 also included $48.1 million related to Discontinued Operations ($44.2 million to maintain our Water Services businesses while they are in the process of being sold; $3.9 million to buy previously leased auto transport trucks). Internally generated funds were the primary source of funding for these expenditures.

Capital expenditures are expected to be $134 million in 2003 and total about $400 million for 2004 through 2007. Capital expenditures through 2007 are lower than in the past because we anticipate no new major construction of facilities. The 2003 amount includes $74 million for Energy Services and $55 million for Automotive Services. Energy Services' expenditures are for system component replacement and upgrades, telecommunication fiber and coal handling equipment. Automotive Services' expenditures are for new auctions currently under construction, expansions and on-going improvements at existing vehicle auction facilities and associated computer systems. The 2003 amount also includes $5 million to maintain our Water Services businesses until they are sold in 2003. We expect to finance a $33 million investment in new coal handling equipment with an existing long-term line of credit and use internally generated funds to fund all other capital expenditures.

MARKET RISK

SECURITIES INVESTMENTS

Our securities investments include certain securities held for an indefinite period of time which are accounted for as available-for-sale securities and recorded at fair value. At December 31, 2002 our available-for-sale securities portfolio consisted of minority interests in the common stock of publicly-traded corporations held in our Emerging Technology portfolio, and securities in a grantor trust established to fund certain employee benefits. Our available-for-sale securities portfolio had a fair value of $20.9 million at December 31, 2002 ($26.5 million at December 31, 2001).

As part of our Emerging Technology portfolio, we also have several minority

investments in venture capital funds and privately-held start-up companies. These investments are accounted for under the cost method and included with Investments on our consolidated balance sheet. The total carrying value of these investments was $38.7 million at

INTEREST RATE SENSITIVE FINANCIAL INSTRUMENTS	PRINCIPAL CASH FLOW BY EXPECTED MATURITY DATE							
DECEMBER 31, 2002	2003	2004	2005	2006	2007	THEREAFTER	TOTAL	FAIR VALUE
DOLLARS IN MILLIONS								
Long-Term Debt								
Fixed Rate	$28.1	$5.1	$0.7	$91.4	$165.7	$336.0	$627.0	$673.4
Average Interest Rate - %	6.5	6.5	7.8	7.7	7.3	7.1	7.2	-
Variable Rate	$255.6	$10.5	$0.7	$0.5	$3.0	$47.7	$318.0	$318.2
Average Interest Rate - %	4.1	3.5	3.2	3.2	2.0	1.9	3.7	-
Mandatorily Redeemable Preferred Securities of Subsidiary	-	-	-	-	-	$75.0	$75.0	$75.5
Average Distribution Rate - %	-	-	-	-	-	8.05	8.05	-

ASSUMES RATE IN EFFECT AT DECEMBER 31, 2002 REMAINS CONSTANT THROUGH REMAINING TERM.

December 31, 2002 ($40.6 million at December 31, 2001). Our policy is to periodically review these investments for impairment by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment.

INTEREST RATE SWAP

In October 2001 we entered into an interest rate swap agreement with a notional amount of $250 million to hedge $250 million of floating rate debt issued in October 2000. Under the 15-month swap agreement, we made fixed quarterly payments based on a fixed rate of 3.2% and received payments at a floating rate based on LIBOR (1.8% at December 31, 2002). The swap expired in January 2003 and the Company did not enter into any new interest rate swap agreements.

FOREIGN CURRENCY

Our foreign currency exposure is limited to the conversion of operating results of our Canadian and Mexican subsidiaries. We have not entered into any foreign exchange contracts to hedge the conversion of our Canadian or Mexican operating results into United States dollars. Mexican operations which began in 2002 were not material.

POWER MARKETING

Minnesota Power purchases power for retail sales in our electric utility service territory and sells excess generation in the wholesale market. We have about 500 MW of nonregulated generation available for sale to the wholesale market. Our nonregulated generation includes about 225 MW from Taconite Harbor in northern Minnesota that was acquired in October 2001. It also includes 275 MW of generation obtained through a 15-year agreement, which commenced in May 2002, with NRG Energy at the Kendall County facility near Chicago, Illinois. Under the Kendall County agreement, we pay a fixed capacity charge for the right, but not the obligation, to utilize one 275 MW generating unit. We are responsible for arranging the natural gas fuel supply and are entitled to the electricity produced. Our strategy is to sell a significant portion of nonregulated generation through long-term contracts of various durations. The balance will be sold in the spot market through short-term agreements. We currently have two long-term forward capacity and energy contracts related to generation obtained through the Kendall County agreement. Each is for 50 MW, with one having a 10-year term and the other a 15-year term.

The services of Split Rock Energy are used to fulfill purchase requirements for retail load and to market excess generation. We own 50% of Split Rock Energy which was formed in 2000 with Great River Energy to provide us with least cost supply, maximize the value of our generation assets and maximize power marketing revenue within prescribed limits. Split Rock Energy operates in the wholesale energy markets, and engages in marketing activities by entering into forward and option contracts for the purchase and sale of electricity. These contracts are primarily short-term in nature with maturities of less than one year. Although Split Rock Energy generally attempts to balance its purchase and sale positions, commodity price risk sometimes exists or is created. This risk is actively managed through a risk management program that includes policies, procedures and limits established by the Split Rock Energy Board of Governors. Minnesota Power holds two seats on this four member Board.

NEW ACCOUNTING STANDARDS

SFAS 143, "Accounting for Asset Retirement Obligations," requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Currently, decommissioning amounts collected in Minnesota Power's rates are reported in accumulated depreciation, which upon adoption of SFAS 143

by the Company will require a reclassification to a liability. We are reviewing what additional assets, if any, may have associated retirement costs as defined by SFAS 143 and anticipate no material impact on our financial position and results of operations.

In November 2002 the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The Interpretation expands disclosure requirements for certain guarantees and requires the recognition of a liability for the fair value of an obligation assumed under a guarantee. The liability recognition provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure provisions apply to fiscal years ending after December 15, 2002. We do not believe the adoption of this Interpretation will have a material impact on our financial position or results of operations.

In January 2003 the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." In general, a variable interest entity is one with equity investors that do not have voting rights or do not provide sufficient financial resources for the entity to support its activities. Under the new rules, variable interest entities will be consolidated by the party that is subject to the majority of the risk of loss or entitled to the majority of the residual returns. The new rules are effective immediately for variable interest entities created after January 31, 2003 and in the third quarter of 2003 for previously existing variable interest entities. We are reviewing certain auction facility lease agreements entered into by ADESA prior to January 2003 to determine (1) if the lessor is a variable interest entity, and (2) if we should consolidate the lessor. If it is ultimately determined that the lessor is a variable interest entity that should be included in our consolidated financial statements, we estimate that we will record approximately $73 million in property, plant and equipment, and $73 million in long-term debt. Any recognition of these amounts would first occur in the third quarter of 2003.

In October 2002 the FASB's Emerging Issues Task Force rescinded EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The ruling took effect January 1, 2003 for existing contracts and immediately for contracts entered into after October 25, 2002. Early adoption is permitted. In general, EITF 98-10 required energy trading contracts to be marked-to-market with resulting gains and losses recognized in income. Any gains or losses recognized under the provisions of EITF 98-10 through the end of 2002 will be reversed under the transitional provisions contained in the rescission. We were required to account for the Kendall County agreement under EITF 98-10 which resulted in the recognition of $4.7 million of mark-to-market pre-tax income in the second quarter of 2002 ($0 in 2001). We adopted the rescission of EITF 98-10 in the fourth quarter of 2002 and reversed the mark-to-market income recognized earlier in the year. The Kendall County agreement is not a derivative under SFAS 133, "Accounting for Derivative Investments and Hedging Activities."

READERS ARE CAUTIONED THAT FORWARD-LOOKING STATEMENTS, INCLUDING THOSE CONTAINED ABOVE, SHOULD BE READ IN CONJUNCTION WITH OUR DISCLOSURES UNDER THE HEADING: "SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" LOCATED ON PAGE 18 OF THIS FORM 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See our consolidated financial statements as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002, and supplementary data, also included, which are indexed in Item 15(a).

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required for this Item is incorporated by reference herein and will be set forth under the "Election of Directors" section in our Proxy Statement for the 2003 Annual Meeting of Shareholders, except for information with respect to executive officers which is set forth in Part I hereof. The 2003 Proxy Statement will be filed with the SEC within 120 days after the end of our 2002 fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information required for this Item is incorporated by reference herein from the "Compensation of Executive Officers" section in our Proxy Statement for the 2003 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required for this Item is incorporated by reference herein from the "Security of Ownership of Beneficial Owners and Management" and the "Equity Compensation Plan Information" sections in our Proxy Statement for the 2003 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. CONTROLS AND PROCEDURES

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of management, including our chief executive officer and chief financial officer, within 90 days prior to the filing date of this report. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in our periodic SEC filings. No significant changes were made to our internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

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

(3) Exhibits including those incorporated by reference

PART IV

EXHIBIT NUMBER

*2 - Amendment and Restatement of Asset Purchase Agreement by and between Florida Water Services Corporation and Florida Water Services Authority dated as of December 20, 2002 (filed as Exhibit 2 to the December 20, 2002 Form 8-K, File No. 1-3548).

*3(a)1 - Articles of Incorporation, amended and restated as of May 8, 2001 (filed as Exhibit 3(b) to the March 31, 2001 Form 10-Q, File No. 1-3548).

*3(a)2 - Amendment to Certificate of Assumed Name, filed with the Minnesota Secretary of State on May 8, 2001 (filed as Exhibit 3(a) to the March 31, 2001 Form 10-Q, File No. 1-3548).

*3(b) - Bylaws, as amended effective May 8, 2001 (filed as Exhibit 3(c) to the March 31, 2001 Form 10-Q, File No. 1-3548).

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

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

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

*4(b)1 - Indenture (for Unsecured Debt Securities), dated as of February 1, 2001, between ALLETE and LaSalle Bank National Association, as Trustee (filed as Exhibit 4(d)1, File Nos. 333-57104, 333-57104-01 and 333-57104-02).

*4(b)2 - Officer's Certificate, dated February 21, 2001, establishing the terms of the 7.80% Senior Notes, due February 15, 2008, of ALLETE (filed as Exhibit 4(d)2, File Nos. 333-57104, 333-57104-01 and 333-57104-02).

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

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

NUMBER	DATED AS OF	REFERENCE FILE	EXHIBIT
First	March 1, 1951	2-59690	2(d)(1)
Second	March 1, 1962	2-27794	2(d)1
Third	July 1, 1976	2-57478	2(e)1
Fourth	March 1, 1985	2-78641	4(b)
Fifth	December 1, 1992	1-3548 (1992 Form 10-K)	4(b)1
Sixth	March 24, 1994	1-3548 (1996 Form 10-K)	4(b)1
Seventh	November 1, 1994	1-3548 (1996 Form 10-K)	4(b)2
Eighth	January 1, 1997	1-3548 (1996 Form 10-K)	4(b)3

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

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

NUMBER	DATED AS OF	REFERENCE FILE	EXHIBIT
First	March 1, 1993	1-3548 (1996 Form 10-K)	4(c)1
Second	March 31, 1997	1-3548 (March 31, 1997 Form 10-Q)	4
Third	May 28, 1997	1-3548 (June 30, 1997 Form 10-Q)	4

PART IV

EXHIBIT NUMBER

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

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

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

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

*4(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 (now ALLETE) Capital I (filed as Exhibit 4(i) to the 1996 Form 10-K, File No. 1-3548).

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

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

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

*4(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 (filed as Exhibit 4(m) to the 1996 Form 10-K, File No. 1-3548).

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

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

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

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

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

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

PART IV

EXHIBIT NUMBER

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

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

*10(g) - Master Agreement (without Exhibits), dated as of July 30, 2001, among ADESA Corporation, as a Guarantor, ADESA California, Inc. and certain subsidiaries of ADESA Corporation that may hereafter become party hereto, as Lessees, Atlantic Financial Group, Ltd., as Lessor, certain financial institutions parties hereto, as Lenders, and SunTrust Bank, as Agent (filed as Exhibit 10(g) to the 2001 Form 10-K, File No. 1-3548).

*10(h) - Master Lease Agreement (without Exhibits), dated as of July 30, 2001, between Atlantic Financial Group, Ltd., as Lessor, and ADESA California, Inc. and certain other subsidiaries of ADESA Corporation, as Lessees (filed as Exhibit 10(h) to the 2001 Form 10-K, File No. 1-3548).

*10(i) - Loan Agreement, dated as of July 30, 2001, among Atlantic Financial Group, Ltd., as Lessor and Borrower, the financial institutions party hereto, as Lenders, and SunTrust Bank, as Agent (filed as Exhibit 10(i) to the 2001 Form 10-K, File No. 1-3548).

*10(j) - Guaranty Agreement from ALLETE, dated as of July 30, 2001, relating to the Master Agreement, dated as of July 30, 2001 (filed as Exhibit 10(j) to the 2001 Form 10-K, File No. 1-3548).

10(k) - Trust Indenture (without Exhibits) between Development Authority of Fulton County and SunTrust Bank, as Trustee, dated as of December 1, 2002.

10(l) - Bond Purchase Agreement (without Exhibits), dated December 1, 2002, for the Development Authority of Fulton County Taxable Economic Development Revenue Bonds (ADESA Atlanta, LLC Project) Series 2002.

10(m) - Lease Agreement (without Exhibits) between Development Authority of Fulton County and ADESA Atlanta, LLC, dated as of December 1, 2002.

*10(n) - Receivables Purchase Agreement dated as of May 31, 2002, among AFC Funding Corporation, as Seller, Automotive Finance Corporation, as Servicer, Fairway Finance Corporation, as initial Purchaser, BMO Nesbitt Burns Corp., as initial Agent and as Purchaser Agent for Fairway Finance Corporation and XL Capital Assurance Inc., as Insurer (filed as Exhibit 10(a) to the June 30, 2002 Form 10-Q, File No. 1-3548).

*10(o) - Amended and Restated Purchase and Sale Agreement dated as of May 31, 2002, between AFC Funding Corporation and Automotive Finance Corporation (filed as Exhibit 10(b) to the June 30, 2002 Form 10-Q, File No. 1-3548).

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

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

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

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

10(t) - Second Amended and Restated Committed Facility Letter (without Exhibits), dated December 24, 2002, to ALLETE from LaSalle Bank National Association, as Agent.

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

+10(u)2 - Amendments through January 2003 to the Minnesota Power (now ALLETE) Executive Annual Incentive Plan.

PART IV

EXHIBIT NUMBER

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

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

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

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

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

+10(z)2 - Amendments through January 2003 to the Minnesota Power (now ALLETE) Executive Long-Term Incentive Compensation Plan.

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

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

+10(ac) - Minnesota Power (now ALLETE) Director Compensation Deferral Plan Amended and Restated, effective January 1, 1990.

12 - Computation of Ratios of Earnings to Fixed Charges and Supplemental Ratios of Earnings to Fixed Charges. (Included as page 79 of this document.)

*21 - Subsidiaries of the Registrant (reference is made to ALLETE's Form U-3A-2 for the year ended December 31, 2002, File No. 69-78).

23(a) - Consent of Independent Accountants.

23(b) - Consent of General Counsel.

99(a) - Certification of Annual Report dated February 14, 2003, signed by David G. Gartzke.

99(b) - Certification of Annual Report dated February 14, 2003, signed by James K. Vizanko.

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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 15(C) OF FORM 10-K.

(b) Reports on Form 8-K.

Report on Form 8-K filed October 18, 2002 with respect to Item 7. Financial Statements and Exhibits.

Report on Form 8-K filed December 10, 2002 with respect to Item 5. Other Events and Regulation FD Disclosure.

Report on Form 8-K filed December 20, 2002 with respect to Item 5. Other Events and Regulation FD Disclosure, and Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

Report on Form 8-K filed December 30, 2002 with respect to Item 5. Other Events and Regulation FD Disclosure.

Report on Form 8-K filed January 24, 2003 with respect to Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ALLETE, INC.

Dated: February 14, 2003 By David G. Gartzke

David G. Gartzke
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
David G. Gartzke David G. Gartzke	Chairman, President, Chief Executive Officer and Director	February 14, 2003
James K. Vizanko James K. Vizanko	Vice President, Chief Financial Officer and Treasurer	February 14, 2003
Mark A. Schober Mark A. Schober	Vice President and Controller	February 14, 2003
Kathleen A. Brekken Kathleen A. Brekken	Director	February 14, 2003
Wynn V. Bussmann Wynn V. Bussmann	Director	February 14, 2003
Dennis E. Evans Dennis E. Evans	Director	February 14, 2003
Peter J. Johnson Peter J. Johnson	Director	February 14, 2003
George L. Mayer George L. Mayer	Director	February 14, 2003
Jack I. Rajala Jack I. Rajala	Director	February 14, 2003
Nick Smith Nick Smith	Director	February 14, 2003
Bruce W. Stender Bruce W. Stender	Director	February 14, 2003
Donald C. Wegmiller Donald C. Wegmiller	Director	February 14, 2003

CERTIFICATIONS

I, David G. Gartzke, certify that:

1. I have reviewed this annual report on Form 10-K of ALLETE, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

David G. Gartzke

David G. Gartzke
Chairman, President and Chief Executive Officer

CERTIFICATIONS

I, James K. Vizanko, certify that:

1. I have reviewed this annual report on Form 10-K of ALLETE, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a. All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 14, 2003

James K. Vizanko

James K. Vizanko
Vice President, Chief Financial Officer and Treasurer

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2002, 2001 AND 2000
WITH REPORT OF INDEPENDENT ACCOUNTANTS
AND REPORT OF MANAGEMENT

REPORTS

INDEPENDENT ACCOUNTANTS

[PRICEWATERHOUSECOOPERS LLP LOGO OMITTED]

To the Shareholders and
Board of Directors of ALLETE, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of ALLETE, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of ALLETE, Inc.'s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards, No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
January 20, 2003

MANAGEMENT

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

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

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

David G. Gartzke

David G. Gartzke
Chairman, President and Chief Executive Officer

James Vizanko

James K. Vizanko
Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

ALLETE CONSOLIDATED BALANCE SHEET

DECEMBER 31	2002	2001
MILLIONS		
Assets		
Current Assets		
Cash and Cash Equivalents	$ 194.0	$ 220.2
Trading Securities	1.8	155.6
Accounts Receivable	384.4	431.2
Inventories	36.8	32.0
Prepayments and Other	14.1	14.3
Discontinued Operations	27.3	42.2
Total Current Assets	658.4	895.5
Property, Plant and Equipment	1,364.9	1,323.3
Investments	170.9	155.4
Goodwill	499.8	494.4
Other Intangible Assets	39.8	34.8
Other Assets	67.5	68.8
Discontinued Operations	345.9	310.3
Total Assets	$3,147.2	$3,282.5
Liabilities and Shareholders' Equity		
Liabilities		
Current Liabilities		
Accounts Payable	$ 202.6	$ 239.8
Accrued Taxes, Interest and Dividends	36.4	38.1
Notes Payable	74.5	267.4
Long-Term Debt Due Within One Year	283.7	6.9
Other	111.6	106.4
Discontinued Operations	29.4	45.9
Total Current Liabilities	738.2	704.5
Long-Term Debt	661.3	933.8
Accumulated Deferred Income Taxes	139.8	107.0
Other Liabilities	137.6	163.5
Discontinued Operations	162.9	154.9
Commitments and Contingencies		
Total Liabilities	1,839.8	2,063.7
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary ALLETE Capital I Which Holds Solely Company Junior Subordinated Debentures	75.0	75.0
Shareholders' Equity		
Common Stock Without Par Value, 130.0 Shares Authorized 85.6 and 83.9 Shares Outstanding	814.9	770.3
Unearned ESOP Shares	(49.0)	(52.7)
Accumulated Other Comprehensive Loss	(22.2)	(14.5)
Retained Earnings	488.7	440.7
Total Shareholders' Equity	1,232.4	1,143.8
Total Liabilities and Shareholders' Equity	$3,147.2	$3,282.5

The accompanying notes are an integral part of these statements.

ALLETE CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31	2002	2001	2000
MILLIONS EXCEPT PER SHARE AMOUNTS			
Operating Revenue			
Energy Services			
Utility	$ 505.6	$ 538.7	$ 532.1
Nonregulated/Nonutility	124.7	80.0	54.3
Automotive Services	844.1	832.1	522.6
Investments	32.5	74.8	77.4
Total Operating Revenue	1,506.9	1,525.6	1,186.4
Operating Expenses			
Fuel and Purchased Power			
Utility	205.0	233.1	229.0
Nonregulated/Nonutility	34.1	-	-
Operations			
Utility	197.0	204.1	208.9
Nonregulated/Nonutility	107.5	74.9	51.7
Automotive and Investments	703.5	728.3	464.7
Interest	62.2	74.7	58.8
Total Operating Expenses	1,309.3	1,315.1	1,013.1
Operating Income Before ACE	197.6	210.5	173.3
Income from Disposition of Investment in ACE	-	-	48.0
Operating Income from Continuing Operations	197.6	210.5	221.3
Distributions on Redeemable Preferred Securities of ALLETE Capital I	6.0	6.0	6.0
Income Tax Expense	72.6	74.2	77.0
Income from Continuing Operations	119.0	130.3	138.3
Income from Discontinued Operations	18.2	8.4	10.3
Net Income	$ 137.2	$ 138.7	$ 148.6
Average Shares of Common Stock			
Basic	81.1	75.8	69.8
Diluted	81.7	76.5	70.1
Earnings Per Share of Common Stock			
Basic			
Continuing Operations	$1.47	$1.72	$1.97
Discontinued Operations	0.22	0.11	0.15
	$1.69	$1.83	$2.12
Diluted			
Continuing Operations	$1.46	$1.70	$1.96
Discontinued Operations	0.22	0.11	0.15
	$1.68	$1.81	$2.11
Dividends Per Share of Common Stock	$1.10	$1.07	$1.07

The accompanying notes are an integral part of these statements.

ALLETE CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31	2002	2001	2000
MILLIONS			
Operating Activities			
Net Income	$ 137.2	$ 138.7	$ 148.6
Gain from Disposition of Investment in ACE	-	-	(48.0)
Depreciation and Amortization	82.1	101.6	86.7
Deferred Income Taxes	26.9	10.3	(6.6)
Changes in Operating Assets and Liabilities - Net of the Effects of Acquisitions			
Trading Securities	153.8	(64.8)	88.9
Accounts Receivable	74.9	(82.4)	(77.7)
Inventories	(3.8)	(3.0)	(2.2)
Prepayments and Other Current Assets	2.0	(9.2)	3.5
Accounts Payable	(38.0)	(23.9)	92.7
Other Current Liabilities	(7.8)	16.4	(30.0)
Other - Net	25.7	19.9	19.6
Cash from Operating Activities	453.0	103.6	275.5
Investing Activities			
Proceeds from Sale of Investments	1.9	2.6	146.0
Additions to Investments	(24.5)	(11.2)	(42.5)
Additions to Property, Plant and Equipment	(205.8)	(153.0)	(168.7)
Acquisitions - Net of Cash Acquired	(32.7)	(157.1)	(453.0)
Other - Net	16.7	21.3	24.4
Cash for Investing Activities	(244.4)	(297.4)	(493.8)
Financing Activities			
Issuance of Long-Term Debt	18.4	125.2	306.3
Issuance of Common Stock	43.2	189.2	23.6
Changes in Notes Payable - Net	(200.5)	5.5	177.8
Reductions of Long-Term Debt	(14.5)	(18.1)	(58.8)
Redemption of Preferred Stock	-	-	(31.5)
Dividends on Preferred and Common Stock	(89.2)	(81.8)	(75.4)
Cash from (for) Financing Activities	(242.6)	220.0	342.0
Effect of Exchange Rate Changes on Cash	2.7	(11.3)	(5.9)
Change in Cash and Cash Equivalents	(31.3)	14.9	117.8
Cash and Cash Equivalents at Beginning of Period	234.2	219.3	101.5
Cash and Cash Equivalents at End of Period	$ 202.9	$ 234.2	$ 219.3
Supplemental Cash Flow Information			
Cash Paid During the Period for			
Interest - Net of Capitalized	$71.9	$84.2	$66.3
Income Taxes	$49.2	$60.5	$107.1

INCLUDED $8.9 MILLION OF CASH FROM DISCONTINUED OPERATIONS AT DECEMBER 31, 2002 ($14.0 MILLION AT DECEMBER 31, 2001).

The accompanying notes are an integral part of these statements.

CONSOLIDATED FINANCIAL STATEMENTS

ALLETE CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

MILLIONS	TOTAL SHAREHOLDERS' EQUITY	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	UNEARNED ESOP SHARES	COMMON STOCK	CUMULATIVE PREFERRED STOCK
Balance at December 31, 1999	$ 817.3	$ 310.6	$ 2.4	$(59.2)	$552.0	$ 11.5
Comprehensive Income						
Net Income	148.6	148.6				
Other Comprehensive Income - Net of Tax						
Unrealized Losses on Securities - Net	(0.7)		(0.7)			
Foreign Currency Translation Adjustments	(5.9)		(5.9)			
Total Comprehensive Income	142.0					
Common Stock Issued - Net	24.9				24.9	
Redemption of Cumulative Preferred Stock	(11.5)					(11.5)
Dividends Declared	(75.4)	(75.4)				
ESOP Shares Earned	3.5			3.5		
Balance at December 31, 2000	900.8	383.8	(4.2)	(55.7)	576.9	-
Comprehensive Income						
Net Income	138.7	138.7				
Other Comprehensive Income - Net of Tax						
Unrealized Gains on Securities - Net	2.5		2.5			
Interest Rate Swap	(1.5)		(1.5)			
Foreign Currency Translation Adjustments	(11.3)		(11.3)			
Total Comprehensive Income	128.4					
Common Stock Issued - Net	193.4				193.4	
Dividends Declared	(81.8)	(81.8)				
ESOP Shares Earned	3.0			3.0		
Balance at December 31, 2001	1,143.8	440.7	(14.5)	(52.7)	770.3	-
Comprehensive Income						
Net Income	137.2	137.2				
Other Comprehensive Income - Net of Tax						
Unrealized Losses on Securities - Net	(8.1)		(8.1)			
Interest Rate Swap	1.3		1.3			
Foreign Currency Translation Adjustments	2.6		2.6			
Additional Pension Liability	(3.5)		(3.5)			
Total Comprehensive Income	129.5					
Common Stock Issued - Net	44.6				44.6	
Dividends Declared	(89.2)	(89.2)				
ESOP Shares Earned	3.7			3.7		
Balance at December 31, 2002	$1,232.4	$ 488.7	$(22.2)	$(49.0)	$814.9	$ -

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

1 BUSINESS SEGMENTS

MILLIONS FOR THE YEAR ENDED DECEMBER 31	CONSOLIDATED	ENERGY SERVICES	AUTOMOTIVE SERVICES	INVESTMENTS AND CORPORATE CHARGES
2002				
Operating Revenue	$1,506.9	$630.3	$844.1	$ 32.5
Operation and Other Expense	1,137.9	491.6	613.5	32.8
Depreciation and Amortization Expense	81.7	48.8	32.8	0.1
Lease Expense	27.5	3.2	24.3	-
Interest Expense	62.2	18.8	21.2	22.2
Operating Income (Loss)	197.6	67.9	152.3	(22.6)
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	2.4	-	3.6
Income Tax Expense (Benefit)	72.6	23.7	59.4	(10.5)
Income (Loss) from Continuing Operations	119.0	$ 41.8	$ 92.9	$(15.7)
Income from Discontinued Operations	18.2			
Net Income	$ 137.2			
EBITDAL from Continuing Operations	$369.0	$138.7	$230.6	$(0.3)
Total Assets	$3,147.2	$1,150.9	$1,472.8	$150.3
Property, Plant and Equipment	$1,364.9	$876.4	$484.4	$4.1
Accumulated Depreciation and Amortization	$879.8	$727.6	$150.0	$2.2
Capital Expenditures	$205.8	$80.9	$71.1	$5.7
2001				
Operating Revenue	$1,525.6	$618.7	$832.1	$74.8
Operation and Other Expense	1,124.6	463.5	610.9	50.2
Depreciation and Amortization Expense	88.9	45.9	42.7	0.3
Lease Expense	26.9	2.7	24.2	-
Interest Expense	74.7	20.1	35.3	19.3
Operating Income	210.5	86.5	119.0	5.0
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	2.4	-	3.6
Income Tax Expense (Benefit)	74.2	32.4	44.2	(2.4)
Income from Continuing Operations	130.3	$ 51.7	$ 74.8	$ 3.8
Income from Discontinued Operations	8.4			
Net Income	$ 138.7			
EBITDAL from Continuing Operations	$401.0	$155.2	$221.2	$24.6
Total Assets	$3,282.5	$1,049.1	$1,515.4	$365.5
Property, Plant and Equipment	$1,323.3	$872.4	$446.7	$4.2
Accumulated Depreciation and Amortization	$828.7	$693.0	$133.4	$2.3
Capital Expenditures	$153.0	$59.9	$61.0	-
2000				
Operating Revenue	$1,186.4	$586.4	$522.6	$77.4
Operation and Other Expense	860.3	440.6	370.8	48.9
Depreciation and Amortization Expense	72.9	46.2	26.2	0.5
Lease Expense	21.1	2.8	18.3	-
Interest Expense	58.8	21.1	23.3	14.4
Operating Income Before ACE	173.3	75.7	84.0	13.6
Income from Disposition of ACE	48.0	-	-	48.0
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	2.0	-	4.0
Income Tax Expense	77.0	29.2	34.1	13.7
Income from Continuing Operations	138.3	$ 44.5	$ 49.9	$43.9
Income from Discontinued Operations	10.3			
Net Income	$ 148.6			
EBITDAL from Continuing Operations	$326.1	$145.8	$151.8	$28.5
Total Assets	$2,914.0	$942.8	$1,339.0	$285.3
Property, Plant and Equipment	$1,201.1	$787.3	$409.4	$4.4
Accumulated Depreciation and Amortization	$745.6	$661.5	$81.9	$2.2
Capital Expenditures	$168.7	$63.9	$74.2	$0.2

INCLUDED $141.9 MILLION OF CANADIAN OPERATING REVENUE IN 2002 ($139.4 MILLION IN 2001; $107.4 MILLION IN 2000).
INCLUDED $184.7 MILLION OF CANADIAN ASSETS IN 2002 ($187.6 MILLION IN 2001; $215.6 MILLION IN 2000).
DISCONTINUED OPERATIONS REPRESENTED $373.2 MILLION OF TOTAL ASSETS IN 2002 ($352.5 MILLION IN 2001; $346.9 MILLION IN 2000) AND $48.1 MILLION OF CAPITAL EXPENDITURES IN 2002 ($32.1 MILLION IN 2001; $30.4 MILLION IN 2000).

2 OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

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

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

BUSINESS SEGMENTS. Energy Services and Automotive Services segments were determined based on products and services provided. The Investment and Corporate Charges segment was determined based on short-term corporate liquidity needs and the need to provide financial flexibility to pursue strategic initiatives in the other business segments. We measure performance of our operations through careful budgeting and monitoring of contributions to consolidated net income by each business segment. Discontinued operations included operating results of our Water Services businesses, our auto transport business and our retail store.

ENERGY SERVICES. Through Minnesota Power, an operating division of ALLETE, Energy Services is engaged in the generation, transmission, distribution and marketing of electricity. In addition, nonregulated/nonutility operations are conducted through BNI Coal, Enventis Telecom and Rainy River Energy, all wholly owned subsidiaries.

Utility electric service is provided to 147,000 retail customers in northeastern Minnesota and northwestern Wisconsin. Approximately 50% of utility electric sales are to large power customers (which consists of five taconite producers, five paper and pulp mills, two pipeline companies and one manufacturer) under all-requirements contracts with expiration dates extending from September 2004 through December 2008. Utility electric rates are under the jurisdiction of various state and federal regulatory authorities. Billings are rendered on a cycle basis. Revenue is accrued for service provided but not billed. Utility electric rates include adjustment clauses that bill or credit customers for fuel and purchased energy costs above or below the base levels in rate schedules and that bill retail customers for the recovery of CIP expenditures not collected in base rates.

Minnesota Power, along with Rainy River Energy, also engages in nonregulated electric generation and power marketing. Nonregulated generation is non-rate base generation sold at market-based rates to the wholesale market.

Split Rock Energy is a joint venture of Minnesota Power and Great River Energy which combines the two companies' power supply capabilities and customer loads for power pool operations and generation outage protection. We account for our 50% ownership interest in Split Rock Energy under the equity method of accounting. For the year ended December 31, 2002 our equity income from Split Rock Energy was $7.3 million ($3.6 million in 2001; $0 million in 2000). We received $2.6 million in cash distributions from Split Rock Energy in 2002 ($2.1 million in 2001; $0 million in 2000). We purchase power from Split Rock Energy to serve native load requirements and sell generation to Split Rock Energy. Purchases and sales are at market rates. In 2002 we made power purchases from Split Rock Energy of $34.3 million ($56.1 million in 2001; $25.1 million in 2000) and power sales to Split Rock Energy of $14.5 million ($13.3 million in 2001; $11.7 million in 2000).

BNI Coal mines and sells lignite coal to two North Dakota mine-mouth generating units, one of which is Square Butte. Square Butte supplies approximately 71% (323 MW) of its output to Minnesota Power under a long-term contract. (See Note 13.)

Enventis Telecom is our telecommunications business which is an integrated data services provider offering fiber optic-based communication and advanced data services to businesses and communities in Minnesota, Wisconsin and Missouri.

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

ADESA is the second largest wholesale vehicle auction network in North America. ADESA owns or leases, and operates 52 wholesale vehicle auctions in the United States and Canada through which used cars and other vehicles are sold to franchised automobile dealers and licensed used car dealers. Sellers at ADESA's auctions include domestic and foreign auto manufacturers, car dealers, automotive fleet/lease companies, banks and finance companies. ADESA Impact has 25 auction facilities in the United States and Canada that provide total loss vehicle services to insurance, vehicle leasing and rental car companies. AFC provides inventory financing for wholesale and retail automobile dealers who purchase vehicles at auctions. AFC has 81 loan production offices located across the United States and Canada. These offices provide qualified dealers credit to purchase vehicles at any of the 500 plus auctions and other outside sources approved by AFC. PAR provides customized vehicle remarketing services, including nationwide repossessions and the liquidation of off-lease vehicles, to various businesses with fleet operations. AutoVIN provides technology-enabled vehicle inspection services and inventory auditing to the automotive industry. ADESA, ADESA Impact, PAR and AutoVIN recognize revenue when services are performed. AFC's revenue is comprised of gains on sales

of receivables, and interest, fee and servicer income. As is customary for finance companies, AFC's revenue is reported net of interest expense of $1.3 million in 2002 ($3.4 million in 2001; $2.7 million in 2000). AFC generally sells its United States dollar denominated finance receivables through a private securitization structure. Gains and losses on such sales are generally recognized at the time of settlement based on the difference between the sales proceeds and the allocated basis of the finance receivables sold, adjusted for transaction fees. AFC also retains the right to service receivables sold through securitization and receives a fee for doing so.

INVESTMENTS AND CORPORATE CHARGES. Investments and Corporate Charges include real estate operations, investments in emerging technologies related to the electric utility industry and general corporate expenses, including interest, not specifically related to any one business segment. Our real estate operations include several wholly owned subsidiaries and an 80% ownership in Lehigh. All are Florida companies, which through their subsidiaries, own real estate in Florida. Real estate revenue is recognized on the accrual basis. Also included in Investments and Corporate Charges was our trading securities portfolio which was liquidated during the second half of 2002.

DEPRECIATION. Property, plant and equipment are recorded at original cost and are reported on the balance sheet net of accumulated depreciation. Expenditures for additions and significant replacements and improvements are capitalized; maintenance and repair costs are expensed as incurred. Expenditures for major plant overhauls are also accounted for using this same policy. When nonutility property, plant and equipment are retired or otherwise disposed of, gains or losses are recognized in revenue. When utility property, plant and equipment are retired or otherwise disposed of, no gain or loss is recognized.

Depreciation is computed using the estimated useful lives of the various classes of plant. In 2002 average depreciation rates for the energy and automotive services segments were 3.1% and 4.3% (3.0% and 4.0% in 2001; 3.3% and 3.7% in 2000).

ASSET IMPAIRMENTS. We periodically review our long-lived assets whenever events indicate the carrying amount of the assets may not be recoverable. As of December 31, 2002 and 2001 no write-downs were required.

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

AFC, through a wholly owned subsidiary, sells certain finance receivables through a revolving private securitization structure. On May 31, 2002 AFC and its subsidiary entered into a revised securitization agreement that allows for the revolving sale by the subsidiary to third parties of up to $500 million in undivided interests in eligible finance receivables. The revised agreement expires in 2005. The securitization agreement in place prior to May 31, 2002 limited the sale of undivided interests to $325 million. In accordance with SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which became applicable to AFC upon amendment of the securitization agreement, AFC, for accounting purposes, began consolidating the subsidiary used in the securitization structure on June 1, 2002. Previously, AFC's interest in this subsidiary was recorded by ALLETE as residual interest in other current assets ($103 million at December 31, 2001) net of the subsidiary's allowance for doubtful accounts. The residual interest previously reflected in prior periods has been reclassified by ALLETE to accounts receivable to conform to current year presentations.

AFC managed total receivables of $495.1 million at December 31, 2002 ($500.2 million at December 31, 2001); $191.3 million represent receivables which were included in accounts receivable on our consolidated balance sheet ($233.2 million at December 31, 2001) and $303.8 million represent receivables sold in undivided interests through the securitization agreement ($267.0 million at December 31, 2001) which are off-balance sheet. AFC's proceeds from the sale of the receivables to third parties were used to repay borrowings from ALLETE and fund new loans to AFC's customers. AFC and the subsidiary must each maintain certain financial covenants such as minimum tangible net worth to comply with the terms of the securitization agreement. AFC has historically performed better than the covenant thresholds set forth in the securitization agreement. We are not currently aware of any changing circumstances that would put AFC in noncompliance with the covenants.

ACCOUNTS RECEIVABLE

DECEMBER 31	2002	2001
MILLIONS		
Trade Accounts Receivable	$215.2	$216.8
Less: Allowance for Doubtful Accounts	8.8	6.1
	206.4	210.7
Finance Receivables	199.7	243.7
Less: Allowance for Doubtful Accounts	21.7	23.2
	178.0	220.5
Total Accounts Receivable	$384.4	$431.2

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

GOODWILL. All goodwill relates to the Automotive Services segment and represents the excess of cost over identifiable tangible and intangible net assets of businesses acquired. As

required by SFAS 142, "Goodwill and Other Intangible Assets," goodwill is no longer amortized after 2001. Prior to 2002 we amortized goodwill on a straight-line basis over 40 years.

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

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

ACCOUNTING FOR STOCK-BASED COMPENSATION. We have elected to account for stock-based compensation in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no expense is recognized for employee stock options granted. Had we applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," in 2002 we estimate that stock-based compensation expense would have increased $1.5 million after-tax, and basic and diluted earnings per share would have decreased $0.02 (basic and diluted earnings per share would have been impacted by approximately $0.01 in 2001 and 2000); these amounts were calculated using the Black-Scholes option pricing model. Expense is recognized for performance share awards, and amounted to approximately $4 million after-tax in 2002 ($5 million in 2001; $3 million in 2000).

FOREIGN CURRENCY TRANSLATION. Results of operations for our Canadian subsidiaries are translated into United States dollars using the average exchange rates during the period. Assets and liabilities are translated into United States dollars using the exchange rate on the balance sheet date, except for intangibles and fixed assets, which are translated at historical rates. Resulting translation adjustments are recorded in the Accumulated Other Comprehensive Loss section of Shareholders' Equity on our consolidated balance sheet.

INCOME TAXES. ALLETE and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each subsidiary based on their taxable income. We account for income taxes using the liability method as prescribed by SFAS 109, "Accounting for Income Taxes." Under the liability method, deferred income tax liabilities are established for all temporary differences in the book and tax basis of assets and liabilities based upon enacted tax laws and rates applicable to the periods in which the taxes become payable.

NEW ACCOUNTING STANDARDS. SFAS 143, "Accounting for Asset Retirement Obligations," requires the recognition of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the carrying amount of the related long-lived asset is correspondingly increased. Over time, the liability is accreted to its present value and the related capitalized charge is depreciated over the useful life of the asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Currently, decommissioning amounts collected in Minnesota Power's rates are reported in accumulated depreciation, which upon adoption of SFAS 143 by the Company will require a reclassification to a liability. We are reviewing what additional assets, if any, may have associated retirement costs as defined by SFAS 143 and anticipate no material impact on our financial position and results of operations.

In November 2002 the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The Interpretation expands disclosure requirements for certain guarantees, and requires the recognition of a liability for the fair value of an obligation assumed under a guarantee. The liability recognition provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002, and the disclosure provisions apply to fiscal years ending after December 15, 2002. We do not believe the adoption of this Interpretation will have a material impact on our financial position or results of operations.

In January 2003 the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities." In general, a variable interest entity is one with equity investors that do not have voting rights or do not provide sufficient financial resources for the entity to support its activities. Under the new rules, variable interest entities will be consolidated by the party that is subject to the majority of the risk of loss or entitled to the majority of the residual returns. The new rules are effective immediately for variable interest entities created after January 31, 2003 and in the third quarter of 2003 for previously existing variable interest entities. We are reviewing certain auction facility lease agreements entered into by ADESA prior to January 2003 to determine (1) if the lessor is a variable interest entity, and (2) if we should consolidate the lessor. If it is ultimately determined that the lessor is a variable interest entity that should be included in our consolidated financial statements, we estimate that we will record approximately $73 million in property, plant and equipment, and $73 million in long-term debt. Any recognition of these amounts would first occur in the third quarter of 2003.

In October 2002 the FASB's Emerging Issues Task Force rescinded EITF Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities." The ruling took effect January 1, 2003 for existing contracts and immediately for contracts entered into after October 25, 2002. Early adoption is permitted. In general, EITF 98-10 required energy trading contracts to be marked-to-market with resulting gains and losses recognized in income. Any gains or losses recognized under the provisions of EITF 98-10 through the end of 2002 will be reversed under the transitional provisions contained in the rescission. We were required to account for the Kendall County agreement under EITF 98-10 which resulted in the recognition of $4.7 million of mark-to-market pre-tax income in the second quarter of 2002 ($0 in 2001). We adopted the rescission of EITF 98-10 in the fourth quarter of 2002 and reversed the mark-to-market income recognized earlier in the year. The Kendall County agreement is not a derivative under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

NOTES TO FINANCIAL STATEMENTS

3 GOODWILL AND OTHER INTANGIBLES

The table below sets forth what reported net income and earnings per share would have been in all periods presented, exclusive of amortization expense recognized in those periods related to goodwill or other intangible assets that are no longer being amortized. All goodwill amortization related to continuing operations.

MILLIONS EXCEPT PER SHARE AMOUNTS	2002	2001	2000
Net Income			
Reported	$137.2	$138.7	$148.6
Goodwill Amortization	-	11.3	7.2
Adjusted	$137.2	$150.0	$155.8
Earnings Per Share			
Basic			
Reported	$1.69	$1.83	$2.12
Goodwill Amortization	-	0.15	0.10
Adjusted	$1.69	$1.98	$2.22
Diluted			
Reported	$1.68	$1.81	$2.11
Goodwill Amortization	-	0.15	0.10
Adjusted	$1.68	$1.96	$2.21

We completed the required goodwill impairment testing in the first quarter of 2002 with no resulting impairment. No event or change has occurred that would indicate the carrying amount has been impaired since our annual test.

GOODWILL

MILLIONS	
Carrying Value, January 1, 2000	$472.8
Acquired During Year	35.9
Amortization	(14.3)
Carrying Value, December 31, 2001	494.4
Acquired During Year	5.4
Carrying Value, December 31, 2002	$499.8

OTHER INTANGIBLE ASSETS

DECEMBER 31 MILLIONS	2002	2001
Customer Relationships	$29.6	$22.4
Computer Software	32.6	25.1
Other	6.8	7.5
Accumulated Amortization	(29.2)	(20.2)
Total	$39.8	$34.8

Other Intangible Assets are amortized using the straight-line method over periods of two to forty years. Amortization expense for Other Intangible Assets was $10.2 million in 2002 ($8.5 million in 2001; $4.7 million in 2000) and is expected to be about $10 million per year until fully amortized.

4 ACQUISITIONS

ADESA AUCTION FACILITIES. In January 2001 we acquired all of the outstanding stock of ComSearch in exchange for ALLETE common stock and paid cash to purchase all of the assets of Auto Placement Center (now ADESA Impact) in transactions with an aggregate value of $62.4 million. In May 2001 ADESA purchased the assets of the I-44 Auto Auction in Tulsa, Oklahoma. ADESA Impact and ADESA Tulsa were accounted for using the purchase method and financial results have been included in our consolidated financial statements since the date of purchase. Pro forma financial results were not material. ComSearch was accounted for as a pooling of interests. Financial results for prior periods have not been restated to reflect this pooling due to immateriality.

In February 2000 ADESA purchased the Mission City Auto Auction in San Diego, California. In May 2000 ADESA Canada purchased the remaining 27% of Impact Auto. ADESA Canada acquired 20% of Impact Auto on October 1, 1995, 27% in March 1999 and another 26% in January 2000. In June 2000 ADESA acquired all of the outstanding common shares of Auction Finance Group, Inc. (AFG). AFG owned CAAG Auto Auction Holdings Ltd., which was doing business as Canadian Auction Group. In August 2000 ADESA acquired Beebe Auto Exchange, Inc. and 51% of Interstate

Auto Auction. In October 2000 ADESA purchased nine auction facilities from Manheim Auctions, Inc. These transactions had a combined purchase price of approximately $438 million and resulted in goodwill of $298 million. We used the purchase method of accounting for these transactions. Financial results have been included in our consolidated financial statements since the date of each purchase. Pro forma financial results were not material.

ACQUISITION OF ENVENTIS, INC. In July 2001 we acquired Enventis, Inc., a data network systems provider headquartered in the Minneapolis-St. Paul area. In connection with this acquisition, we issued 310,878 shares of ALLETE common stock. Enventis was accounted for as a pooling of interests. Financial results for prior periods have not been restated to reflect this pooling due to immateriality.

ACQUISITION OF GENERATING FACILITY. In October 2001 we acquired certain non-mining properties from LTV and Cleveland-Cliffs Inc. for $75 million. The non-mining properties included a 225 MW nonregulated electric generating facility.

REAL ESTATE ACQUISITIONS. In December 2002 our real estate subsidiary purchased additional land near Palm Coast, Florida. The transaction was accounted for using the purchase method.

In September 2001 our real estate subsidiary purchased Winter Haven Citi Centre, a retail shopping center. In December 2001 and January 2002 real estate subsidiaries purchased additional land in Palm Coast, Florida. These transactions had a combined purchase price of approximately $31 million and were accounted for using the purchase method.

NOTES TO FINANCIAL STATEMENTS

5 FINANCIAL INSTRUMENTS

SECURITIES INVESTMENTS. During the second half of 2002 we substantially liquidated our trading securities portfolio and used the proceeds to reduce short-term debt. Prior to liquidation, the trading securities portfolio consisted primarily of the common stock of various publicly traded companies and was included in current assets at fair value. Changes in fair value were recognized in earnings, and the net unrealized gain included in 2001 income was $0.9 million ($2.3 million loss in 2000).

Investments includes certain securities held for an indefinite period of time and accounted for as available-for-sale. Available-for-sale securities are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income, net of tax. Unrealized losses that are other than temporary are recognized in earnings. Available-for-sale securities consist of minority interests in the common stock of publicly-traded corporations held in our Emerging Technology portfolio, and securities in a grantor trust established to fund certain employee benefits. In 2000, we sold 4.7 million shares of ACE Limited which we had accounted for as available-for-sale.

AVAILABLE-FOR-SALE SECURITIES

MILLIONS

AT DECEMBER 31	COST	GROSS UNREALIZED GAIN	GROSS UNREALIZED (LOSS)	FAIR VALUE
2002	$25.4	$0.7	$(5.2)	$20.9
2001	$18.1	$10.3	$(1.9)	$26.5
2000	$10.8	$14.5	-	$25.3

YEAR ENDED DECEMBER 31	SALES PROCEEDS	GROSS REALIZED GAIN	GROSS REALIZED (LOSS)	NET UNREALIZED GAIN (LOSS) IN OTHER COMPREHENSIVE INCOME
2002	$12.1	$1.0	-	$(11.8)
2001	-	-	-	$3.6
2000	$129.9	$49.1	-	$(0.5)

As part of our Emerging Technology portfolio, we also have several minority investments in venture capital funds and privately-held start-up companies. These investments are accounted for under the cost method and included with Investments on our consolidated balance sheet. The total carrying value of these investments was $38.7 million at December 31, 2002 ($40.6 million at December 31, 2001). Our policy is to periodically review these investments for impairment by assessing such factors as continued commercial viability of products, cash flow and earnings. Any impairment would reduce the carrying value of the investment.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET RISKS. In October 2001 we entered into an interest rate swap agreement with a notional amount of $250 million to hedge $250 million of floating rate debt issued in October 2000. Under the 15-month swap agreement, we made fixed quarterly payments based on a fixed rate of 3.2% and received payments at a floating rate based on LIBOR (1.8% at December 31, 2002). The swap was recorded on the balance sheet at fair value and treated as a cash flow hedge with unrealized gains and losses included in accumulated other comprehensive income. The swap expired in January 2003 and the Company did not enter into any new interest rate swap agreements.

Prior to liquidating the trading securities portfolio, we sold common stock short in strategies designed to reduce market risk. Unrealized gains and losses on short sales were recognized in earnings.

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

OFF-BALANCE SHEET RISKS

MILLIONS

DECEMBER 31	CONTRACT AMOUNT	FAIR VALUE RECEIVABLE (PAYABLE)
2002		
Interest Rate Swap	$250.0	$(0.2)
2001		
Short Stock Sales Outstanding	$19.8	$(0.8)
Interest Rate Swap	$250.0	$(2.5)

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

FINANCIAL INSTRUMENTS

DECEMBER 31	CARRYING AMOUNT	FAIR VALUE
MILLIONS		
Long-Term Debt		
2002	$945.0	$991.6
2001	$940.7	$966.9
Quarterly Income Preferred Securities		
2002	$75.0	$75.5
2001	$75.0	$74.7

CONCENTRATION OF CREDIT RISK. Financial instruments that subject us to concentrations of credit risk consist primarily of accounts receivable. Minnesota Power sells electricity to about 15 customers in northern Minnesota's taconite, pipeline, paper and wood products industries. Receivables from these customers totaled approximately $10 million at December 31, 2002 ($9 million at December 31, 2001). Minnesota Power does not obtain collateral to support utility receivables, but monitors the credit standing of major customers.

Due to the nature of our Automotive Services' business, substantially all trade and finance receivables are due from automobile dealers and insurance companies. We have possession of automobiles or automobile titles collateralizing a significant portion of the trade and finance receivables.

6 INVESTMENT IN ACE

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

7 JOINTLY OWNED ELECTRIC FACILITY

We own 80% of the 531-MW Boswell Energy Center Unit 4 (Boswell Unit 4). While we operate the plant, certain decisions about the operations of Boswell Unit 4 are subject to the oversight of a committee on which we and Wisconsin Public Power, Inc. (WPPI), the owner of the other 20% of Boswell Unit 4, have equal representation and voting rights. Each of us must provide our own financing and is obligated to pay our ownership share of operating costs. Our share of direct operating expenses of Boswell Unit 4 is included in operating expense on our consolidated statement of income. Our 80% share of the original cost included in electric plant at December 31, 2002 was $310 million ($309 million at December 31, 2001). The corresponding accumulated depreciation balance was $170 million at December 31, 2002 ($163 million at December 31, 2001).

8 REGULATORY MATTERS

We file for periodic rate revisions with the Minnesota Public Utilities Commission (MPUC), the Federal Energy Regulatory Commission and other state regulatory authorities. Interim rates in Minnesota are placed into effect, subject to refund with interest, pending a final decision by the appropriate commission. In 2002 31% of our consolidated operating revenue (31% in 2001; 41% in 2000) was under regulatory authority. The MPUC had regulatory authority over approximately 25% in 2002 (25% in 2001; 33% in 2000) of our consolidated operating revenue.

ELECTRIC RATES. New federal legislation and FERC regulations have been proposed that aim to maintain reliability, assure adequate energy supply, and address wholesale price volatility while encouraging wholesale competition. Legislation or regulation that initiates a process which may lead to retail customer choice of their electric service provider currently lacks momentum in both Minnesota and Wisconsin. Legislative and regulatory activity as well as the actions of competitors affect the way Minnesota Power strategically plans for its future. We cannot predict the timing or substance of any future legislation or regulation.

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

DEFERRED REGULATORY CHARGES AND CREDITS

DECEMBER 31	2002	2001
MILLIONS		
Deferred Charges		
Income Taxes	$ 11.8	$ 12.8
Conservation Improvement Programs	0.1	0.3
Premium on Reacquired Debt	3.9	4.5
Other	4.2	0.4
	20.0	18.0
Deferred Credits		
Income Taxes	39.5	63.2
Net Deferred Regulatory Liabilities	$(19.5)	$(45.2)

NOTES TO FINANCIAL STATEMENTS

9 DISCONTINUED OPERATIONS

In September 2001 we began a process of systematically evaluating our businesses to determine the strategic value of our assets and explore ways to unlock that value. As a result, our management and Board of Directors committed to a plan to sell our Water Services businesses. Water Services includes water and wastewater services operated by several wholly owned subsidiaries in Florida, North Carolina and Georgia. During the first half of 2002 we exited our nonregulated water subsidiaries, our auto transport business and our retail store. The financial results for all of these businesses have been accounted for as discontinued operations. Accordingly, we ceased depreciation of assets related to these businesses in the fourth quarter of 2001. Depreciation expense in 2001 was $7.5 million after tax ($8.1 million after tax for 2000).

In September 2002 Florida Water entered into an agreement to sell its assets to FWSA, a governmental authority that was established by an interlocal agreement between the cities of Gulf Breeze and Milton, Florida. On December 20, 2002 Florida Water signed an amended asset purchase agreement adjusting the sales price for the sale of substantially all of its assets to the FWSA. The sales price was adjusted to $456.5 million from $471 million. This adjustment was made to reflect primarily higher interest rates on bonds to be issued by the FWSA to finance the transaction.

Florida Water anticipates receiving approximately $420 million at closing and an additional $36.5 million three years after closing once certain contingencies have been satisfied. In addition, Florida Water expects to receive up to $36 million of future customer hookup fees to be paid over the next six years. The revised purchase price, combined with the additional payments, brings the total amount expected to be received in the transaction to $492.5 million. Cash proceeds to ALLETE after taxes and repayment of existing debt are expected to be approximately $180 million in 2003, and $250 million for the entire transaction. The gain on the transaction is estimated at $100 million after taxes and related costs. While the majority of the cash will be received at closing, the gain is hoped to be recognized in future years as required by accounting rules.

Eleven lawsuits seeking to halt the sale of Florida Water assets to the FWSA have been filed, primarily by local governments which had hoped to purchase Florida Water's assets through a competing buyer. Pursuant to notice given on January 28, 2003, the FPSC held an agenda conference on February 4, 2003 in which it ordered Florida Water to file, in advance of closing the transaction, an application requesting approval of the transfer of its assets to the FWSA, and further ordered Florida Water to refrain from closing the transaction before FPSC approval. Florida Water is asking a court to determine that the FPSC may not delay closing of the sale and is required by law to approve this transfer as a matter of right. Florida Water considers the lawsuits to be without merit and is vigorously contesting these lawsuits. Litigation challenging this transaction continues to delay its closing.

We are using an investment banking firm to facilitate the sale of Heater Utilities, Inc. and Georgia Water Services Corporation and discussions with prospective buyers are in process. We expect to sell these businesses in 2003.

SUMMARY OF DISCONTINUED OPERATIONS

MILLIONS

INCOME STATEMENT

YEAR ENDED DECEMBER 31	2002	2001	2000
Operating Revenue	$123.9	$149.3	$145.5
Pre-Tax Income from Operations	$36.4	$21.5	$17.8
Income Tax Expense	14.3	8.7	7.5
	22.1	12.8	10.3
Loss on Disposal	(5.8)	(6.8)	-
Income Tax Benefit	(1.9)	(2.4)	-
	(3.9)	(4.4)	-
Income from Discontinued Operations	$18.2	$ 8.4	$10.3

BALANCE SHEET INFORMATION

DECEMBER 31	2002	2001
Assets of Discontinued Operations		
Cash and Cash Equivalents	$ 8.9	$ 14.0
Other Current Assets	18.4	28.2
Property, Plant and Equipment	311.4	280.8
Other Assets	34.5	29.5
	$373.2	$352.5
Liabilities of Discontinued Operations		
Current Liabilities	$ 29.4	$ 45.9
Long-Term Debt	125.8	128.7
Other Liabilities	37.1	26.2

	$192.3	$200.8

10 LONG-TERM DEBT

LONG-TERM DEBT

DECEMBER 31	2002	2001
MILLIONS		
First Mortgage Bonds		
Floating Rate Due 2003	$250.0	$250.0
6 1/4% Series Due 2003	25.0	25.0
6.68% Series Due 2007	20.0	20.0
7% Series Due 2007	60.0	60.0
7 1/2% Series Due 2007	35.0	35.0
7 3/4% Series Due 2007	50.0	50.0
7% Series Due 2008	50.0	50.0
6% Pollution Control Series E Due 2022	111.0	111.0
Senior Notes		
7.70% Series A Due 2006	90.0	90.0
7.80% Due 2008	125.0	125.0
8.10% Series B Due 2010	35.0	35.0
Variable Demand Revenue Refunding Bonds Series 1997 A, B, C and D Due 2007 - 2020	39.0	39.0
Other Long-Term Debt, 2.5 - 9.0% Due 2003 - 2026	55.0	50.7
Total Long-Term Debt	945.0	940.7
Less Due Within One Year	(283.7)	(6.9)
Net Long-Term Debt	$661.3	$933.8

The aggregate amount of long-term debt maturing during 2003 is $283.7 million ($15.6 million in 2004; $1.4 million in 2005; $91.9 million in 2006; $168.7 million in 2007; and $383.7 million thereafter). Substantially all of our electric plant is subject to the lien of the mortgages securing various first mortgage bonds.

At December 31, 2002 we had long-term bank lines of credit aggregating $39.7 million ($5.0 million at December 31, 2001). Drawn portions on these lines of credit were $5.5 million in 2002 ($0 million in 2001).

The 6.68% Series Due 2007 and the 7% Series Due 2007 cannot be redeemed prior to maturity. The 7 1/2% Series Due 2007 are redeemable after August 1, 2005 and the 7% Series Due 2008 are redeemable after March 1, 2006. The remaining bonds may be redeemed in whole or in part at our option according to the terms of the obligations.

11 SHORT-TERM BORROWINGS AND COMPENSATING BALANCES

We have bank lines of credit aggregating $217.0 million ($264.5 million at December 31, 2001), which make financing available through short-term bank loans and provide credit support for commercial paper. At December 31, 2002, $210.3 million was available for use ($234 million at December 31, 2001). At December 31, 2002 we had issued commercial paper with a face value of $74.0 million ($238.2 million in 2001), with support provided by bank lines of credit.

Certain lines of credit require a commitment fee of 0.0150%. Interest rates on commercial paper and borrowings under the lines of credit ranged from 1.75% to 1.85% at December 31, 2002 (2.75% to 3.10% at December 31, 2001). The weighted average interest rate on short-term borrowings at December 31, 2002 was 1.79% (2.96% at December 31, 2001). The total amount of compensating balances at December 31, 2002 and 2001, was immaterial.

12 PREFERRED STOCK

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

All 100,000 shares of Serial Preferred Stock A, $7.125 Series were redeemed in April 2000 for an aggregate of $10 million. All 100,000 shares of Serial Preferred Stock A, $6.70 Series were redeemed in July 2000 for an aggregate of $10 million. All 113,358 shares of 5% Preferred Stock were redeemed in August 2000 at $102.50 per share plus accrued and unpaid dividends of $0.75 per share for an aggregate of $11.7 million.

13 COMMITMENTS, GUARANTEES AND CONTINGENCIES

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

Minnesota Power is entitled to approximately 71% of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce Minnesota Power's entitlement by 5% annually, to a minimum of 50%. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At December 31, 2002 Square Butte had total debt outstanding of $281.9 million. Total annual debt service for Square Butte is expected to be $23.6 million in 2003 through 2007. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract.

Minnesota Power's cost of power purchased from Square Butte during 2002 was $60.9 million ($63.3 million in 2001 and $58.7 million in 2000). This reflects Minnesota Power's pro rata share of total Square Butte costs based on the 71% output entitlement in 2002, 2001 and 2000. Included in this amount was Minnesota Power's pro rata share of interest expense of $13.7 million in 2002 ($14.2 million in 2001; $14.8 million in 2000). Minnesota Power's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and FERC.

LEASING AGREEMENTS. In July 2001 ADESA entered into a lease agreement for the ADESA Golden Gate facility in Tracy, California, which was completed in the third quarter of 2002. The term of the lease is through July 2006 with no renewal options. The cost to the lessor of the facility was approximately $45 million. ADESA has guaranteed up to $38 million of any deficiency in sales proceeds that the lessor realizes in disposing of the leased property. ADESA will receive any sales proceeds in excess of cost.

ADESA has guaranteed the payment of principal and interest up to $38 million on the lessor's indebtedness. Terms of the mortgage notes payable require, among other things, that ADESA maintain certain minimum financial ratios. It is not practical to estimate the fair value of the guarantee; however, ADESA does not anticipate that it will incur losses as a result of this guarantee. We have guaranteed ADESA's obligation under this lease.

In April 2000 leases for three ADESA auction facilities (Boston, Charlotte and Knoxville) were refinanced in a $28.4 million lease transaction. The new lease is treated as an operating lease for financial reporting purposes and expires in April 2010 with no renewal options. ADESA has guaranteed up to $23 million of any deficiency in sales proceeds that the lessor realizes in disposing of the leased properties. ADESA is entitled to receive any sales proceeds in excess of $29.3 million.

ADESA has guaranteed the payment of principal and interest up to $23 million on the lessor's indebtedness, which consists of $28.4 million in mortgage notes payable, due April 1, 2020. Terms of the mortgage notes payable require, among other things, that ADESA maintain certain minimum financial ratios. Interest on the notes varies and is payable monthly. It is not practical to estimate the fair value of the guarantee; however, ADESA does not anticipate that it will incur losses as a result of this guarantee. We have guaranteed ADESA's obligations under this lease.

We lease other properties and equipment in addition to those listed above under operating lease agreements with terms expiring through 2010. The aggregate amount of future minimum lease payments for operating leases during 2003 is $17.5 million ($13.9 million in 2004; $11.2 million in 2005; $9.4 million in 2006; $9.0 million in 2007; and $59.0 million thereafter). Total rent expense was $27.5 million in 2002 ($26.9 million in 2001; $21.1 million in 2000).

SPLIT ROCK ENERGY. We provide up to $50.0 million of credit support, in the form of letters of credit and financial guarantees, to facilitate the power marketing activities of Split Rock Energy. At December 31, 2002 $10.5 million was used to support actual obligations ($3.4 million at December 31, 2001). The credit support generally expires within one year from the date of issuance.

KENDALL COUNTY POWER PURCHASE AGREEMENT. We have secured 275 MW of nonregulated generation (non rate-base generation sold at market-based rates to the wholesale market) through a tolling agreement with NRG Energy that extends through September 2017. Under the agreement we pay a fixed capacity charge for the right, but not the obligation, to utilize one 275 MW generating unit at NRG Energy's Kendall County facility near Chicago, Illinois. The annual fixed capacity charge is $21.8 million. We are also responsible for arranging the natural gas fuel supply.

Our strategy is to enter into long-term contracts to sell a significant portion of the 275 MW from the Kendall County facility; the balance will be sold in the spot market through short-term agreements. We currently have two 50 MW long-term forward capacity and energy sales contracts for the Kendall County generation, with one expiring in April 2012 and the other in September 2017. Neither the Kendall County agreement nor the related sales contracts are derivatives under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities."

EMERGING TECHNOLOGY INVESTMENTS. We have investments in emerging technologies through the minority ownership of preferred stock, common stock and equity interests in limited liability companies. The investments are in both privately-held and publicly-traded entities. We have committed to make additional investments in certain emerging technology holdings. The total future commitment was $7.7 million at December 31, 2002 ($11.0 million at December 31, 2001). We expect approximately $1 million of the future commitment to be invested in 2003, with the balance to be invested at various times through 2007.

ENVIRONMENTAL MATTERS. Some of our businesses are subject to regulation by various federal, state and local authorities concerning environmental matters. We do not currently anticipate that potential expenditures for environmental matters will be material.

14 MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY

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

The QUIPS are subject to mandatory redemption upon repayment of the Subordinated Debentures at maturity or upon redemption. We have the option to redeem the Subordinated Debentures at any time.

We have guaranteed, on a subordinated basis, payment of the Trust's obligations.

NOTES TO FINANCIAL STATEMENTS

15 COMMON STOCK AND EARNINGS PER SHARE

Our Articles of Incorporation and mortgages contain provisions that, under certain circumstances, would restrict the payment of common stock dividends. As of December 31, 2002 no retained earnings were restricted as a result of these provisions.

SUMMARY OF COMMON STOCK	SHARES	EQUITY
MILLIONS		
Balance at December 31, 1999	73.5	$552.0
2000 Employee Stock Purchase Plan	0.1	1.1
Invest Direct	1.0	18.8
Other	0.1	5.0
Balance at December 31, 2000	74.7	576.9
2001 Public Offering	6.6	150.0
Employee Stock Purchase Plan	0.1	1.4
Invest Direct	0.8	18.9
Other	1.7	23.1
Balance at December 31, 2001	83.9	770.3
2002 Employee Stock Purchase Plan	0.1	1.4
Invest Direct	0.8	19.6
Other	0.8	23.6
Balance at December 31, 2002	85.6	$814.9

INVEST DIRECT IS ALLETE'S DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT PLAN.

COMMON STOCK ISSUANCE. In May and June 2001 we sold 6.6 million shares of our common stock in a public offering at $23.68 per share. Total net proceeds of approximately $150 million were used to repay a portion of our short-term borrowings with the remainder invested in short-term instruments.

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

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

The Rights which expire on July 23, 2006, are nonvoting and may be redeemed by us at a price of $0.005 per Right at any time they are not exercisable. One million shares of Junior Serial Preferred Stock A have been authorized and are reserved for issuance under the plan.

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

RECONCILIATION OF BASIC AND DILUTED EARNINGS PER SHARE	BASIC EPS	DILUTIVE SECURITIES	DILUTED EPS
2002			
Income from Continuing Operations	$119.0	-	$119.0
Common Shares	81.1	0.6	81.7
Per Share from Continuing Operations	$1.47	-	$1.46
2001			
Income from Continuing Operations	$130.3	-	$130.3
Common Shares	75.8	0.7	76.5
Per Share from Continuing Operations	$1.72	-	$1.70
2000			
Income from Continuing Operations	$138.3	-	$138.3
Less: Dividends on			

Preferred Stock	0.9	-	0.9
	$137.4	-	$137.4
Common Shares	69.8	0.3	70.1
Per Share from Continuing Operations	$1.97	-	$1.96

NOTES TO FINANCIAL STATEMENTS

16 INCOME TAX EXPENSE

INCOME TAX EXPENSE

YEAR ENDED DECEMBER 31	2002	2001	2000
MILLIONS			
Current Tax Expense			
Federal	$36.7	$52.2	$69.9
Foreign	12.6	7.6	8.0
State	7.2	7.8	6.5
	56.5	67.6	84.4
Deferred Tax Expense (Benefit)			
Federal	14.8	6.9	(6.0)
Foreign	0.1	0.2	0.9
State	0.7	(0.1)	(2.7)
	15.6	7.0	(7.8)
Change in Valuation Allowance	1.9	1.0	1.8
Deferred Tax Credits	(1.4)	(1.4)	(1.4)
Income Taxes on Continuing Operations	72.6	74.2	77.0
Income Taxes on Discontinued Operations	12.4	6.3	7.5
Total Income Tax Expense	$85.0	$80.5	$84.5

RECONCILIATION OF TAXES FROM FEDERAL STATUTORY RATE TO TOTAL INCOME TAX EXPENSE

YEAR ENDED DECEMBER 31	2002	2001	2000
MILLIONS			
Tax Computed at Federal Statutory Rate	$77.8	$76.7	$81.6
Increase (Decrease) in Tax			
State Income Taxes -- Net of Federal Income Tax Benefit	9.8	8.6	4.4
Foreign Taxes	3.0	1.9	2.1
Other	(5.6)	(6.7)	(3.6)
Total Income Tax Expense	$85.0	$80.5	$84.5

INCOME BEFORE INCOME TAXES

YEAR ENDED DECEMBER 31	2002	2001	2000
MILLIONS			
United States	$191.4	$197.3	$213.6
Canadian	30.8	21.9	19.5
Total	$222.2	$219.2	$233.1

DEFERRED TAX ASSETS AND LIABILITIES

DECEMBER 31	2002	2001
MILLIONS		
Deferred Tax Assets		
Employee Benefits and Compensation	$45.2	$41.9
Property Related	22.0	30.9
Investment Tax Credits	15.8	16.8
Allowance for Bad Debts	11.5	11.3
State NOL Carryover	8.6	7.2
Other	30.2	18.7
Gross Deferred Tax Assets	133.3	126.8
Deferred Tax Asset Valuation Allowance	(7.8)	(6.0)
Total Deferred Tax Assets	125.5	120.8
Deferred Tax Liabilities		
Property Related	222.8	192.4
Investment Tax Credits	22.4	23.7

Employee Benefits and Compensation	9.0	6.1
Other	11.1	5.6
Total Deferred Tax Liabilities	265.3	227.8
Accumulated Deferred Income Taxes	$139.8	$107.0

The Deferred Tax Asset Valuation Allowance is for state net operating losses that the Company believes more likely than not will expire before they are utilized. These state net operating losses expire between 2003 and 2021.

UNDISTRIBUTED EARNINGS. Undistributed earnings of our foreign subsidiaries were approximately $28.8 million at December 31, 2002 ($36.3 million at December 31, 2001). Since this amount has been or will be reinvested in property, plant and working capital, the Company has not recorded the deferred taxes associated with the remittance of these investments.

17 OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31	PRE-TAX AMOUNT	TAX EXPENSE (BENEFIT)	NET-OF-TAX AMOUNT
MILLIONS			
2002			
Unrealized Gain (Loss) on Securities			
Loss During the Year	$(11.8)	$(4.3)	$(7.5)
Less: Gain Included in Net Income	1.0	0.4	0.6
Net Unrealized Loss on Securities	(12.8)	(4.7)	(8.1)
Interest Rate Swap	2.3	1.0	1.3
Foreign Currency Translation Adjustments	2.6	-	2.6
Additional Pension Liability	(6.0)	(2.5)	(3.5)
Other Comprehensive Loss	$(13.9)	$(6.2)	$(7.7)
2001			
Unrealized Gain (Loss) on Securities			
Gain During the Year	$ 3.6	$ 1.1	$ 2.5
Less: Gain Included in Net Income	-	-	-
Net Unrealized Gain on Securities	3.6	1.1	2.5
Interest Rate Swap	(2.5)	(1.0)	(1.5)
Foreign Currency Translation Adjustments	(11.3)	-	(11.3)
Other Comprehensive Loss	$(10.2)	$ 0.1	$(10.3)
2000			
Unrealized Gain (Loss) on Securities			
Gain During the Year	$47.8	$17.4	$30.4
Less: Gain Included in Net Income	49.1	18.0	31.1
Net Unrealized Loss on Securities	(1.3)	(0.6)	(0.7)
Foreign Currency Translation Adjustments	(5.9)	-	(5.9)
Other Comprehensive Loss	$(7.2)	$(0.6)	$(6.6)

ACCUMULATED OTHER COMPREHENSIVE INCOME

DECEMBER 31	2002	2001
MILLIONS		
Unrealized Gain (Loss) on Securities	$ (2.8)	$ 5.3
Interest Rate Swap Loss	(0.2)	(1.5)
Foreign Currency Translation Loss	(15.7)	(18.3)
Additional Pension Liability	(3.5)	-
	$(22.2)	$(14.5)

18 PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Certain eligible employees of ALLETE are covered by noncontributory defined benefit pension plans. At December 31, 2002 approximately 8% of the defined benefit pension plan assets were invested in our common stock. We have defined contribution pension plans covering eligible employees, for which the aggregate annual cost was $8.0 million in 2002 ($7.1 million in 2001; $5.7 million in 2000). We provide certain health care and life insurance benefits for eligible retired employees.

The assumed health care cost trend rate declines gradually to an ultimate rate of 5% by 2008. For postretirement health and life benefits, a 1% increase in the assumed health care cost trend rate would result in a $13.4 million and a $1.3 million increase in the benefit obligation and total service and interest costs, respectively; a 1% decrease would result in a $11.0 million and $1.1 million decrease in the benefit obligation and total service and interest costs, respectively.

PENSION

MILLIONS

PLAN STATUS

AT SEPTEMBER 30	2002	2001
Change in Benefit Obligation		
Obligation, Beginning of Year	$249.2	$228.5
Service Cost	5.3	4.2
Interest Cost	18.7	17.7
Actuarial Loss	30.8	13.6
Benefits Paid	(15.2)	(14.8)
Obligation, End of Year	288.8	249.2
Change in Plan Assets		
Fair Value, Beginning of Year	281.9	309.8
Actual Return on Assets	(3.3)	(14.7)
Benefits Paid	(15.2)	(14.8)
Other	2.3	1.6
Fair Value, End of Year	265.7	281.9
Funded Status	(23.1)	32.7
Unrecognized Amounts		
Net (Gain) Loss	42.2	(19.5)
Prior Service Cost	6.5	5.2
Transition Obligation	0.4	0.7
Net Asset Recognized	$ 26.0	$ 19.1
Amounts Recognized in Consolidated		
Balance Sheet Consist of:		
Prepaid Pension Cost	$ 27.8	$ 19.1
Accrued Benefit Liability	(11.2)	-
Intangible Asset	3.4	-
Accumulated Other		
Comprehensive Income	6.0	-
Net Asset Recognized	$ 26.0	$ 19.1

BENEFIT EXPENSE (INCOME)

YEAR ENDED DECEMBER 31	2002	2001	2000
Service Cost	$ 5.3	$ 4.2	$ 4.1
Interest Cost	18.7	17.6	16.5
Expected Return on Assets	(30.4)	(29.6)	(27.5)
Amortized Amounts			
Unrecognized Gain	(1.4)	(2.5)	(2.3)
Prior Service Cost	0.6	0.5	0.5
Transition Obligation	0.2	0.2	0.2
Net Pension Income	$ (7.0)	$ (9.6)	$ (8.5)

ACTUARIAL ASSUMPTIONS

AT SEPTEMBER 30	2002	2001
Discount Rate	6.75%	7.75%
Expected Return on Plan Assets	9.5%	10.0%
Rate of Compensation Increase	3.5 - 4.5%	3.5 - 4.5%

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for a pension plan with accumulated benefit obligations in excess of plan assets were as follows:

AT SEPTEMBER 30	2002	2001
Projected Benefit Obligation	$114.1	$97.8
Accumulated Benefit Obligation	$99.8	$85.7
Fair Value of Plan Assets	$88.6	$94.4

HEALTH AND LIFE

MILLIONS

PLAN STATUS

AT SEPTEMBER 30	2002	2001
Change in Benefit Obligation		
Obligation, Beginning of Year	$ 78.5	$ 67.6
Service Cost	2.9	2.7
Interest Cost	5.9	5.3
Actuarial Loss	15.0	5.8
Participant Contributions	1.1	0.9
Benefits Paid	(3.9)	(3.8)

Obligation, End of Year	99.5	78.5
Change in Plan Assets		
Fair Value, Beginning of Year	38.7	41.8
Actual Return on Assets	(1.5)	(2.0)
Employer Contribution	5.1	1.8
Participant Contributions	1.1	0.9
Benefits Paid	(3.9)	(3.8)
Fair Value, End of Year	39.5	38.7
Funded Status	(60.0)	(39.8)
Unrecognized Amounts		
Net (Gain) Loss	15.1	(5.7)
Transition Obligation	25.0	27.4
Accrued Cost	$(19.9)	$(18.1)

BENEFIT EXPENSE (INCOME) YEAR ENDED DECEMBER 31	2002	2001	2000
Service Cost	$ 2.9	$ 2.7	$ 2.7
Interest Cost	5.9	5.3	4.8
Expected Return on Assets	(3.9)	(3.5)	(2.8)
Amortized Amounts			
Unrecognized Gain	(0.2)	(0.9)	(0.9)
Transition Obligation	2.4	2.4	2.4
Net Expense	$ 7.1	$ 6.0	$ 6.2

ACTUARIAL ASSUMPTIONS AT SEPTEMBER 30	2002	2001
Discount Rate	6.75%	7.75%
Expected Return on Plan Assets	7.6 - 9.5%	8.0 - 10.0%
Rate of Compensation Increase	3.5 - 4.5%	3.5 - 4.5%
Health Care Cost Trend Rate	10%	10%

NOTES TO FINANCIAL STATEMENTS

19 EMPLOYEE STOCK AND INCENTIVE PLANS

EMPLOYEE STOCK OWNERSHIP PLAN. We sponsor a leveraged employee stock ownership plan (ESOP) within the Retirement Savings and Stock Ownership Plan that covers certain eligible employees. In 1989 the ESOP used the proceeds from a $16.5 million third-party loan guaranteed by us, to purchase 1.2 million shares of our common stock on the open market. The remaining principal balance on the loan was refinanced in 2002. The refinanced loan has a variable interest rate based on LIBOR and matures on December 31, 2004. In 1990 the ESOP issued a $75 million note (term not to exceed 25 years at 10.25%) to us as consideration for 5.6 million shares of our newly issued common stock. The Company makes annual contributions to the ESOP equal to the ESOP's debt service less available dividends received by the ESOP. The majority of dividends received by the ESOP are used to pay debt service, with the balance distributed to certain participants. The ESOP shares were initially pledged as collateral for its debt. As the debt is repaid, shares are released from collateral and allocated to participants, based on the proportion of debt service paid in the year. The third-party debt of the ESOP is recorded as long-term debt and the shares pledged as collateral are reported as unearned ESOP shares in the Balance Sheet. As shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares, and the shares become outstanding for earnings-per-share computations. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; available dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest. ESOP compensation expense was $3.9 million in 2002 ($2.6 million in 2001; $2.3 million in 2000).

YEAR ENDED DECEMBER 31	2002	2001	2000
MILLIONS			
Shares			
Allocated Shares	3.8	3.9	3.9
Unreleased Shares	3.7	4.0	4.2
Total ESOP Shares	7.5	7.9	8.1
Fair Value of Unreleased Shares	$84.0	$100.3	$104.6

STOCK OPTION AND AWARD PLANS. We have an Executive Long-Term Incentive Compensation Plan (Executive Plan) and a Director Long-Term Stock Incentive Plan (Director Plan). The Executive Plan allows for the grant of up to 9.7 million shares of our common stock to key employees. To date, these grants have taken the form of stock options, performance share awards and restricted stock awards. The Director Plan allows for the grant of up to 0.3 million shares of our common stock to nonemployee directors. Each nonemployee director receives an annual grant of 1,500 stock options and a biennial grant of performance shares equal to $10,000 in value of common stock at the date of grant. Stock options are exercisable at the market price of common shares on the date the options are granted, and vest in equal annual installments over two years with expiration ten years from the date of grant. Performance shares are earned over multi-year time periods and are contingent upon the attainment of certain performance goals of ALLETE. Restricted stock vests once certain periods of time have elapsed. At December 31, 2002 4.3 million and 0.2 million shares were held in reserve for future issuance under the Executive Plan and Director Plan, respectively.

We have elected to account for our stock-based compensation plans in accordance with the Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," and accordingly, compensation expense has not been recognized for stock options granted. Compensation expense is recognized over the vesting periods for performance and restricted share awards based on the market value of our common stock, and was approximately $6 million in 2002 ($9 million in 2001; $5 million in 2000).

STOCK OPTION ACTIVITY	OPTIONS	AVERAGE EXERCISE PRICE
OPTIONS IN MILLIONS		
2002		
Outstanding, Beginning of Year	2.3	$20.18
Granted	0.8	$25.92
Exercised	(0.7)	$18.70
Canceled	(0.1)	$23.77
Outstanding, End of Year	2.3	$22.48
Exercisable, End of Year	1.3	$20.23
Fair Value of Options Granted During the Year	$4.55	
2001		
Outstanding, Beginning of Year	2.4	$18.52
Granted	0.8	$23.63
Exercised	(0.8)	$18.39
Canceled	(0.1)	$21.05
Outstanding, End of Year	2.3	$20.18

Exercisable, End of Year	1.2	$19.55
Fair Value of Options Granted During the Year	$3.89	
2000		
Outstanding, Beginning of Year	1.6	$19.77
Granted	1.0	$16.33
Exercised	(0.1)	$14.91
Canceled	(0.1)	$18.85
Outstanding, End of Year	2.4	$18.52
Exercisable, End of Year	1.1	$19.42
Fair Value of Options Granted During the Year	$1.81	

At December 31, 2002 options outstanding consisted of 0.4 million with an exercise price of $13.69 to $16.25, and 1.9 million with an exercise price of $21.63 to $25.68. The options with an exercise price of $13.69 to $16.25 have an average remaining contractual life of 6.3 years with 0.4 million exercisable on December 31, 2002 at an average price of $15.73. The options with an exercise price of $21.63 to $25.68 have an average remaining contractual life of 7.7 years with 0.9 million exercisable on December 31, 2002 at an average price of $22.45.

A total of 0.3 million performance share grants were awarded in 2002 for the performance period ending December 31, 2003. The ultimate issuance is contingent upon the attainment of certain future performance goals of ALLETE during the performance period. The grant date fair value of the performance share awards was $7.8 million.

A total of 0.6 million performance share grants were awarded in 2000 and 2001 for the performance period ended December 31, 2001. The grant date fair value of the share awards was $9.9 million. At December 31, 2002 50% of the shares had been issued, with the balance to be issued in early 2003.

In January 2003 we granted stock options to purchase approximately 0.7 million shares of common stock (exercise price of $20.51 per share).

EMPLOYEE STOCK PURCHASE PLAN. We have an Employee Stock Purchase Plan that permits eligible employees to buy up to $23,750 per year of our common stock at 95% of the market price. At December 31, 2002, 1.3 million shares had been issued under the plan and 38,143 shares were held in reserve for future issuance.

20 QUARTERLY FINANCIAL DATA (UNAUDITED)

Information for any one quarterly period is not necessarily indicative of the results which may be expected for the year. Financial results for the first quarter of 2002 included charges of $1.6 million, or $0.02 per share and the second quarter of 2002 included $2.3 million, or $0.03 per share, of charges related to exiting our auto transport business and retail store. Financial results for the fourth quarter of 2002 included a $5.5 million, or $0.07 per share, charge related to the indefinite delay of a generation project in Superior, Wisconsin. Financial results for the fourth quarter of 2001 included a $4.4 million, or $0.06 per share, charge to exit the auto transport business.

QUARTER ENDED	MAR. 31	JUN. 30	SEPT. 30	DEC. 31
MILLIONS EXCEPT EARNINGS PER SHARE				
2002				
Operating Revenue	$373.0	$377.6	$390.0	$366.3
Operating Income from				
Continuing Operations	$56.4	$57.7	$62.1	$21.4
Net Income				
Continuing Operations	$33.4	$34.0	$38.3	$13.3
Discontinued Operations	1.8	4.8	6.8	4.8
	$35.2	$38.8	$45.1	$18.1
Earnings Available for				
Common Stock	$35.2	$38.8	$45.1	$18.1
Earnings Per Share of Common Stock				
Basic				
Continuing Operations	$0.42	$0.42	$0.47	$0.16
Discontinued Operations	0.02	0.06	0.08	0.06
	$0.44	$0.48	$0.55	$0.22
Diluted				
Continuing Operations	$0.42	$0.41	$0.47	$0.16
Discontinued Operations	0.02	0.06	0.08	0.06
	$0.44	$0.47	$0.55	$0.22
2001				
Operating Revenue	$376.9	$405.1	$383.1	$360.5
Operating Income from				
Continuing Operations	$52.4	$67.3	$53.3	$37.5
Net Income				
Continuing Operations	$30.7	$39.5	$35.3	$24.8
Discontinued Operations	2.2	3.0	2.5	0.7
	$32.9	$42.5	$37.8	$25.5
Earnings Available for				
Common Stock	$32.9	$42.5	$37.8	$25.5
Earnings Per Share of Common Stock				
Basic				
Continuing Operations	$0.43	$0.54	$0.45	$0.30
Discontinued Operations	0.03	0.04	0.03	0.01
	$0.46	$0.58	$0.48	$0.31
Diluted				
Continuing Operations	$0.43	$0.53	$0.44	$0.30
Discontinued Operations	0.03	0.04	0.03	0.01
	$0.46	$0.57	$0.47	$0.31

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

[PRICEWATERHOUSECOOPERS LLP LOGO OMITTED]

To the Board of Directors
of ALLETE, Inc.

Our audits of the consolidated financial statements referred to in our report dated January 20, 2003 appearing on page 56 of this Form 10-K also included an audit of the Financial Statement Schedule listed in Item 15(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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Minneapolis, Minnesota
January 20, 2003

SCHEDULE II

ALLETE
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

FOR THE YEAR ENDED DECEMBER 31	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO INCOME	ADDITIONS OTHER CHANGES	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
MILLIONS					
Reserve Deducted from Related Assets					
Reserve For Uncollectible Accounts					
2002 Trade Accounts Receivable	$6.1	$5.7	-	$3.0	$8.8
Finance Receivables	23.2	17.6	-	19.1	21.7
2001 Trade Accounts Receivable	5.1	4.4	-	3.4	6.1
Finance Receivables	22.4	3.8	-	3.0	23.2
2000 Trade Accounts Receivable	7.2	2.4	-	4.5	5.1
Finance Receivables	18.6	4.4	-	0.6	22.4
Deferred Asset Valuation Allowance					
2002 Deferred Tax Assets	6.0	1.8	-	-	7.8
2001 Deferred Tax Assets	5.0	1.0	-	-	6.0
2000 Deferred Tax Assets	3.2	1.8	-	-	5.0

RESERVE FOR UNCOLLECTIBLE ACCOUNTS INCLUDES BAD DEBTS WRITTEN OFF.

EXHIBIT INDEX

EXHIBIT NUMBER		
10(k)	-	Trust Indenture (without Exhibits) between Development Authority of Fulton County and SunTrust Bank, as Trustee, dated as of December 1, 2002.
10(l)	-	Bond Purchase Agreement (without Exhibits), dated December 1, 2002, for the Development Authority of Fulton County Taxable Economic Development Revenue Bonds (ADESA Atlanta, LLC Project) Series 2002.
10(m)	-	Lease Agreement (without Exhibits) between Development Authority of Fulton County and ADESA Atlanta, LLC, dated as of December 1, 2002.
10(t)	-	Second Amended and Restated Committed Facility Letter (without Exhibits), dated December 24, 2002, to ALLETE from LaSalle Bank National Association, as Agent.
+10(u)2	-	Amendments through January 2003 to the Minnesota Power (now ALLETE) Executive Annual Incentive Plan.
+10(z)2	-	Amendments through January 2003 to the Minnesota Power (now ALLETE) Executive Long-Term Incentive Compensation Plan.
+10(ac)	-	Minnesota Power (now ALLETE) Director Compensation Deferral Plan Amended and Restated, effective January 1, 1990.
12	-	Computation of Ratios of Earnings to Fixed Charges and Supplemental Ratios of Earnings to Fixed Charges.
23(a)	-	Consent of Independent Accountants.
23(b)	-	Consent of General Counsel.
99(a)	-	Certification of Annual Report dated February 14, 2003, signed by David G. Gartzke.
99(b)	-	Certification of Annual Report dated February 14, 2003, signed by James K. Vizanko.

Exhibit 10(k)

TRUST INDENTURE

between

DEVELOPMENT AUTHORITY OF FULTON COUNTY

and

SUNTRUST BANK
as Trustee

Dated as of December 1, 2002

Authorizing the Issuance of
$40,000,000 in Aggregate Principal Amount of
Development Authority of Fulton County
Taxable Economic Development Revenue Bonds
(ADESA Atlanta, LLC Project)
Series 2002

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TRUST INDENTURE

THIS TRUST INDENTURE (the "Indenture") dated as of December 1, 2002, made and entered into by and between the DEVELOPMENT AUTHORITY OF FULTON COUNTY, a public body corporate and politic created and existing under the laws of the State of Georgia (the "Issuer") and SUNTRUST BANK, a state banking corporation organized and existing under the laws of the State of Georgia having power and authority to accept and execute trusts, and having its principal offices in Atlanta, Georgia (the "Trustee").

W I T N E S S E T H:

WHEREAS, the Issuer has been duly created and is existing as a public body corporate and politic and an instrumentality of the State of Georgia and a public corporation pursuant to the provisions of the Act (as hereinafter defined); and

WHEREAS, the Issuer has been created pursuant to the provisions of the Act to develop and promote for the public good and general welfare trade, commerce, industry and employment opportunities and to promote the general welfare of the State of Georgia; and in furtherance of such purposes, the Issuer is empowered to issue its revenue obligations, in accordance with the Act for the purpose of acquiring, constructing and installing any "project" (as defined in the Act) for lease or sale to prospective tenants or purchasers in furtherance of the public purposes for which it was created; and

WHEREAS, after careful study and investigation the Issuer, in furtherance of the purposes for which it was created, has entered into a lease agreement (the "Lease"), dated as of even date herewith, with ADESA Atlanta, LLC (the "Lessee"), a limited liability company organized and existing under the laws of the State of New Jersey pursuant to which the Issuer has agreed to acquire, construct and install the Project (as defined in the Lease), including the real property owned by the Issuer, for the use and occupancy of the Lessee under the Lease and in consideration of which the Lessee has agreed to pay the Issuer specified rental payments and other payments; and

WHEREAS, after careful investigation, the Issuer has found and does hereby declare that it is in the best interest of the citizens of Fulton County, that the Project be acquired, constructed, installed and leased to the Lessee for the purposes stated in the Lease, all in keeping with the public purpose for which the Issuer was created; and

WHEREAS, Plans and Specifications for the Project have been prepared by the Lessee, and it is estimated that the amount necessary to finance the cost of the Project, including expenses incidental thereto, will not exceed $40,000,000; and

WHEREAS, the most feasible method of financing the cost of the Project is through the issuance hereunder of Development Authority of Fulton County, Taxable Economic Development Revenue Bonds, (ADESA Atlanta, LLC Project) Series 2002, in the aggregate

notational principal of $40,000,000, provided that said may be reduced based on the aggregate total amount of any and all payments made by the Purchaser (as hereinafter defined) in consideration of the sale of such Bonds under and pursuant to the Bond Purchase Agreement (the "2002 Bonds"); and

WHEREAS, it is anticipated that additional moneys may be necessary to finance the cost of (a) completing the acquisition, construction and installation of the Project, (b) providing for the enlargement, improvement, expansion or replacement of the Project, (c) refunding any bonds issued under this Indenture, or (d) any combination of the foregoing, and provision should be made for the issuance from time to time of Additional Bonds which shall be equally and ratably secured hereunder with the 2002 Bonds (the 2002 Bonds and such Additional Bonds being hereinafter collectively referred to as the "Bonds"); and

WHEREAS, the 2002 Bonds will be delivered to and paid for by the Purchaser in multiple installments as and when moneys are required to complete the acquisition, construction and installation of the Project, and the provisions of this Indenture are to be liberally read and construed in a manner which facilitates such approach to delivery and payment; and

WHEREAS, the Issuer will receive rental payments and other payments from the Lessee, which revenues, together with all other rents, revenues and receipts arising out of or in connection with the Issuer's ownership of the Project, shall be pledged together with the Lease (except for certain "Unassigned Rights" as hereinafter defined) as security for the payment of the principal of, premium, if any, and interest on the 2002 Bonds; and

WHEREAS, all things necessary to make the 2002 Bonds, when authenticated by the Trustee and issued and delivered as in this Indenture provided, the valid, binding and legal obligations of the Issuer, according to the import thereof, and to create a valid assignment and pledge of the rental payments and other payments derived from the Lease to the payment of the principal of and interest on the Bonds and a valid assignment of all the right, title and interest of the Issuer in the Lease, have been done and performed, and the execution and delivery of this Indenture and the execution, issuance and delivery of the 2002 Bonds, subject to the terms hereof, have in all respects been duly authorized;

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS, THIS INDENTURE WITNESSETH:

The Issuer, in consideration of the premises and of the purchase and acceptance of the 2002 Bonds by the holders and owners thereof, and of the sum of ONE DOLLAR ($1.00), lawful money of the United States of America, to it duly paid by the Trustee, at or before the execution and delivery of these presents, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, in order to secure the payment of the principal of, premium, if any, and interest on such Bonds according to their tenor and effect and to insure the performance and observance by the Issuer of all the covenants expressed or implied herein and in the Bonds, has given, granted, bargained, sold, conveyed, transferred, pledged, and assigned, and does by these presents, give, grant, bargain, sell, convey, transfer, pledge, and assign to the Trustee for the benefit of the holders from time to time of the 2002 Bonds and any Additional Bonds to be issued hereunder and their successors and assigns forever:

GRANTING CLAUSE FIRST

All right, title and interest of the Issuer in the Lease (except for Unassigned Rights) and the Bond Purchase Agreement, and all amendments, modifications and renewals thereof.

GRANTING CLAUSE SECOND

All rental payments and other payments to be received pursuant to the Lease, together with all other rents, revenues and receipts arising out of or in connection with the Issuer's ownership of the Project (except for Unassigned Rights), and all amendments, modifications and renewals thereof.

GRANTING CLAUSE THIRD

All amounts on deposit from time to time in the Project Fund and the Bond Fund, subject to the provisions of this Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein.

GRANTING CLAUSE FOURTH

Any and all other property of every name and nature (including, without limitation, any additional lease or leases covering the Project) from time to time hereafter by delivery or by writing of any kind, given, granted, pledged, assigned, conveyed, mortgaged or transferred, as and for additional security hereunder, by the Issuer or by anyone in its behalf or with its written consent, to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof.

TO HAVE AND TO HOLD all and singular the same with all privileges and appurtenances hereby granted, bargained, sold, conveyed, assigned, pledged, mortgaged and

transferred or agreed or intended so to be, whether now owned or hereafter acquired, to the Trustee and its successors in said trusts and to them and assigns;

IN TRUST NEVERTHELESS, upon the terms herein set forth for the equal and proportionate benefit, security and protection of all present and future holders and owners of the 2002 Bonds and any Additional Bonds without privilege, priority or distinction as to the lien or security interest or otherwise of any holder of any of the 2002 Bonds and any Additional Bonds over any other holder thereof except as herein expressly provided, and such pledged property shall immediately be subject to the security interest, charge and lien hereof without any physical delivery thereof or any further act, and said security interest, charge and lien shall be valid and binding against the Issuer and against all parties having claims of any kind against the Issuer whether such claims have arisen in contract, tort or otherwise and irrespective of whether such parties have notice thereof, and said security interest, charge and lien shall constitute a first security interest, charge, and lien securing the payment of the principal of, premium, if any, and interest on the Bonds;

PROVIDED, HOWEVER, that if the Issuer, its successors or assigns, shall well and truly pay, or cause to be paid, the principal of, premium, if any, and interest on the 2002 Bonds and any Additional Bonds, at the times and in the manner mentioned in the 2002 Bonds and any Additional Bonds according to the true intent and meaning thereof, or shall provide, as permitted hereby, for the payment thereof and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, then upon such final payment this Indenture and the rights hereby granted and liens hereby created shall cease, determine, and be void; otherwise this Indenture and said rights and liens to be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that the 2002 Bonds and any Additional Bonds issued and secured hereunder are to be issued and delivered, and all said property, rights, and interest, including, without limitation, the amounts hereby assigned and pledged, are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and the respective holders and owners, from time to time, of the 2002 Bonds and any Additional Bonds, as follows:

ARTICLE I

DEFINITIONS

Section 101. DEFINITIONS. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Lease. The following words and phrases and others evidently intended as the equivalent thereof shall, in the absence of clear implication herein otherwise, be given the following meanings:

"ACT" means the Development Authorities Law (O.C.G.A. Sections 36-62-1 ET SEQ.), as heretofore and hereafter amended.

"ADDITIONAL BONDS" means any additional bonds authorized and issued by the Issuer pursuant to Section 208 hereof.

"AUTHENTICATING AGENT" means the Authenticating Agent designated pursuant to Section 1508 hereof.

"BOND AGENTS" means the Paying Agent, the Authenticating Agent, the Bond Registrar, the Trustee, any co-trustee and any other similar agents appointed by the Issuer or the Trustee with the prior written consent of the Lessee. Any Person may serve in the capacity of more than one of such Bond Agents.

"BOND COUNSEL" means Alston & Bird LLP, Atlanta, Georgia or its successors, or if such firm is no longer a nationally recognized firm in the area of municipal finance, or declines to serve in such capacity, then said other counsel which is nationally recognized in the area of municipal finance selected by the Issuer and acceptable to the Lessee and the Trustee.

"BOND FUND" means the fund created by Section 502 of this Indenture.

"BOND PURCHASE AGREEMENT" means the contract of even date herewith among the Issuer, the Lessee and the Purchaser pursuant to which the Issuer has agreed to sell, and the Purchaser has agreed to purchase, the 2002 Bonds, in accordance with the provisions thereof, as the same may be amended or supplemented in accordance with its terms.

"BONDS" means collectively, the 2002 Bonds and any Additional Bonds.

"BONDHOLDER", "HOLDER" or "OWNER" when used with respect to the Bonds, means the registered owner of any Bond.

"BOND REGISTRAR" means the Trustee designated as Bond Registrar pursuant to Section 1508 hereof, or any other Person designated by the Issuer as successor Bond Registrar pursuant to the terms hereof.

"BUSINESS DAY" means any day other than a Saturday, Sunday or a legal holiday or a day on which banking institutions in the City in which the principal office of the Trustee, the Lessee or Paying Agent are not required or authorized by law to close.

"CLOSING DATE" means the date of the original issuance and sale of any series of Bonds.

"CODE" means the Internal Revenue Code of 1986, as amended, and all applicable rulings and regulations (including temporary and proposed regulations) thereunder.

"COUNSEL" means an attorney or firm thereof who is duly licensed to practice before the highest court of at least one state in the United States of America.

"COUNTY" means Fulton County, Georgia, a political subdivision of the State of Georgia, and any public entity, body or issuer to which is hereafter transferred or delegated by law the duties, powers, authorities, obligations, or liabilities of the present political subdivision.

"EVENT OF DEFAULT" means any Event of Default under this Indenture, as specified in and defined by Section 1001 hereof.

"EXTRAORDINARY SERVICES" and "EXTRAORDINARY EXPENSES" means services and expenses hereunder other than Ordinary Services, or Ordinary Expenses, respectively.

"FIXED RATE" means five percent (5%) per annum.

"GOVERNMENTAL OBLIGATIONS" means (a) direct obligations of the United States of America for payment of which the full faith and credit of the United States of America is pledged, or (b) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation by the United States of America.

"HOME OFFICE PAYMENT AGREEMENT" means any home office payment agreement entered into in accordance with the provisions of Section 202(c) hereof, as the same may be amended or supplemented in accordance with its terms.

"INDEPENDENT AUDITOR" means an independent certified public accountant, or firm thereof, of recognized standing who or which does not devote his or her or its full time to either the Issuer or the Lessee (but who or which may be regularly retained by either).

"INTEREST PAYMENT DATE" means the first day of each December, commencing on December 1, 2003.

"ISSUER" means the Development Authority of Fulton County, a body corporate and politic, duly created and existing under the Act, and its successors and assigns.

"LEASE" means that certain Lease Agreement dated as of December 1, 2002 between the Issuer and the Lessee, as the same may be amended or supplemented in accordance with its terms.

"LEASE DOCUMENTS" means the Lease, the Guaranty, the Security Deed and the Bond Purchase Agreement, as the same may hereafter be modified, amended or supplemented in accordance with their respective terms.

"LESSEE" means ADESA Atlanta, LLC, a limited liability company, organized and existing under the laws of the State of New Jersey and its permitted successors and assigns under the Lease.

"MATURITY DATE" means December 1, 2017.

"NATIONALLY RECOGNIZED BOND COUNSEL" means an attorney or a firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"ORDINARY SERVICES" and "ORDINARY EXPENSES" means those services normally rendered and those expenses normally incurred by a Person in the capacity of a trustee under instruments similar to this Indenture and for which no payment over and above any agreed payment schedule from the Issuer or the Lessee to the Trustee is required.

"OUTSTANDING" or "BONDS OUTSTANDING" means all Bonds which have been issued pursuant to this Indenture, except:

(a) Bonds canceled in accordance with Section 307 hereof prior to maturity;

(b) portions of Bonds to the extent that partial redemption or cancellation thereof has been noted thereon in accordance with Section 306 hereof;

(c) Bonds for the payment or redemption of which cash funds or Government Obligations shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Bonds); provided, that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee; and

(d) Bonds in lieu of which others have been authenticated under Section 207 hereof.

"PAYING AGENT" means the Paying Agent designated pursuant to Section 1508 hereof, or any other Person designated by the Issuer as successor Paying Agent pursuant to the terms hereof.

"PAYMENT OFFICE" means the payment office of the Trustee set forth in Section 1504 hereof, and any different office designated by the Trustee in accordance with the provisions of Section 1504 hereof, which shall be used for the payment of the Bonds.

"PERMITTED INVESTMENTS" means any of the following which at the time of investment are legal investments under the laws of the State of Georgia for the monies proposed to be invested therein:

(a) bonds or obligations of the State of Georgia, or of any county, municipality or political subdivision of the State of Georgia;

(b) bonds or other obligations of the United States or subsidiary corporations of the United States government which are fully guaranteed by such government;

(c) obligations of agencies of the United States government issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank and the Central Bank for Cooperatives;

(d) bonds or other obligations issued by any public housing agency or municipality in the United States, which such bonds or obligations are fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States government, or project notes issued by any public housing agency, urban renewal agency, or municipality in the United States and secured as to payment of both principal and interest by a requisition, loan, or payment agreement with the United States government;

(e) certificates of deposit of national or state banks located within the State of Georgia which have deposits insured by the Federal Deposit Insurance Corporation and certificates of deposit of federal savings and loan associations and state building and loan or savings and loan associations located within the State of Georgia which have deposits insured by the Federal Savings and Loan Insurance Corporation or the Georgia Credit Union Deposit Insurance Corporation (including the certificates of deposit of any bank, savings and loan association, or building and loan association acting as custodian or trustee for any proceeds of the Bonds); provided, however, that the portion of such certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the Georgia Credit Union Deposit Insurance Corporation, if any, shall be secured by deposit with the Federal Reserve Bank of Atlanta, Georgia, or with any national or state bank or federal savings and loan association or state building and loan or savings and loan association located within the State, of one or more of the following securities in an aggregate principal amount equal at least to the amount of such excess: direct and general obligations of the State of Georgia, or of any county, municipality corporation in the State of Georgia, or obligations included in subsections (b), (c), or (d) above;

(f) securities of or other interests in any no-load, open-end management type investment company or investment trust registered under the Investment Company Act of 1940, as from time to time amended, or any common trust fund maintained by any bank or trust company which holds such proceeds as trustee or by an affiliate thereof so long as:

(1) the portfolio of such investment company or investment trust or common trust fund is limited to the obligations referenced in subsection (b) above and repurchase agreements fully collateralized by any such obligations;

(2) such investment company or investment trust or common trust fund takes delivery of such collateral either directly or through an authorized custodian;

(3) such investment company or investment trust or common trust fund is managed so as to maintain its shares at a constant net asset value; and

(4) securities of or other interests in such investment company or investment trust or common trust fund are purchased and redeemed only through the use of national or state banks having corporate trust powers and located within the State of Georgia;

(g) repurchase agreements relating to obligations included in subsection (b) above to the extent authorized by O.C.G.A. Section 50-17-2; and

(h) any other investments to the extent at the time permitted by then applicable law for the investment of public funds.

"Person" or "person" means any natural person, firm, association, corporation or public body.

"Principal Amount" or "principal amount" means, with reference to the Bond or Bonds outstanding, the total amount of installment purchase payments made by the Purchaser pursuant to the Bond Purchase Agreement, less all principal amounts thereof previously paid, redeemed or cancelled, all as reflected on the 2002 Bond.

"PROJECT" means the land, buildings, furniture, fixtures, equipment and other facilities and improvements leased under the Lease, as they may at any time exist.

"PROJECT FUND" means the fund created by Section 602 hereof.

"PURCHASE PERIOD" means the period during which the Purchaser is obligated to make installment purchase payments under the Bond Purchase Agreement which shall commence on the Closing Date and end on the Completion Date.

"PURCHASER" means ADESA Atlanta, LLC, and its successors and assigns.

"RECORD DATE" means, with respect to the 2002 Bonds, the fifteenth day of the month immediately preceding each Interest Payment Date.

"SECURITY DEED" means the Deed to Secure Debt and Security Agreement dated as of December 1, 2002 from the Issuer, as grantor, in favor of the Trustee, as grantee, as the same may hereafter be modified, amended or supplemented in accordance with its terms.

"2002 BONDS" means any of the Development Authority of Fulton County Taxable Economic Development Revenue Bonds (ADESA Atlanta, LLC Project) Series 2002 authorized and issued pursuant to Section 202 hereof.

"TRUST ESTATE" means the property described in Granting Clauses First, Second, Third and Fourth of this Indenture.

"TRUSTEE" means SunTrust Bank, or any successor trustee appointed pursuant to Section 1308 hereof.

"UNASSIGNED RIGHTS" means the rights of the Issuer to receive (i) rental payments under Section 5.3(c) of the Lease, (ii) indemnification under Section 6.4 of the Lease, (iii) repayments of advances made by the Issuer, plus interest, as provided in Section 6.5 of the Lease, and (iv) attorneys' fees and expenses payable to the Issuer under Section 10.4 of the Lease.

Section 102. MISCELLANEOUS USE OF WORDS. "Herein," "hereby," "hereunder," "hereof," "hereinbefore," "hereinafter" and other equivalent words refer to this Indenture and not solely to the particular portion thereof in which any such word is used. The definitions set forth in Section 101 hereof include both singular and plural. Whenever used herein, any pronoun shall be deemed to include both singular and plural and to cover all genders. Any percentage of Bonds, specified herein for any purpose, is to be figured on the unpaid principal amount thereof then outstanding.

ARTICLE II

THE BONDS

Section 201. AUTHORIZED AMOUNT OF BONDS. The Bonds may be issued in different series and each Bond shall have an appropriate series designation. All of the Bonds shall be equally and ratably secured by this Indenture and by the pledge herein made, it being expressly understood and agreed that no Bonds issued hereunder shall be prior to any other Bonds thereafter issued hereunder, but shall be on a parity therewith, with respect to the pledge of this Indenture. The Bonds may be issued at one or more times in principal amounts designated by the Issuer and approved by the Lessee.

Section 202. ISSUANCE OF 2002 BONDS.

(a) The 2002 Bonds shall be designated "Development Authority of Fulton County, Taxable Economic Development Revenue Bonds (ADESA Atlanta, LLC Project) Series 2002." The 2002 Bonds shall be issued in the original notational aggregate principal amount of $40,000,000. The 2002 Bonds shall be issuable as fully registered bonds without coupons in any denomination and shall be numbered consecutively from R-1 upward, in order of authentication, with any other designation as the Trustee deems appropriate.

(b) The 2002 Bonds shall be dated as of December 1, 2002. Each 2002 Bond shall bear interest from the interest payment date next preceding its date of authentication, or if authenticated on an interest payment date, it shall bear interest from its date of authentication; provided, however if authenticated prior to the first Interest Payment Date, it shall bear interest from the Closing Date; and provided further, that if, on the date of authentication of any 2002 Bond, interest on the 2002 Bonds shall be in default, 2002 Bonds issued in exchange for 2002 Bonds surrendered for registration of transfer or exchange shall bear interest from the date to which interest has been paid in full on the 2002 Bonds surrendered.

The 2002 Bonds shall bear interest on the Principal Amount at the Fixed Rate per annum. Interest on the 2002 Bonds shall be computed on the basis of a 360-day year composed of twelve 30-day months. The 2002 Bonds shall mature on the Maturity Date. The 2002 Bonds are subject to redemption pursuant to Article III hereof.

Interest on the 2002 Bonds shall accrue on the Principal Amount of the Bonds outstanding commencing on the Closing Date. The interest on the 2002 Bonds shall be payable annually on the first day of each Interest Payment Date, commencing December 1, 2003 until payment in full of the principal amount thereof, by check or draft drawn on the Trustee and mailed to the registered owner at his address as it appears on the bond registration books kept by the Bond Registrar on the fifteenth day of the month (whether or not a Business Day) before each interest payment date. Payment of interest on the 2002 Bonds may, at the option of any holder of 2002 Bonds in an aggregate principal amount of at least $1,000,000, be transmitted by electronic transfer to such holder to the bank account number on file with the Trustee in accordance with written instructions received by the Trustee prior to the fifteenth day next preceding any interest

payment date. Any such instructions shall contain the name of the recipient bank (which must be located in the continental United States), such bank's ABA routing number and the acknowledgment of the Bondholder that a transfer charge may be charged by the Trustee to the Bondholder for such electronic transfers. Payment of the principal and redemption price, including any premium, of each 2002 Bond upon maturity thereof shall be made upon surrender thereof at the Payment Office of the Trustee, except that in the event the Purchaser is the holder of any 2002 Bond at the maturity date, no surrender of such Bond will be required for the payment of such Bond. All payments shall be made in lawful money of the United States of America.

(c) Any provision hereof to the contrary notwithstanding, the Trustee will, at the written request of the registered holder of all outstanding Bonds, enter into a home office payment agreement with such holder providing for the payment of the interest on such Bond or Bonds and the redemption price of any partial redemption of the principal thereof at a place and in a manner other than as provided in this Section 202 or in such Bond or Bonds, but any such agreement shall be subject to the following conditions:

(i) The terms and conditions of such agreement shall be reasonably satisfactory to the Trustee;

(ii) The final payment of the principal of and premium (if any) on such Bond or Bonds shall be made only upon the surrender thereof to the Trustee; and

(iii) If such agreement provides for the partial redemption of the principal of such Bond or Bonds without the surrender thereof in exchange for one or more new Bonds in an aggregate principal amount equal to the unredeemed portion of such Bond or Bonds, then such agreement:

(A) shall provide that the holder of such Bond or Bonds will not sell, pledge, transfer or otherwise dispose of the same unless prior to the delivery thereof it shall (I) surrender the same to the Trustee in exchange for a new Bond or Bonds in an aggregate principal amount equal to the aggregate unpaid principal of such Bond or Bonds or (II) notify the Trustee in writing of such sale, pledge, transfer or other disposition and deliver to the Trustee a certificate certifying to the Trustee that endorsement has been made on such Bond or Bonds, or on a record of partial redemption appertaining to each such Bond and constituting a part thereof, of all portions of the principal of each such Bond which have been redeemed; and

(B) shall provide (I) that, to the extent of the payment to the holder of such Bond or Bonds of the redemption price of any portion thereof called for redemption, the Issuer and the Lessee shall be released from liability with respect to such Bond or Bonds, and (II) that such holder will indemnify and hold harmless the Issuer, the Lessee and the Trustee against any liability arising from the failure of such holder to make any endorsement on such Bond or Bonds required by the preceding clause (A) or from an error or omission in such endorsement; and

(C) shall provide that if monies are on deposit in the Bond Fund, on or before any interest payment date or any redemption date, sufficient to pay the interest on the Bonds due on such interest payment date or the redemption price of any Bonds called for redemption on such redemption date, as the case may be, then the failure of the holder of any such Bonds to receive in a timely manner any payment due such holder on such interest payment date or redemption date, as the case may be, because of a mistake, delay or other failure in the implementation of the method of payment prescribed by such holder in such agreement shall not constitute a default hereunder, provided such mistake, delay or other failure is not due to the negligence of the Issuer.

(d) The initial sale and delivery of the 2002 Bonds to the purchasers thereof shall be subject to satisfaction of following conditions on or prior to the Closing Date:

(i) A final judgment of validation with respect to the 2002 Bonds shall have been rendered by the Superior Court of Fulton County as provided by the Act.

(ii) There shall have been filed with the Issuer a request and authorization to the Issuer on behalf of the Lessee and signed by an Authorized Lessee Representative to cause the Authenticating Agent to authenticate and deliver the 2002 Bonds to the purchaser or purchasers thereof or its or their representative or representatives upon payment to the Issuer of the sum specified in such request and authorization.

(iii) The Issuer shall have received the unqualified approving opinion of Alston & Bird LLP, Atlanta, Georgia, addressed to the Issuer, the Trustee and the Lessee, as to the legality of the 2002 Bonds and the proceedings of the Issuer and the issuance thereof.

(iv) The Issuer and Bond Counsel shall have received the unqualified approving opinion of Nelson, Mullins, Riley & Scarborough, LLP, Atlanta, Georgia, as counsel to the Issuer, addressed to the Issuer, the Trustee, the Lessee, the Purchaser and Bond Counsel, as to the legality and binding effect on the Issuer of this Indenture and the Lease.

(v) The Issuer shall have received an executed copy of the Bond Purchase Agreement.

Section 203. EXECUTION; LIMITED OBLIGATION. The 2002 Bonds shall be executed on behalf of the Issuer with the manual or facsimile signature of its Chairman or Vice-Chairman, and attested by the manual or facsimile signature of its Secretary or Assistant Secretary, and shall have impressed, imprinted or otherwise reproduced thereon the corporate seal of the Issuer. Any such facsimiles shall have the same force and effect as if manually signed. In case any officer whose signature shall appear on the 2002 Bonds shall cease to be such officer before the delivery of such 2002 Bonds, such signature or other facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until such delivery.

THE 2002 BONDS ISSUED PURSUANT TO THIS INDENTURE SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OF THE COUNTY, THE STATE OF GEORGIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF, OR A

PLEDGE OF THE FAITH AND CREDIT OF THE COUNTY, THE STATE OF GEORGIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF, BUT SUCH 2002 BONDS SHALL BE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE BOND FUND PROVIDED FOR HEREIN, AND THE ISSUANCE OF THE 2002 BONDS SHALL NOT DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATE THE COUNTY, THE STATE OF GEORGIA OR ANY OTHER POLITICAL SUBDIVISION THEREOF, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THE PAYMENT THEREFOR; PROVIDED, HOWEVER, FUNDS FOR THE PAYMENT OF THE 2002 BONDS MAY BE RECEIVED FROM ANY OTHER SOURCE DECLARED BY THE ACT TO BE AVAILABLE AND MAY BE USED FOR THE LESSEE'S PAYMENT OBLIGATIONS UNDER THE LEASE. THE ISSUER HAS NO TAXING POWER.

Section 204. AUTHENTICATION. No 2002 Bond shall be valid or obligatory for any purpose or entitled to any security or benefit under this Indenture unless and until a certificate of authentication on such 2002 Bond substantially in the form set forth on Exhibit A attached hereto shall have been duly executed by the Authenticating Agent, and such executed certificate of the Authenticating Agent upon any such 2002 Bond shall be conclusive evidence that such 2002 Bond has been authenticated and delivered under this Indenture. The Authenticating Agent's certificate of authentication on any 2002 Bond shall be deemed to have been executed by the Authenticating Agent if signed by an authorized signatory of the Authenticating Agent, but it shall not be necessary that the same officer execute the certificate of authentication on all of the 2002 Bonds.

Section 205. FORM OF BONDS. The 2002 Bonds shall be in substantially the form set forth in Exhibit A hereto, each with such appropriate variations, omissions, substitutions and insertions as are permitted or required by this Indenture and may have such letters, numbers or other marks of identification and such legends and endorsements placed thereon, as may be required to comply with any applicable laws or rules or regulations, or as may, consistent herewith, be determined by the officers executing such Bonds. The definitive Bonds shall have endorsed thereon, until such time as the Authenticating Agent shall have been advised in writing to the contrary, as hereinafter provided, a legend or text in substantially the following form:

TRANSFER RESTRICTED

> THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR JURISDICTION, AND MAY NOT BE SOLD OR OTHERWISE TRANSFERRED WITHOUT AN OPINION OF COUNSEL ACCEPTABLE TO THE ISSUER, THE TRUSTEE AND THE LESSEE OF THE PROJECT REFERRED TO IN THIS BOND TO THE EFFECT THAT SUCH TRANSFER WILL NOT VIOLATE APPLICABLE SECURITIES LAWS.

At such time as the Authenticating Agent is advised in writing by Counsel for the Lessee or the Issuer that such a legend is no longer required, the Authenticating Agent, on presentation of any Bond, will strike through the legend and execute a certificate to the effect that the legend has been removed by the Authenticating Agent with the consent of the Issuer and the Lessee or shall issue a new Bond or Bonds of authorized denomination or denominations without such legend.

Section 206. MUTILATED, LOST, STOLEN OR DESTROYED BONDS. If any 2002 Bond is mutilated, lost, stolen or destroyed, the Issuer may execute and deliver a new 2002 Bond of like maturity and tenor in lieu of and in substitution for the 2002 Bond mutilated, lost, stolen or destroyed; provided that, in the case of any mutilated 2002 Bond, such mutilated 2002 Bond shall first be surrendered to the Bond Registrar, and in the case of any lost, stolen or destroyed 2002 Bond, there shall be first furnished to the Bond Registrar evidence satisfactory to the Bond Registrar of the ownership of such 2002 Bond and of such loss, theft or destruction, together with indemnity satisfactory to it, the Lessee and the Issuer; provided that if the holder thereof is an Affiliate of the Lessee, such indemnity may take the form of an unsecured promise or indemnity by such holder. If any such 2002 Bond shall have matured or a redemption date pertaining thereto shall have passed, instead of issuing a new 2002 Bond, the Issuer may pay the same. The Issuer may charge the holder or owner of such 2002 Bond with its and the Bond Registrar's reasonable fees and expenses in this connection.

Section 207. REGISTRATION AND EXCHANGE OF BONDS. Upon surrender for registration of transfer of any Bond at the Payment Office of the Bond Registrar, duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Bond Registrar and duly executed by the registered owner or his attorney duly authorized in writing, the Issuer shall execute and the Authenticating Agent shall authenticate and deliver in the name of the transferee or transferees a new fully registered 2002 Bond or 2002 Bonds of the same series and same maturity for a like aggregate principal amount. 2002 Bonds may be exchanged at said office of the Bond Registrar for a like aggregate principal amount of 2002 Bonds of the same series and same maturity for a like aggregate principal amount. The Issuer shall execute and the Authenticating Agent shall authenticate and deliver 2002 Bonds bearing numbers not contemporaneously then outstanding. The execution by the Issuer of any 2002 Bond of any denomination shall constitute full and due authorization of such denomination and the Authenticating Agent shall thereby be authorized to authenticate and deliver such 2002 Bond. The Issuer shall cause books for the registration and for the registration of transfer of the 2002 Bonds as provided in this Indenture to be kept by the Bond Registrar. The Bond Registrar shall not be required to register the transfer of or exchange any 2002 Bond during the period of fifteen days next preceding any interest payment date of the 2002 Bonds nor to register the transfer of or exchange any 2002 Bond after the mailing of notice calling any 2002 Bond for redemption has been made, nor during the period of fifteen days next preceding mailing of a notice of redemption of any 2002 Bonds. Prior to delivering any 2002 Bonds hereunder, the Issuer shall cause the validation certificate thereon to be appropriately executed.

As to any 2002 Bond, the Person in whose name such 2002 Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of either principal of or interest on any 2002 Bond shall be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such 2002 Bond to the extent of the sum or sums so paid.

The cost of any services rendered or other expenses incurred by the Bond Registrar in connection with any exchange or registration of transfer shall be treated in the arrangement for services between the Issuer and the Bond Registrar as Ordinary Services or Ordinary Expenses of the Bond Registrar, and shall be reimbursed as such pursuant to the provisions in the Lease.

Notwithstanding the foregoing, in the case any Bond to be exchanged bears the restrictive legend described in Section 205 hereof, no registration of transfer thereof shall be effected unless there shall have been delivered to the Trustee the legal opinion described in such legend or a legal opinion to the effect that such legend is no longer required as described in Section 205 hereof.

In the event that any Bondholder fails to provide a correct taxpayer identification number to the Trustee, the Trustee may make a charge against such holder sufficient to pay any governmental charge required to be paid as a result of such failure. In compliance with Section 3406 of the Code, this amount may be deducted by the Trustee from amounts payable to the Bondholder.

On or after the delivery to the Trustee of the Completion Certificate, any holder of a 2002 Bond bearing a stated principal amount in excess of the Principal Amount of said Bond, may surrender such Bond to the Trustee in exchange of a new 2002 Bond having a stated principal amount equal to the Principal Amount of the Bond surrendered.

Section 208. ISSUANCE OF ADDITIONAL BONDS.

(a) Subject to the requirements of applicable law, so long as the Lease is in effect and the Lessee shall not be in default thereunder, one or more series of Additional Bonds may be authorized by resolution of the Issuer and thereupon issued and delivered for the purposes and under the conditions stated in this Section and in Section 4.2 of the Lease and upon compliance with the provisions of this Section and Section 4.2 of the Lease. Any such Additional Bonds shall rank PARI PASSU with the 2002 Bonds as to the security for the payment thereof and interest thereon.

(b) Additional Bonds may be issued at any time and from time to time in one or more series for the purpose of: (i) financing the completion of the Project to the extent the proceeds of the 2002 Bonds are insufficient to provide for completion of the Project, (ii) financing any extensions, improvements, repairs, renovations, replacements or extensions of the Project, including, without limitation, the acquisition of any additional land, improvements, equipment, or other real or personal property in connection therewith (collectively herein called "Additional Improvements"), or (iii) refunding all or any portion of any series of outstanding Bonds.

(c) Additional Bonds may be in such denomination or denominations, shall bear interest payable at such intervals, on such dates in each year, at such rate or rates, shall mature on such dates in such amounts and years, and shall be in such form and may contain such provisions for redemption prior to maturity, all as may be provided in the resolution under which such Bonds are issued.

(d) The proceeds from the issuance of any Additional Bonds shall be used solely for the payment or reimbursement of the costs (including the costs of issuing such bonds, legal fees and other related costs) for the purposes described in subsection (b) of this Section.

(e) The Issuer may execute and deliver to the Trustee and the Trustee shall authenticate and deliver Additional Bonds for the purposes specified above upon receipt by the Trustee of the following:

(1) A written statement of the Lessee executed on behalf of the Lessee by any Authorized Lessee Representative of the Lessee (i) approving the terms, conditions, manner of issuance, purchase price, delivery and contemplated disposition of the proceeds of the sale of such Additional Bonds, and (ii) certifying that no Default has occurred and is continuing under the Lease or, to the best of such officer's knowledge, this Indenture;

(2) A copy, duly certified by the Secretary or Assistant Secretary of the Issuer, of the resolution adopted and approved by the Issuer authorizing the issuance of such Additional Bonds and the execution and delivery of the supplemental indenture providing for the terms and conditions under which such Additional Bonds shall be issued, together with an executed counterpart of such supplemental indenture;

(3) A separate lease or an executed counterpart of an amendment of the Lease expressly providing for the payment of rentals by the Lessee in amounts sufficient to pay the principal of, premium, if any, and interest on such Additional Bonds;

(4) Copies of Financing Statements filed to protect the security interests created in the supplemental indenture with respect to the Additional Bonds;

(5) An opinion of Bond Counsel to the effect that this Indenture, as supplemented, creates a valid lien on and pledge of the revenues thereby conveyed and pledged, and all filings and/or recordings of any document required in order to perfect and preserve such lien and pledge have been duly accomplished. The Trustee may rely on such opinion as to the sufficiency and filing of the Financing Statements referred to in (4) above;

(6) An opinion of Bond Counsel to the effect that (i) the issuance of such Additional Bonds has been duly authorized and the terms thereof comply with the requirements of this Indenture and the Constitution and laws of the State of Georgia; (ii) all conditions precedent provided for in this Indenture relating to the authentication and delivery of such Additional Bonds have been satisfied; (iii) upon the issuance of such Additional Bonds, they shall be valid and binding obligations of the Issuer entitled to the benefits of and secured by this Indenture; and (iv) such other matters as may be reasonably required by the Issuer or the Trustee; and

(7) A written request and authorization to the Trustee on behalf of the Issuer and signed by the Chairman or Vice Chairman and Secretary of the Issuer to authenticate and

deliver such Additional Bonds to the purchaser or purchasers therein identified upon payment to the Trustee, but for the account of the Issuer, of the sum specified in such request and authorization plus accrued interest on such Additional Bonds to the date of delivery thereof.

The proceeds of such Additional Bonds shall be deposited with the Trustee and held and disbursed by the Trustee as provided in the supplemental indenture providing for the issuance of such Additional Bonds.

(f) The Issuer shall assign and pledge such separate or supplemental Lease and all revenues derived or to be derived therefrom as security for the payment of the Outstanding Bonds, including the Additional Bonds.

(g) Any subsequent proceedings authorizing the issuance of Additional Bonds, including any supplemental indenture as provided in this Section, shall not conflict with the terms and provisions of this Indenture but shall, for all legal purposes, ratify and reaffirm all the applicable covenants, agreements and provisions of this Indenture for the equal protection and benefit of all Bondholders.

(h) The Additional Bonds and the security therefor shall be validated in accordance with the laws of the State of Georgia.

Section 209. PAYMENT OF 2002 BONDS IN INSTALLMENTS. Under the Bond Purchase Agreement, the Purchaser is required to make certain installment payments with respect to the Bonds. The 2002 Bonds shall be initially issued as one Bond in the principal amount of $40,000,000, provided that such principal amount may be reduced based on the aggregate total amount of any and all installment payments made by the Purchaser in consideration of the sale of such Bonds under and pursuant to the Bond Purchase Agreement during the Purchase Period. If the Trustee is holding the Bond, the Trustee agrees that upon an installment payment under the Bond Purchase Agreement it will endorse in the space provided on the table attached to such Bond, the amount and date of each such installment payment.

ARTICLE III

REDEMPTION OF 2002 BONDS BEFORE MATURITY

Section 301. OPTIONAL REDEMPTION. The 2002 Bonds are subject to optional redemption at the direction of the Lessee prior to their stated maturity in whole or in part at any time and from time to time at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest to the redemption date. Notice of any such optional redemption shall be given to the Trustee by the Lessee not less than ten (10) days but no more than sixty (60) days before the redemption date. Any such notice for redemption in part shall specify the principal amount of the Bonds to be redeemed.

Section 302. [INTENTIONALLY OMITTED].

Section 303. NOTICE OF REDEMPTION.

(a) Notice of the call for any such redemption identifying the 2002 Bonds to be redeemed shall be given by the Trustee mailing a copy of the redemption notice by first class mail, postage prepaid at least ten (10) days but no more than sixty (60) days prior to the redemption date to the registered owner of each 2002 Bond to be redeemed at the address shown on the registration books. Such notice must (i) specify the 2002 Bonds to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon redemption must be payable and (ii) state that on the redemption date, the 2002 Bonds to be redeemed will cease to bear interest; provided, however, that failure to give such notice by mailing, or any defect therein, shall not affect the validity of any proceeding for the redemption of the 2002 Bonds.

(b) In addition to the foregoing notice, to the extent the 2002 Bonds are owned by five (5) or more holders who are not Affiliates of the Lessee, further notice shall be given by the Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in subsection (a) above.

(i) Each further notice of redemption given hereunder shall contain the information required in subsection (a) above for an official notice of redemption plus (1) the CUSIP numbers of all 2002 Bonds being redeemed, but only to the extent any such numbers have been assigned; (2) the date of issue of the 2002 Bonds as originally issued; (3) the rate of interest borne by each 2002 Bond being redeemed; (4) the maturity date of each 2002 Bond being redeemed; and (5) any other descriptive information needed to identify accurately the 2002 Bonds being redeemed.

(ii) Each further notice of redemption shall be sent at least two Business Days before the redemption date by registered or certified mail or overnight delivery service to all of the following registered securities custodians then in the business of holding substantial amounts of bonds of the type comprising the 2002 Bonds (such custodians now being The Custodian Trust

Company of New York, New York, Midwest Securities Trust Company of Chicago, Illinois and Philadelphia Custodian Trust Company of Philadelphia, Pennsylvania) and to one or more national information services that disseminate notices of redemption of bonds such as the 2002 Bonds (such as Financial Information Inc.'s Financial Daily Called Bond Service, Interactive Data Corporation's Bond Service, Kenny Information Service's Called Bond Service and Standard & Poor's Called Bond Record).

(c) Any notice sent as provided in this Section 303 shall be conclusively presumed to have been given whether or not the addressee receives such notice.

Section 304. REDEMPTION PAYMENTS. Prior to the date fixed for redemption, the Lessee on behalf of the Issuer shall place (or caused to be placed) funds with the Trustee in the Bond Fund Redemption Account, sufficient to pay the principal amount of the Bonds called for redemption, accrued interest thereon to the redemption date and the required redemption premium, if any. Upon the happening of the above conditions, the Bonds so designated for redemption shall, on the redemption date designated in such notice, become and be due and payable as hereinabove specified, and from and after the date of redemption so designated, unless default shall be made in the payment of the Bonds so designated for redemption, interest on the Bonds so designated for redemption shall cease to accrue, and the same shall no longer be protected by this Indenture and shall not be deemed to be Outstanding under the provisions of this Indenture.

Section 305. PRINCIPAL AND REDEMPTION PAYMENT CREDITS. Nothing herein contained shall be construed to limit the right of the Issuer to purchase any Bonds, at the written direction of the Lessee, in the open market, with any excess monies in the Bond Fund, at a price not exceeding the redemption price set forth in this Article, as a credit against its Bond Fund principal payment obligations, or its redemption payment obligations. Any such Bonds so purchased may not be reissued and shall be disposed of as is hereinafter provided in this Indenture.

Section 306. PARTIAL REDEMPTION. The 2002 Bonds may be redeemed in any denomination. Upon surrender of any 2002 Bond for redemption in part only, the Issuer shall execute and the Authenticating Agent shall authenticate and deliver to the holder thereof a new 2002 Bond or 2002 Bonds of the same series and same maturity, in the aggregate principal amount equal to the unredeemed portion of the 2002 Bond surrendered. At the option of any Bondholder, upon a partial redemption of a Bond, the Bondholder may endorse on the Table of Partial Redemptions appearing on such Bond, the amount and date of such partial redemption and shall immediately forward a written confirmation of such endorsement to the Trustee, unless the Trustee is holding such Bond on behalf of such owner, in which case the Trustee shall make such endorsement upon the payment thereof; and each Bondholder, by acceptance of its Bonds, hereby indemnifies the Paying Agent and the Trustee, and holds them harmless, against all damages, claims, actions or expenses arising from such owner's failure to make or forward notice of such endorsement. In the event less than all the 2002 Bonds are to be redeemed, the Bonds to be redeemed shall be redeemed in the principal amount designated by the Lessee.

Notwithstanding anything else contained herein, the provisions of Sections 303, 304 or 306 hereof may be amended or modified pursuant to a Home Office Payment Agreement entered into pursuant to Section 202(c) hereof with respect to some or all of the Bonds which are subject to the terms of such agreement.

Section 307. CANCELLATION. All 2002 Bonds which have been surrendered for the purpose of payment (including 2002 Bonds which have been redeemed prior to maturity and those voluntarily surrendered with instructions to cancel the same) shall be immediately canceled and periodically cremated or otherwise destroyed by the Trustee and shall not be reissued, and a certificate of cremation or destruction evidencing such cremation or destruction shall be furnished by the Trustee to the Issuer. All 2002 Bonds which have been surrendered for cancellation prior to maturity or early redemption shall cease to accrue interest on and after the surrender thereof and the same shall no longer be protected by this Indenture and shall not be deemed to be Outstanding under the provisions hereof.

ARTICLE IV

GENERAL COVENANTS

Section 401. PAYMENT OF PRINCIPAL AND INTEREST. The Issuer covenants that it will promptly pay the principal of (whether at maturity or upon any redemption or acceleration), premium, if any, and interest on the 2002 Bonds at the place, on the dates, and in the manner provided herein and in the form of the 2002 Bonds according to the true intent and meaning hereof and thereof. The principal of, premium, if any, and interest on the 2002 Bonds are payable solely from rental payments and other payments received from the Lessee under the Lease, together with all other revenues, rents, and earnings arising out of or in connection with the Issuer's interest in the Project, which payments, revenues, rents and earnings (excepting those subject to the Unassigned Rights) are hereby specifically pledged to the payment of principal of and interest on the 2002 Bonds in the manner and to the extent herein specified. The principal of, premium, if any, and interest on the 2002 Bonds are payable solely from the Bond Fund established pursuant to Section 502 hereof.

Section 402. PERFORMANCE OF COVENANTS BY ISSUER. The Issuer covenants that it will faithfully perform at all times any and all covenants, agreements, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond, and in all proceedings of the Issuer pertaining thereto. The Issuer warrants and represents that it is duly authorized under the Constitution and laws of the State of Georgia to issue the 2002 Bonds and to enter into this Indenture and to assign the rental payments and other payments received from the Lessee under the Lease together with all other revenues, rents and earnings arising out of or in connection with its interest in the Project in the manner and to the extent herein set forth; that all action on its part for the issuance of the 2002 Bonds and the authorization, execution and delivery of this Indenture has been duly and effectively taken; and that the 2002 Bonds are and will be valid and enforceable obligations of the Issuer in accordance with their terms.

Section 403. OWNERSHIP; INSTRUMENTS OF FURTHER ASSURANCE. The Issuer covenants that it lawfully owns and is lawfully possessed of the Project, or on and as of the date of the Closing Date of the 2002 Bonds, it will lawfully own and be possessed and have good and marketable title in and to the Project. The Issuer covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such resolution or resolutions supplemental hereto and such further acts, instruments, and transfers as the Trustee or the holders of a majority in aggregate principal amount of the Bonds then outstanding may reasonably require for the better giving, granting, pledging, assigning, conveying, mortgaging, transferring, assuring, and confirming unto Trustee for the benefit of the Bondholders all and singular the rents and other payments under the Lease and other revenues, rents, and earnings arising out of or in connection with the Issuer's interest in the Project, and pledged hereby to the payment of the principal of and interest on the Bonds. The Issuer covenants that, except as herein and in the Lease provided, it will not sell, convey, mortgage, encumber or otherwise dispose of any part of the Project.

Section 404. PAYMENT OF TAXES AND RELATED CHARGES. Pursuant to the provisions of Section 6.3 of the Lease, the Lessee has agreed to pay all lawful taxes, assessments, and charges at any time levied or assessed upon or against the Project which might impair or prejudice the lien and priority of this Indenture; provided, however, that nothing contained in this Section 404 shall require the payment of any such taxes, assessments and charges not required to be paid under Section 6.3 of the Lease.

Section 405. MAINTENANCE AND REPAIR. Pursuant to the provisions of Section 6.1 of the Lease, the Lessee has agreed at its own expense to cause the Project to be maintained, preserved and kept in reasonably good condition, repair, and working order, and that it will, from time to time, cause to be made all needed repairs thereto, and that the Lessee may, at it own expense, make, from time to time, additions, modifications and improvements to the Project under the terms and conditions set forth in the Lease.

Section 406. RECORDATION OF THE FINANCING STATEMENT. The Issuer covenants that it will cause such financing statements as are necessary to perfect the assignment of rentals to be received under the Lease (excepting only any Unassigned Rights), to the Trustee as security for the payment of principal of and interest on the Bonds to be filed and recorded in the records of the office of the Clerk of the Superior Court of Fulton County, Georgia.

Section 407. INSPECTION OF PROJECT BOOKS. The Issuer covenants that all books and documents in its possession relating to the Project and the rents, revenues and earnings derived from the Project shall at all times be open to inspection by such accountant or other agents as the Trustee or the holders of a majority in aggregate principal amount of the Bonds then outstanding may, from time to time, designate.

Section 408. PRIORITY OF PLEDGE. The pledge and assignment herein made of the rental payments and other payments received from the Lessee under the Lease, excepting only any Unassigned Rights, together with all other rents, revenues and earnings arising out of or in connection with the Issuer's interest in the Project, is a first and prior pledge thereof and shall not be impaired directly or indirectly by the Issuer or the Trustee and neither such payments, rents, revenues and earnings nor the Project or the Issuer's interest in the Lease shall otherwise be pledged and no person shall have any rights with respect thereto except as provided herein and in the Lease.

Section 409. RIGHTS UNDER LEASE AND BOND PURCHASE AGREEMENT. The Lease sets forth the respective obligations of the Issuer and the Lessee relating to the acquisition, construction, installation and leasing of the Project. Reference is hereby made to the Lease for a detailed statement of the obligations and rights of the Lessee thereunder; and the Issuer agrees that the Trustee in its own name or in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Lessee under and pursuant to the Lease for and on behalf of the owners of the Bonds, whether or not the Issuer is in default under the Lease or this Indenture.

The Bond Purchase Agreement sets forth the respective obligations of the Issuer, the Lessee and the Purchaser relating to the purchase of the Bonds. Reference is hereby made to the

Bond Purchase Agreement for a detailed statement of the obligations and rights of the Purchaser and the Lessee thereunder; and the Issuer agrees that the Trustee in its own name or in the name of the Issuer may enforce all rights of the Issuer and all obligations of the Lessee and the Purchaser under and pursuant to the Bond Purchase Agreement for and on behalf of the owners of the Bonds, whether or not the Issuer is in default under the Lease or this Indenture.

Section 410. PAYMENT FOR EXTRAORDINARY EXPENSES. Anything to the contrary herein or in the Lease notwithstanding, neither the Issuer nor the Lessee shall be liable for payment of any Extraordinary Expenses or for any Extraordinary Services unless the same was approved in writing in advance by the Lessee pursuant to Section 506 hereof and Section 5.3(b) of the Lease, which approval shall not be unreasonably withheld.

ARTICLE V

REVENUES AND FUNDS

SECTION 501. SOURCE OF PAYMENT OF BONDS. THE OBLIGATION OF THE ISSUER TO PAY THE PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS IS NOT A GENERAL OBLIGATION OF THE ISSUER BUT IS A LIMITED OBLIGATION PAYABLE SOLELY OUT OF THE BOND FUND FROM THE RENTAL PAYMENTS AND OTHER PAYMENTS RECEIVED FROM THE LESSEE UNDER THE LEASE, EXCEPTING ONLY PAYMENTS PURSUANT TO ANY UNASSIGNED RIGHTS, TOGETHER WITH ALL OTHER RENTS, REVENUES, AND EARNINGS ARISING OUT OF OR IN CONNECTION WITH THE ISSUER'S OWNERSHIP OF THE PROJECT AND AS AUTHORIZED AND PROVIDED HEREIN.

The Project has been leased under the Lease and the rental payments provided for in Section 5.3 of the Lease are to be paid to the Trustee for the benefit of the Bondholders and are to be deposited in the Bond Fund provided for in Section 502 hereof, except as provided in any Home Office Payment Agreement. Such rental payments are sufficient in amount and become due in a timely manner so as to insure the prompt payment of the principal of, premium, if any, and interest on the Bonds.

Section 502. CREATION OF THE BOND FUND; PLEDGE OF SAME. There is hereby created by the Issuer and ordered established with the Trustee a trust fund to be designated "Development Authority of Fulton County Bond Fund ADESA Atlanta, LLC Project" which shall be used only to pay the principal of, premium, if any, and interest on the Bonds. There shall now be established within the Bond Fund a Principal and Interest Account and a Redemption Account; such Accounts, together, shall comprise the Bond Fund. In accordance with the provisions hereof, the Bond Fund is hereby pledged to and charged with the payment of (i) the interest on the Bonds as such interest shall become due and payable, and (ii) the principal and premium, if any, of the Bonds as the same shall become due and payable.

Section 503. PAYMENTS INTO THE BOND FUND. There shall be paid into the Principal and Interest Account all rental payments specified in Section 5.3(a) of the Lease. There shall be paid into the Redemption Account, as and when received, (a) all monies required to be remitted to the Trustee or paid into the Bond Fund pursuant to Sections 5.3, 7.1 or 7.2 of the Lease, and (b) all monies required to be so deposited pursuant to Section 304 hereof. All other monies received by the Trustee under and pursuant to any of the provisions of the Lease or this Indenture shall be deposited into the Principal and Interest Account or the Redemption Account in accordance with the direction accompanying any such monies. The Issuer covenants that so long as any of the Bonds are outstanding it will pay, or cause to be paid, into the Bond Fund from the available sources of payment described in Section 501 hereof sufficient monies to pay promptly the principal of, premium, if any, and interest on the Bonds as the same become due and payable.

Section 504. USE OF MONIES IN THE BOND FUND. Except as provided in Section 509 hereof, monies in the Bond Fund shall be used solely for the payment of the principal of, premium, if any, and interest on the Bonds and redemption price of Bonds redeemed prior to maturity. No part of the rental payments under the Lease required to be paid into the Bond Fund

(excluding prepayments under Section 9.5 of the Lease) shall be used to redeem Bonds prior to maturity. Monies held in the Redemption Account may be used for the purchase of Bonds in the manner provided in Section 305 hereof.

Section 505. NON-PRESENTMENT OF BONDS. Unless otherwise provided in a Home Office Payment Agreement, if any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity or at the redemption date, provided monies sufficient to pay such Bond shall have been made available to the Trustee and are held in the Bond Fund for the benefit of the holder thereof, all liability of the Issuer to the holder thereof for the payment of such Bond shall forthwith cease, determine and be completely discharged, and thereupon, subject to Section 509(b) and the laws having to do with unclaimed property in the State of Georgia, it shall be the duty of the Trustee to hold such monies, without liability for interest thereon, for the benefit of the holder of such Bond who shall thereafter be restricted exclusively to such monies for any claim of whatever nature on his part under this Indenture or on, or with respect to, such Bond.

Section 506. FEES, CHARGES AND EXPENSES OF BOND AGENTS. Pursuant to the terms of the Lease, the Lessee has agreed to pay directly to each of the Bond Agents, until the principal of, premium, if any, and interest on the Bonds shall have been paid in full: (i) an amount equal to the annual fees of such Bond Agents, if any, for their Ordinary Services rendered and their Ordinary Expenses incurred under this Indenture, and (ii) to the extent that they have been approved in writing by the Lessee, the reasonable fees and charges of such Bond Agents, if any, for Extraordinary Services rendered by them and Extraordinary Expenses incurred by them under this Indenture, as and when the same become due, subject to the provisions of Section 410 hereof. As specified in Section 5.3(b) of the Lease, the Lessee may contest the validity, necessity or reasonableness for any such Extraordinary Services and Extraordinary Expenses and the fees or charges referred to therein.

Section 507. MONIES TO BE HELD IN TRUST. All monies paid over to the Trustee for the account of the Bond Fund under any provision of this Indenture shall be held in trust by the Trustee for the benefit of the holders of the Bonds entitled to be paid therefrom.

Section 508. INSURANCE AND CONDEMNATION PROCEEDS. Reference is hereby made to Sections 7.1, 7.2 and 7.3 of the Lease for provisions as to the disposition of net proceeds of insurance and condemnation awards.

Section 509. REPAYMENT TO THE LESSEE FROM THE BOND FUND.

(a) Any amounts remaining in the Bond Fund after payment in full of all Bonds (taking into consideration that sufficient monies or obligations such as are described in Section 902 hereof must be retained in the Bond Fund to pay all principal of, premium, if any, and interest then due and payable with respect to each Bond not yet presented for payment and to pay all principal, premium, if any, and interest relating to each Bond which is not yet due and payable but with respect to which the lien of this Indenture has been defeased upon compliance with Article IX hereof), and after payment of all of the fees, charges and expenses of the Bond Agents which have accrued and which will accrue and all other items required to be paid hereunder, if

any, shall be paid to the Lessee upon the expiration or sooner termination of the term of the Lease as provided in Article XI of the Lease.

(b) Any moneys held by the Trustee in the Bond Fund in trust for the payment of the principal of or interest on any Bond remaining unclaimed for two years after such principal, premium, if any, or interest has become due and payable shall be paid to the Lessee, and the holder of such Bond shall thereafter, as an unsecured general creditor, look only to the Lessee for the payment thereof and all liability of the Trustee with respect to such trust money shall thereupon cease.

ARTICLE VI

CUSTODY AND APPLICATION OF PROCEEDS OF BONDS

Section 601. DISPOSITION OF ACCRUED INTEREST; DISPOSITION OF BOND PROCEEDS. The proceeds from the sale of the 2002 Bonds (including all installment payments made pursuant to the Bond Purchase Agreement) shall be paid into the hereinafter defined Project Fund.

Section 602. PROJECT FUND; DISBURSEMENTS.

(a) A special fund is hereby created by the Issuer and ordered established with the Trustee to be designated "Development Authority of Fulton County Project Fund ADESA Atlanta, LLC Project."

(b) Monies in the Project Fund shall be disbursed in accordance with the Lease, particularly Section 4.3 thereof.

(c) All payments from the Project Fund shall be made as directed by an Authorized Lessee Representative upon checks signed or wire transfers, or in such other manner as may be provided for in any Home Office Payment Agreement.

(d) All monies in and all securities held for the credit of the Project Fund shall be subject to a lien and charge in favor of the holders of the Bonds and shall be held for the security of such holders until paid out in the manner provided for hereinabove.

(e) The Trustee shall maintain adequate records pertaining to the Project Fund and all disbursements therefrom, and after the Project has been completed and the Completion Certificate has been filed with the Trustee as provided in Section 603 hereof, the Trustee shall file an accounting thereof with the Lessee.

Section 603. COMPLETION AND OCCUPANCY OF PROJECT. If the acquisition and installation of the Project has not occurred prior to the Closing Date, the Completion Date shall be evidenced to the Issuer and the Trustee by the Completion Certificate executed and delivered by the Lessee in accordance with Section 4.5 of the Lease.

Section 604. SURPLUS MONEY IN PROJECT FUND. Upon receipt by the Trustee of the Completion Certificate pursuant to Section 4.5 of the Lease, all monies remaining in the Project Fund (including monies earned on investments made pursuant to the provisions of Section 701 hereof), except for amounts retained in the Project Fund for the payment of Project Costs not then due and payable, shall be paid into the Bond Fund and used by the Trustee for the payment of the principal of Bonds or for the purchase of the Bonds in the open market in the manner provided under Article III hereof. Any amounts paid into the Project Fund after the delivery of the Completion Certificate in accordance with the requirements of Section 4.5 of the Lease, except for amounts retained in the Project Fund for the payment of Project Costs not then due and payable, shall be used for the payment of the principal of the Bonds or for the purchase of the

Bonds in the open market in the same manner heretofore provided in this Section for amounts remaining on the Completion Date.

ARTICLE VII

INVESTMENTS; DEPOSIT OF FUNDS

Section 701. PROJECT FUND INVESTMENTS. Any monies held as a part of the Project Fund shall be invested in obligations which are Permitted Investments. Such investments shall be made upon the written direction of an Authorized Lessee Representative. Each written investment direction given under this Section shall include a certification that such investments constitute Permitted Investments under the terms of this Indenture. Such investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the Project Fund and the interest accruing thereon and any profit resulting therefrom shall be credited to the Project Fund and any loss resulting therefrom shall be charged to the Project Fund. The Trustee may make any such investments through its own investment department or that of any Affiliate of the Trustee and shall not have any liability for any loss resulting from any investment made and administered in accordance with this Section.

Section 702. BOND FUND INVESTMENTS. Monies held in the Bond Fund Redemption and Principal and Interest Accounts shall, at the written direction of an Authorized Lessee Representative, be invested and reinvested by the Trustee in Permitted Investments in accordance with the treatment prescribed for Project Fund monies in Section 701 hereof. Investments shall mature at such times and in such amounts as will permit the timely payment of the amounts required to be paid from the Bond Fund. Such investments shall be held by or under the control of the Trustee and shall be deemed at all times a part of the Redemption Account or the Principal and Interest Account, as the case may be, and the interest accruing thereon and any profit realized therefrom shall be credited to the Redemption Account or the Principal and Interest Account, as the case may be, and any loss resulting therefrom shall be charged to the Redemption Account or the Principal and Interest Account, as the case may be. The Trustee is directed to sell and convert to cash a sufficient amount of such investments in the Bond Fund whenever the cash held in the Bond Fund is insufficient to provide for the payment of the principal of (whether at the maturity date or redemption date prior to maturity), premium, if any, and interest on the Bonds as the same become due and payable. The Trustee may make any such investments through its own investment department or that of any Affiliate of the Trustee and shall not be liable for any investment, or the sale thereof, made in accordance with the provisions of this Article VII.

Section 703. DEPOSIT OF FUNDS. All monies received by the Issuer in connection with the issuance of the Bonds or otherwise in connection with or arising out of the Issuer's interest in the Project shall be deposited with the Trustee in accordance with the provisions of Article VI of this Indenture. All monies deposited shall be applied in accordance with the terms and for the purposes herein set forth and shall not be subject to lien or attachment by any creditor of the Issuer.

ARTICLE VIII

SUBORDINATION TO RIGHTS OF THE LESSEE

Section 801. SUBORDINATION TO RIGHTS OF THE LESSEE. This Indenture and the rights, options and privileges of the Trustee and the holders of the Bonds hereunder and under the Lease, are specifically made subject to and subordinate to the rights, options, and privileges of the Lessee set forth in the Lease, and the Lessee shall be suffered and permitted to possess, use, and enjoy the Project and its appurtenances so as to carry out its obligations under the Lease.

Section 802. RELEASE OF PORTIONS OF THE PROJECT. Reference is made to the provisions of the Lease, including, without limitation, Sections 6.2 and 11.2 thereof, wherein the Lessee has been granted the right to remove, dispose of and/or acquire certain portions of the Project upon compliance with the terms and conditions of the Lease. The Issuer and the Lessee have agreed under the Lease that upon compliance with the conditions applicable to the release of certain portions of the Project, any such portions of the Project which are released shall automatically cease to be subject to the Lease and by virtue thereof this Indenture and shall be released therefrom and herefrom without the necessity of any further action by the Issuer, the Lessee, the Trustee or any other Person.

Section 803. RELEASE OF EQUIPMENT. Reference is made to the provisions of the Lease, including, without limitation, Section 6.2 thereof, wherein the Lessee has been granted the right to remove from the Project items of Equipment upon compliance with the terms and conditions of the Lease. The Issuer and the Lessee have agreed under the Lease that upon compliance with the conditions applicable to the release of items of Equipment, any such items of Equipment which are released shall automatically cease to be subject to the Lease and by virtue thereof this Indenture and shall be released therefrom and herefrom without the necessity of any further action by the Issuer, the Lessee, the Trustee or any other Person.

Section 804. GRANTING OF EASEMENTS. Reference is made to the provisions of the Lease, including, without limitation, Section 8.5 thereof, wherein the Lessee has reserved the right to grant or release easements and take other action upon compliance with the terms and conditions of the Lease. The Issuer agrees to confirm in writing any action taken by the Lessee under said Section 8.5 upon compliance with the provisions of the Lease.

Section 805. FURTHER ASSURANCES. The Trustee, at the written request of the Issuer or the Lessee, shall (i) confirm in writing that all rights to and liens on the Project or any part thereof which may be released pursuant to the terms of the Lease which may be afforded under this Indenture shall be released and terminated upon compliance with the terms of the Lease and (ii) execute or cause to be executed any and all instruments reasonably requested by the Issuer or the Lessee to effectuate a conveyance of the Project or any part thereof or the release of any lien or security interest therein.

ARTICLE IX

DISCHARGE OF LIEN

Section 901. DISCHARGE OF LIEN. If the Issuer shall pay or cause to be paid the principal of, premium, if any, and interest on the Bonds at the times and in the manner stipulated therein and herein, and if the Issuer shall keep, perform and observe all and singular the covenants and agreements in the Bonds and in this Indenture expressed as to be kept, performed and observed by it or on its part, then the lien of this Indenture shall cease, determine and be void. The Trustee shall thereupon execute and deliver to the Issuer such instruments in writing as shall be required to evidence the same, and reconvey to the Issuer the Trust Estate, and assign and deliver to the Issuer so much of the Trust Estate as may be in its possession or subject to its control, except for monies and securities held in the Bond Fund for the purpose of paying Bonds which have not yet been presented for payment and monies and obligations in the Bond Fund required to be paid to the Lessee pursuant to Section 509 hereof.

Section 902. PROVISION FOR PAYMENT OF BONDS. The Bonds shall be deemed to have been paid within the meaning of Section 901 hereof if:

(a) (1) there shall have been irrevocably deposited into the Bond Fund or in a separate escrow fund expressly created for such purpose either (i) monies in an amount, and/or (ii) Governmental Obligations the principal of, premium, if any, and interest on which when due, will provide monies in an amount which, without further investment or reinvestment, and together with the monies, if any, deposited with or held by the Trustee at the same time and available for such purpose pursuant to this Indenture, shall be sufficient to pay the principal of and interest due and to become due on the Bonds at their respective maturities (as evidenced by a certification to such effect by an Independent Auditor delivered to the Trustee), and there shall have been paid to each of the Bond Agents all of the fees and expenses due or to become due to such parties, in connection with the discharge of their respective obligations in connection with the payment or redemption of the Bonds, or otherwise with respect thereto, or there shall have been made arrangements satisfactory to said Bond Agents for such payment or (2) there shall have been surrendered for cancellation all outstanding Bonds in accordance with Section 9.6(c) of the Lease; and

(b) in case the Bonds are to be redeemed prior to their maturity, the Issuer shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to redeem the Bonds on the date or dates indicated and either evidence satisfactory to the Trustee that all redemption notices required hereunder have been given or irrevocable power authorizing the Trustee to give such redemption notices. As a condition to any such payment, the Trustee in its discretion may require the delivery of a certification by an Independent Auditor of the sufficiency of any such deposit, provided that no such certification shall be required if all of the Bonds are held by the Lessee and/or its Affiliates.

ARTICLE X

DEFAULT PROVISIONS AND REMEDIES OF BONDHOLDERS

Section 1001. DEFAULTS. If any of the following events occurs, subject to the terms of Section 1007 hereof, it is hereby defined as and declared to be and to constitute an "Event of Default" under this Indenture:

(a) default in the due and punctual payment of any interest on any Bond and the continuance of such default for a period of thirty (30) calendar days; or

(b) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond, whether at the maturity date or the redemption date prior to maturity and the continuance of such default for a period of thirty (30) calendar days; or

(c) default in the performance or observance of any other of the covenants, agreements, or conditions on the part of the Issuer under this Indenture or in the Bonds contained; or

(d) the occurrence of any event of default under the Lease as provided in Section 10.1 thereof and receipt by the Trustee of a written request to accelerate the principal amount of the Bonds then Outstanding from the holders of more than 50% in aggregate principal amount of the Bonds then Outstanding; provided that no such written request shall be required upon the occurrence of an event of default under subsections (d) or (e) of Section 10.1 of the Lease.

Section 1002. ACCELERATION. Upon the occurrence and during the continuance of any Event of Default hereunder, the Trustee may, and upon receipt of written instructions from the holders of more than 50% in aggregate principal amount of Bonds then outstanding, shall, by notice in writing delivered to the Issuer, declare the principal of all Bonds and the interest accrued thereon to the date of such acceleration to be immediately due and payable, and the same shall thereupon become and be immediately due and payable; provided, however, the Bonds then Outstanding shall be accelerated automatically and without the necessity of any declaration or the taking of any other action upon the occurrence of an event of default under subsection (d) or (e) of Section 10.1 of the Lease.

Section 1003. OTHER REMEDIES. Upon the occurrence and during the continuance of any Event of Default hereunder, the Trustee shall have the power to proceed with any right or remedy granted under the Lease Documents or by the Constitution and laws of the State of Georgia, as it may deem best, including any suit, action or special proceeding in equity or at law for the specific performance of any covenant or agreement contained herein or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect the rights aforesaid, insofar as such may be authorized by law, and the right to the appointment, as a matter of right and without regard to the sufficiency of the security afforded by the Trust Estate, of a receiver for all or any part of the Trust Estate. In the event all the 2002 Bonds are held by the Purchaser or one or more Affiliates of the Purchaser, the Trustee shall exercise no rights or

remedies and shall not authorize the Issuer to exercise any right or remedy without providing such holders at least five Business Days' advance written notice thereof. In the event the holders of at least 50% in aggregate principal amount of said Bonds instruct the Trustee and the Issuer to take no action, the Trustee and the Issuer shall comply with such instructions and shall incur no liability as a result of such compliance. The rights here specified are to be cumulative to all other available rights, remedies, or powers and shall not exclude any such rights, remedies or powers. Without intending to limit the foregoing rights, remedies and powers by virtue of such specification, the Trustee is authorized to further assign the Issuer's right, title and interest in the Lease to a third party, provided that the Trustee shall provide written notice of such assignment to the Issuer at least one business day prior to the effective date of any such assignment.

Section 1004. RIGHTS OF BONDHOLDERS. Upon the occurrence of any Event of Default and if requested to do so by the holders of more than 50% in principal amount of the Bonds Outstanding and indemnified as provided in Section 1301(m) hereof, the Trustee shall be obliged to exercise such rights and remedies conferred by this Indenture and the Lease as the holders of the Bonds shall have instructed the Trustee, subject to the following:

(a) No right or remedy by the terms of this Indenture conferred upon or reserved to the Trustee or the holders of the Bonds is intended to be exclusive of any other right or remedy, but each and every such right and remedy shall be cumulative and shall be in addition to any other right or remedy given to the Bondholders or now or hereafter existing at law, in equity, or by statute.

(b) No delay or omission to exercise any right or remedy accruing upon any Event of Default hereunder shall impair any such right or remedy or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right and remedy may be exercised from time to time and as often as may be deemed expedient.

(c) No waiver of any Event of Default hereunder shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

Section 1005. APPLICATION OF MONIES.

(a) All monies received pursuant to any right given or action taken under the provisions of this Article and any monies available in the funds and accounts shall, after payment of the costs and expenses of the proceedings resulting in the collection of such monies and of the expenses, liabilities and advances incurred or made by the Trustee in connection therewith and all other amounts due and payable to the Trustee hereunder or under the Lease, be deposited in the Principal and Interest Account, on a pro rata basis, and all monies in the Bond Fund shall be applied as follows:

(i) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such monies shall be applied by the Trustee:

First - To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds (other than installments of interest on Bonds with respect to the payment of which monies or securities are set aside in the respective Bond Fund), in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and

Second - To the payment to the Persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than principal of Bonds with respect to the payment of which monies or securities are set aside in the Bond Fund), in the order of their due dates, with interest on such Bonds from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege.

(ii) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such monies shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds (other than principal of and interest on Bonds with respect to the payment of which monies or securities are set aside in the Bond Fund), without preference or priority of principal and interest one over the other, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege.

If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of this Article then, subject to the provisions of paragraph (ii) of this subsection (a), in the event that the principal of all the Bonds shall later become due or be declared due and payable, the monies shall be applied in accordance with the provisions of paragraph (i) of this subsection (a).

(b) Whenever monies are to be applied pursuant to the provisions of this Section, such monies shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such monies available for application and the likelihood of additional monies becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such monies and of the fixing of any such date, and shall not be required to make payment to the holder of any Bond until such Bond shall be presented to the Trustee for appropriate endorsement or for cancellation if paid in full.

(c) Whenever all Bonds and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Bond Agents, if any, have been paid, any balance remaining in the Bond Fund shall be paid to the Lessee as provided in Section 509 hereof.

Section 1006. TERMINATION OF PROCEEDINGS. In case the Trustee or any Bondholder shall have proceeded to enforce any right or remedy under this Indenture by the appointment of a receiver, by entry, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder with respect to the Trust Estate, and all rights, remedies and powers of the Trustee and the Bondholders shall continue as if no such proceedings had been taken.

Section 1007. NOTICE OF EVENTS OF DEFAULT; OPPORTUNITY OF THE ISSUER AND LESSEE TO CURE DEFAULTS.

(a) No Event of Default specified in subsection 1001(c) hereof shall constitute an Event of Default hereunder until notice of such Event of Default by registered or certified mail shall be given by the Trustee to the Issuer and the Lessee, and the Issuer shall have had thirty (30) days after receipt of such notice to correct said Event of Default or cause said Event of Default to be corrected, and the Issuer shall not have corrected said Event of Default or caused said Event of Default to be corrected within the applicable period; provided further, that if an Event of Default specified in said subsection 1001(c) be such that it can be corrected but not within the period specified herein, it shall not constitute the basis of an Event of Default hereunder if corrective action capable of remedying such Event of Default is instituted by the Issuer within the applicable period and diligently pursued until the Event of Default is corrected, unless, by such action, the lien or charge hereof on any part of the Trust Estate shall be materially endangered or the Project or the revenue therefrom or any part thereof shall be subject to loss or forfeiture.

(b) With regard to any Event of Default concerning which notice is given to the Lessee or the Issuer under the provisions of this Section 1007, the Issuer hereby grants to the Lessee full authority to perform any obligation the performance of which by the Issuer is alleged in such notice to be in default, such performance by the Lessee to be in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts and with power of substitution.

Section 1008. WAIVERS OF EVENTS OF DEFAULT. The Trustee (a) may in its discretion waive any Event of Default hereunder and its consequences and rescind any acceleration of maturity of principal and its consequences, if such Event of Default has been cured and there is no longer continuing any Event of Default hereunder, and (b) shall waive any Event of Default hereunder and its consequences and rescind any acceleration of maturity of principal, upon the written request of the owners of a majority in principal amount of the Bonds outstanding; provided, however, that there shall not be waived (i) any Event of Default pertaining to the payment of the principal or premium, if any, of any Bond at its maturity date or any prepayment date prior to maturity, or (ii) any Event of Default pertaining to the payment when due of the interest on any Bond, unless prior to such waiver or rescission, all arrears of principal (due otherwise than by

acceleration) and interest, with interest (to the extent permitted by law) at the rate borne by the Bonds on overdue installments of principal, premium, if any, and interest and all arrears of payments of principal when due, as the case may be, and all expenses of the Trustee in connection with such Event of Default, shall have been paid or provided for, and in case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely, then and in every such case the Issuer, the Trustee and the owners of the Bonds shall be restored to their former positions and rights hereunder respectively, but no such waiver or rescission shall extend to any subsequent or other Event of Default, or impair any right consequent thereon.

Section 1009. RIGHT OF HOLDERS OF THE BONDS TO DIRECT PROCEEDINGS. Anything in this Indenture to the contrary notwithstanding, but subject to the provisions of Section 1301(m) hereof, the owners of not less than a majority in principal amount of Bonds outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Indenture, or for the appointment of a receiver or any other proceedings hereunder; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of this Indenture.

Section 1010. RIGHTS AND REMEDIES VESTED IN TRUSTEE. Subject to the provisions of Section 1004, all rights and remedies (including the right to file proof of claims) under this Indenture or under any of the Bonds may be enforced by the Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any owners of the Bonds, and any recovery of judgment shall be for the equal benefit of the owners of the Bonds.

Section 1011. RIGHTS AND REMEDIES OF OWNERS OF THE BONDS. No owner of any Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of this Indenture, for the execution of any trust thereof or for the appointment of a receiver or to enforce any other right or remedy hereunder, unless an Event of Default has occurred of which the Trustee has been notified as provided in subsection (h) of Section 1301 hereof, or of which by said subsection it is deemed to have notice, and the owners of not less than a majority in principal amount of Bonds outstanding shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, nor unless also such owners have offered to the Trustee indemnity as provided in Section 1301 hereof, nor unless also the Trustee shall thereafter fail or refuse to exercise the powers hereinbefore granted, or to institute such action, suit or proceeding in its, his or their own name or names. Such notification, request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of this Indenture and to any action or cause of action for the enforcement of this Indenture, or for the appointment of a receiver or for any other right or remedy hereunder; it being understood and intended that no one or more owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Indenture by its, his or their action or to enforce any right or remedy

hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the owners of all Bonds. Nothing in this Indenture contained shall, however, affect or impair the right of any owner of the Bonds to enforce the payment of the principal of, premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of the Issuer to pay the principal of, premium, if any, and interest on each of the Bonds issued hereunder to the respective owners hereof at the time, place, from the source and in the manner expressed in the Bonds.

ARTICLE XI

SUPPLEMENTAL INDENTURES

Section 1101. SUPPLEMENTAL INDENTURES NOT REQUIRING CONSENT OF BONDHOLDERS. The Issuer may, without the consent of, or notice to, any of the Bondholders, adopt an indenture or indentures supplemental to this Indenture as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in this Indenture;

(b) to grant to or confer for the benefit of the Bondholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders;

(c) to subject to the lien and pledge of this Indenture additional rents, revenues, receipts, properties or collateral;

(d) to issue and to secure the payment of Additional Bonds as provided in Section 208 hereof; and

(e) in connection with any other changes hereto which shall be deemed necessary or desirable for the purpose of modifying or altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained herein which do not prejudice the interests of the Bondholders.

Section 1102. SUPPLEMENTAL INDENTURES REQUIRING CONSENT OF BONDHOLDERS. Exclusive of supplemental indentures covered by Section 1101 hereof and subject to the terms and provisions contained in this Section, and not otherwise, the holders of not less than two-thirds (2/3) in principal amount of the Bonds then outstanding shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to and approve the adoption by the Issuer of such other indenture or indentures supplemental hereto as shall be deemed necessary or desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any supplemental indenture; provided, however, that nothing in this Section shall permit, or be construed as permitting (in each case, without the consent of the Bondholders affected thereby):

(a) an extension of the maturity date on which the principal of, premium, if any, or interest on any Bond is, or is to become, due and payable;

(b) a reduction in the principal amount of any Bond or Bonds, the rate of interest thereon, or any redemption premium;

(c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds;

(d) a reduction in the principal amount of the Bonds required for consent to any supplemental indenture;

(e) an alteration of the date fixed in any of the Bonds for the payment of the principal of, premium, if any, or interest on any Bond or other modification of the terms of payment of the principal at maturity of or interest or redemption premium, if any, on any Bond or imposition of any conditions with respect to such payment or adversely affecting the right of the owner of any Bond, which is absolute and unconditional, to institute suit for the enforcement of any such payment as provided herein;

(f) any action affecting the rights of the owners of less than all of the Bonds then outstanding;

(g) any action to increase the percentage of the principal amount of Bonds the action of the owners of which shall be required to declare all outstanding Bonds to be due pursuant to the provisions of Section 1002 hereof; or

(h) the creation of any lien or charge on any of the Trust Estate prior to or superior to the lien or charge created on the Trust Estate as security for the payment of the Bonds and any Additional Bonds hereafter issued pursuant to the provisions of this Indenture.

If the Issuer shall request the Trustee to enter into any such supplemental indenture for any of the purposes of this Section, upon receipt of satisfactory indemnity with respect to the expenses to be incurred, the Trustee shall cause notice of the proposed execution of such supplemental indenture to be given in writing by registered or certified mail postage prepaid to the registered owners of all Bonds Outstanding. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Bondholders. If, within sixty (60) days, or such longer period as shall be prescribed by the Issuer, following the mailing of such notice, the holders of not less than two-thirds (2/3) in principal amount of the Bonds shall have consented to and approved the execution of such supplemental indenture as herein provided, no holder of any Bond shall have the right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as in this Section permitted and provided, this Indenture shall be modified and amended in accordance therewith.

Anything herein to the contrary notwithstanding, a supplemental indenture under this Article XI shall not become effective unless and until the Lessee shall have consented to the execution and delivery of such supplemental indenture. In this regard, the Trustee shall cause notice of the proposed execution and delivery of any such supplemental indenture together with a copy of the proposed supplemental indenture to be delivered to the Lessee at least fifteen (15) days prior to the proposed date of execution of any such supplemental indenture.

Section 1103. EXECUTION OF SUPPLEMENTAL INDENTURES. As a condition to executing any supplemental indenture pursuant to this Article XI, the Trustee shall be entitled to receive, and shall be fully protected in relying on, an opinion of Counsel stating that the supplemental indenture is authorized and permitted by this Indenture and all conditions precedent to the execution thereof have been satisfied. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture that affects the Trustee's own rights, duties, or immunities under this Indenture or otherwise.

ARTICLE XII

AMENDMENT OF LEASE DOCUMENTS

Section 1201. AMENDMENTS TO LEASE DOCUMENTS NOT REQUIRING CONSENT OF BONDHOLDERS. Any amendment, change or modification of the Lease Documents as may be required (i) by the provisions of the Lease or this Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission in the Lease Documents, (iii) in connection with the property included in the Project as described and defined in the Lease so as to more precisely identify the same or substitute additional property acquired with the proceeds of the Bonds in accordance with the provisions of Sections 4.2(b) and 6.2 of the Lease or release portions of the Project pursuant to the terms of the Lease, (iv) in connection with additional real estate which pursuant to the Lease is to become part of the Land or (v) in connection with any other changes thereto which shall be deemed necessary or desirable and which do not prejudice the interests of the Bondholders, may be effected without the consent of, or notice to, the Bondholders.

Section 1202. AMENDMENTS TO LEASE DOCUMENTS REQUIRING CONSENT OF BONDHOLDERS. Except for the amendments, changes or modifications as provided in Section 1201 hereof, no amendment, change, or modification of the Lease Documents shall be effected unless the Trustee has given notice thereof to the Bondholders and has received the written approval or consent of the holders of not less than two-thirds (2/3) in principal amount of the Bonds at the time Outstanding in the manner set forth in Section 1102 hereof. If at any time the Issuer and the Lessee shall desire to effect any proposed amendment, change or modification of any of the Lease Documents, the Trustee shall cause notice of such proposed amendment, change or modification to be mailed in the same manner as provided by Section 1102 hereof with respect to proposed supplemental indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same are on file at the principal office of the Trustee for inspection by Bondholders.

ARTICLE XIII

THE TRUSTEE

Section 1301. ACCEPTANCE OF THE TRUSTS. The Trustee hereby accepts the trusts imposed upon it by this Indenture, but only upon and subject to the following express terms and conditions:

(a) The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee. Following the occurrence of an Event of Default and prior to the curing of all Events of Default, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to advice of Counsel concerning all matters of trust hereof and the duties hereunder, and may in all cases pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Issuer or the Lessee), approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith in reliance upon such opinion or advice.

(c) The Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the authentication certificate of the Trustee endorsed on the Bonds), or for the recording or re-recording, filing or re-filing of this Indenture, or the Lease, or for insuring the Trust Estate or any part of the Project or collecting any insurance moneys, or for the validity of the execution by the Issuer of this Indenture or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds, or for the value of or title in and to the Trust Estate or any part of the Project or otherwise as to the maintenance of the security hereof; but the Trustee may require of the Issuer or the Lessee full information and advice as to the performance of the covenants, agreements and conditions aforesaid and as to the condition of the Trust Estate.

(d) Except to the extent herein specifically provided, the Trustee shall not be accountable for the use of any of the Bond proceeds. The Trustee may become the owner of Bonds with the same rights which it would have if it were not Trustee.

(e) The Trustee shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram or other paper or documents believed to be genuine

and correct and to have been signed or sent by the proper Person or Persons. Any action taken by the Trustee, pursuant to this Indenture upon the request, authority or consent of any Person who at the time of making such request or giving such authority or consent is the owner of any Bond, shall be conclusive and binding upon all future owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

(f) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed on behalf of the Issuer by the Chairman or Vice Chairman of the Issuer and attested by the Secretary or Assistant Secretary of the Issuer as sufficient evidence of the facts therein contained, and prior to the occurrence of a Default of which the Trustee has been notified as provided in subsection (h) of this Section, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Secretary or Assistant Secretary of the Issuer under its seal to the effect that a resolution in the form therein set forth has been adopted by the Issuer as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(g) Except as expressly provided otherwise herein, any discretionary rights conferred upon the Trustee shall not be construed as imposing upon the Trustee an affirmative duty or obligation to act or abstain from acting, and the Trustee shall not be answerable for such other than its gross negligence or willful default.

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default hereunder or under the Lease except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Section 501 hereof and failure by the Lessee to make the rental and other payments required to be made under Article V of the Lease and except with respect to any default under Section 10.1 of the Lease written notice as to which has been given to the Trustee, unless the Trustee shall be specifically notified in writing of such Event of Default by the Issuer or by the owners of at least twenty-five percent (25%) in principal amount of the Bonds. All notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the principal corporate trust office of the Trustee, and in the absence of such notice so delivered the Trustee may conclusively assume there is no Event of Default except as aforesaid.

(i) The Trustee shall not be personally liable for any debts contracted or for damages to persons or property, or for salaries or non-fulfillment of contracts during any period in which it may be in the possession of or managing the Project as in this Indenture provided.

(j) At reasonable times the Trustee, and its duly authorized agents, attorneys, experts, engineers, accountants and representatives who are acceptable to the Lessee, and accompanied by an official of the Lessee, shall have the right, but no duty, to inspect the Project as well as all books, papers and records of the Issuer pertaining to the Project and the Bonds, and to take

copies of such memoranda from and in regard thereto only as required from the books, papers and records of the Issuer.

(k) The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(l) Notwithstanding anything elsewhere in this Indenture contained, the Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Trustee relevant to the authentication of any Bonds, the withdrawal of any cash, or the taking of any other action by the Trustee.

(m) Before taking any remedial action hereunder following an Event of Default, the Trustee may request an opinion of Counsel or may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from the negligence or willful default of the Trustee by reason of any action so taken. None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise to incur financial liability in the performance of any of its duties or the exercise of any of its rights or powers hereunder.

(n) All moneys received by the Trustee or any Trustee for the Bonds shall, until used or applied or invested as herein provided, be held in trust for the purpose for which they were received but need not be segregated from other funds except to the extent required herein or by law. Neither the Trustee nor any such Trustee shall be under any liability for interest on any moneys received hereunder except such as may be agreed upon under a separate written agreement.

(o) As to the existence or non-existence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate signed on behalf of the Lessee by an Authorized Lessee Representative as sufficient evidence of the facts therein contained, and prior to the occurrence of an Event of Default of which the Trustee has been notified as provided in subsection (h) of this Section, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the Secretary of the Lessee under its seal to the effect that a resolution in the form therein set forth has been adopted by the Lessee as conclusive evidence that such resolution has been duly adopted, and is in full force and effect.

(p) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture other than the application of moneys received for deposit into the

Funds and Accounts hereunder and the payment of debt service on the Bonds from moneys in the Bond Fund, whether at the request or direction of any of the Bondholders pursuant to this Indenture or otherwise, unless the Bondowners shall have offered to the Trustee reasonable security or indemnity acceptable to it against the fees, advances, costs, expenses and liabilities (except as may result from the Trustee's own gross negligence or willful misconduct) which might be incurred by it in connection with such rights or powers, including, without limitation, in connection with environmental contamination and the cleanup thereof.

(q) The Trustee may elect not to proceed in accordance with the directions of the Bondholders (except any direction provided pursuant to Section 1002 and 1003 hereof) without incurring any liability to the Bondholders if the Trustee reasonable determines that such direction would materially and adversely subject the Trustee in its individual capacity to environmental or other liability for which the Trustee has not received indemnity pursuant to this Section from the Bondholders, and the Trustee may rely upon an opinion of Counsel addressed to the Issuer and the Trustee in determining whether any action directed by Bondholders may result in such liability.

(r) The Trustee may inform the Bondholders of environmental hazards that the Trustee has reason to believe exist, and the Trustee has the right to take no further action and, in such event no fiduciary duty exists which imposes any obligation for further action, with respect to the Trust Estate or any portion thereof if the Trustee, in its individual capacity, determines that any such action would materially and adversely subject the Trustee to environmental or other liability to which the Trustee has not received indemnity pursuant to this Section.

Section 1302. NOTICE TO OWNERS OF BONDS IF EVENT OF DEFAULT OCCURS. If an Event of Default occurs of which the Trustee is by subsection (h) of Section 1301 hereof required to take notice then the Trustee shall give written notice thereof by certified or registered mail to the registered owners of Bonds, and, as to Events of Default described in Section 1001(c) hereof, to the Issuer and the registered owners of Bonds by certified or registered mail.

Section 1303. INTERVENTION BY TRUSTEE. In any judicial proceeding to which the Issuer is a party which, in the opinion of the Trustee and its Counsel, has a substantial bearing on the interest of the owners of the Bonds, the Trustee shall give the Bondholders written notice thereof and shall intervene on behalf of the owners of the Bonds if so requested in writing by the owners of at least a majority in principal amount of the Bonds then Outstanding. The rights and obligations of the Trustee under this Section are subject to the approval of a court of competent jurisdiction.

Section 1304. SUCCESSOR TRUSTEE. Any corporation or association into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business or assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger, consolidation, sale or transfer to which it is a party, IPSO FACTO, shall be and become successor Trustee hereunder and vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any

instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

Section 1305. RESIGNATION BY THE TRUSTEE. The Trustee and any successor Trustee may at any time resign from the trusts hereby created by giving sixty (60) days' written notice to the Issuer and the Lessee and by first class mail to each registered owner of Bonds, and such resignation shall take effect on the later to occur of (i) the end of such sixty (60) day period, or (ii) the appointment of a successor Trustee by the owners of the Bonds or by the Issuer. Such notice to the Issuer may be served personally or sent by registered or certified mail.

Section 1306. REMOVAL OF THE TRUSTEE. The Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Trustee and to the Issuer, and signed by either (i) the owners of a majority in principal amount of the Bonds then Outstanding or (ii) the Lessee, so long as no event of default exists under Section 10.1 of the Lease.

Section 1307. APPOINTMENT OF SUCCESSOR TRUSTEE; TEMPORARY TRUSTEE. If the Trustee hereunder shall resign, be removed, be dissolved, be in course of dissolution or liquidation, or shall otherwise become incapable of acting hereunder or in case it shall be taken under the control of any public officer, officers or a receiver appointed by a court, a successor may be appointed by (i) the Lessee, unless an event of default exists under Section 10.1 of the Lease, or (ii) the owners of a majority in principal amount of the Bonds, by an instrument or concurrent instruments in writing signed by the Lessee or such owners, or by their attorneys in fact, as the case may be, duly authorized; provided, nevertheless, that in case of such vacancy the Issuer by an instrument signed by the Chairman or Vice Chairman of the Issuer and attested by the Secretary or Assistant Secretary of the Issuer under its seal, may appoint a temporary Trustee to fill such vacancy until a successor Trustee shall be appointed by the Lessee or the owners of the Bonds in the manner above provided; and any such temporary Trustee shall immediately and without further act be superseded by the Trustee so appointed by the Lessee or the owners of the Bonds. Every such Trustee appointed pursuant to the provisions of this Section shall be a trust company or bank (having trust powers) in good standing, within or outside the State of Georgia, having individually or together with its banking Affiliates an unimpaired capital and surplus of not less than fifty million dollars ($50,000,000), if there be such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Section 1308. CONCERNING ANY SUCCESSOR TRUSTEE. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and also to the Issuer an instrument in writing accepting such appointment hereunder, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the Issuer, or of its successor, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all securities and moneys held by it as Trustee hereunder to its successor. Should any instrument in writing from the Issuer be required by any successor Trustee in order to more fully and certainly vest in such successor the estates, properties, rights, powers and trusts hereby vested or intended to be

vested in the predecessor any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article, shall be filed and/or recorded by the successor Trustee in each recording office where the Indenture and Lease shall have been filed and/or recorded.

Section 1309. RIGHT OF TRUSTEE TO PAY TAXES AND OTHER CHARGES. If any tax, assessment or governmental or other charge upon any part of the Trust Estate or the Project is not paid as required herein, the Trustee may pay such tax, assessment or charge, without prejudice, however, to any rights of the Trustee or the owners of the Bonds hereunder arising in consequence of such failure; and any amount at any time so paid under this Section, with interest thereon from the date of payment at the rate per annum borne by the Bonds, shall become so much additional indebtedness secured by this Indenture, and the same shall be given a preference in payment over the principal of and interest on the Bonds and shall be paid out of the revenues and receipts from the Trust Estate, if not otherwise caused to be paid; but the Trustee shall not be under obligation to and shall not make any such payment unless it shall have been requested to do so by the owners of a majority in principal amount of the Bonds and shall have been provided with sufficient moneys for the purpose of making such payment.

Section 1310. TRUSTEE PROTECTED IN RELYING UPON RESOLUTIONS, ETC. The resolutions, opinions, certificates and other instruments provided for in this Indenture may be accepted by the Trustee as conclusive evidence of the facts and conclusions stated therein and shall be full warrant, protection and authority to the Trustee for the release of property and the withdrawal of moneys hereunder.

Section 1311. SUCCESSOR TRUSTEE AS PAYING AGENT, AUTHENTICATING AGENT AND BOND REGISTRAR. In the event of a change in the office of Trustee, the predecessor Trustee which has resigned or has been removed shall cease to be the owner of the Project Fund and Bond Fund and shall cease serving as Paying Agent, Authenticating Agent and Bond Registrar, to the extent the Trustee was at such time serving in one or more of such capacities, and the successor Trustee shall become automatically such owner and such Paying Agent, Authenticating Agent, and Bond Registrar, to the extent the Trustee was at such time serving in one or more of such capacities.

Section 1312. TRUST ESTATE MAY BE VESTED IN CO-TRUSTEE. It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State of Georgia) denying or restricting the right of banking corporations or associations to transact business as a trustee in such jurisdiction. It is recognized that in case of litigation under this Indenture, and in particular in case of the occurrence of a Default, it may be necessary that the Trustee appoint an additional individual or institution as a separate Trustee or Co-Trustee. The following provisions of this Section 1312 are adapted to these ends.

In the event of the incapacity or lack of authority of the Trustee, by reason of any present or future law of any jurisdiction, to exercise any of the rights, powers and trusts herein granted to the Trustee or to hold title to the Trust Estate or take any other action which may be necessary or desirable in connection therewith, the Issuer with the consent of the Lessee may appoint a

separate Trustee or Co-Trustee and each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate Trustee or Co-Trustee but only to the extent necessary to enable the separate Trustee or Co-Trustee to exercise such rights, powers and trusts, and every covenant and obligation necessary to the exercise thereof by such separate Trustee or Co-Trustee shall run to and be enforceable by either of them.

Should any deed, conveyance or instrument in writing from the Issuer be required by the separate Trustee or Co-Trustee so appointed by the Trustee in order to more fully and certainly vest in and confirm to him or it such properties, rights, powers, trusts, duties and obligations, any and all such deeds, conveyances and instruments shall, on request, be executed, acknowledged and delivered by the Issuer. In case any separate Trustee or Co-Trustee or a successor to either, shall die, become incapable of acting, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate Trustee or Co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate Trustee or Co-Trustee.

Section 1313. CONTINUATION STATEMENTS. The Trustee shall file continuation statements for the purpose of continuing without lapse the effectiveness of (i) those Financing Statements which shall have been filed at or prior to the issuance of the Bonds in connection with the security for the Bonds pursuant to the authority of the applicable Uniform Commercial Code, and (ii) any previously filed continuation statements which shall have been filed as herein required. The Issuer agrees to sign such continuation statements as may be requested of it from time to time by the Lessee or the Trustee.

ARTICLE XIV

IMMUNITY OF MEMBERS, OFFICERS AND EMPLOYEES OF THE ISSUER AND TRUSTEE

No recourse shall be had for the payment of the principal of, redemption premium, if any or interest on the Bonds, or for any claim based thereon or otherwise in respect thereof or of the indebtedness represented thereby, or upon any obligation covenant, or agreement of this Indenture, against any member, officer, employee or agent, as such, past, present or future, of the Issuer or the Trustee or of any successor, either directly or through the Issuer or the Trustee or any successor, 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 the Bonds are solely limited obligations and that no personal liability whatsoever shall attach to, or be incurred by, any member, officer, employee or agent, as such, past, present or future, of the Issuer or the Trustee or any successor, either directly or through the Issuer or the Trustee or any successor, because of the incurring of any indebtedness hereby authorized or under or by reason of any of the obligations, covenants, promises or agreements contained in this Indenture or in the Bonds or to be implied herefrom or therefrom, and that all liability, if any, of that character against every such member, officer, employee and agent, by the acceptance of any of the Bonds and as a condition of, and as part of the consideration for, the adoption of this Indenture and the issuance of the Bonds, expressly waived and released. This immunity shall not apply to gross negligence, intentional misconduct or acts or omissions taken or suffered in bad faith.

ARTICLE XV

MISCELLANEOUS

Section 1501. CONSENTS OF BONDHOLDERS.

(a) Any request, demand, authorization, direction, notice, consent, waiver, or other action provided by this Indenture to be given or taken by Bondholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Bondholders in person or by their agents duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Issuer, and, where it is expressly required, to the Issuer and the Lessee. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive if made in the manner provided in this Section.

(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 the certificate of any 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. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute proof of his authority.

(c) The fact and date of execution of any such instrument or writing may also be proved in any other manner which the Issuer deems sufficient, and the Issuer or the Trustee, as the case may be, may in any instance require further proof with respect to any of the matters referred to in this Section.

(d) The ownership of Bonds shall be proved by the registration books kept by the Bond Registrar.

(e) Any request, demand, authorization, direction, notice, consent, waiver, or other action by any Bondholder shall bind every future holder of the same Bond in respect of anything done or suffered to be done by any Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

Section 1502. LIMITATION OF RIGHTS. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any Person other than the Issuer, the Trustee, the Lessee, and the holders of the Bonds, any legal or equitable right, remedy or claim under or in respect of this Indenture or any covenants, agreements, conditions and provisions herein contained; this Indenture and all of the covenants, agreements, conditions and provisions hereof being intended to be and being for the sole exclusive benefit of the Issuer, the Trustee, the Lessee, and the holders of the Bonds as herein provided.

Section 1503. SEVERABILITY. If any provision of this Indenture shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case in any jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any Constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatever.

Section 1504. NOTICES. It shall be sufficient service of any notice, request, complaint, demand or other paper if the same shall be duly mailed by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

(a) If to the Issuer -

Development Authority of Fulton County
141 Pryor Street, S.W.
Suite 5001
Atlanta, Georgia 30303

with a copy to:

Nelson, Mullins, Riley & Scarborough
999 Peachtree Street, N.E.
Suite 1400
Atlanta, Georgia 30309
Attn: Lewis C. Horne, Jr., Esq.
Facsimile Number: (404) 817-6050

(b) If to the Lessee -

ADESA Atlanta, LLC
310 E. 96th Street
Suite 400
Indianapolis, Indiana 46240
Facsimile Number: (317) 815-3656
Attn: General Counsel

with a copy to:

Alston & Bird LLP
1201 West Peachtree Street
Atlanta, Georgia 30309
Attn: Glenn R. Thomson, Esq.
Facsimile Number: (404) 253-8145

(c) If to the Trustee -

SunTrust Bank
25 Park Place, 24th Floor
Atlanta, Georgia 30303-2900
Facsimile Number: (404) 588-7335

A duplicate copy of each notice, certificate or other communication given hereunder by any of the Issuer, the Lessee or the Trustee to any one of the others shall also be given to all of the others. The Issuer, the Lessee and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 1505. PAYMENTS DUE ON SATURDAYS, SUNDAYS AND HOLIDAYS. In any case where the date of maturity of principal of or interest on the Bonds or the date fixed for redemption of any Bonds shall be, in the city of payment, a Saturday, Sunday or a legal holiday or a day on which banking institutions are authorized by law to close, then payment of principal or interest need not be made on such date in such city but may be made on the next succeeding business day not a Saturday, Sunday, legal holiday or day upon which banking institutions are authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after such date.

Section 1506. LAWS GOVERNING RESOLUTION. The effect and meaning of this Indenture and the rights of all parties hereunder shall be governed by, and construed according to, the laws of the State of Georgia.

Section 1507. COUNTERPARTS. Any person entitled to rely on this Indenture may conclusively rely on a counterpart hereof duly certified by the Secretary of the Issuer for any purpose and any such counterpart may be introduced in evidence in any court proceedings or in any other proceedings for the enforcement hereof to the same extent as if such counterpart constituted the original record of proceedings of the Issuer where this Indenture and the adoption hereof is recorded.

Section 1508. DESIGNATION OF PAYING AGENT, AUTHENTICATING AGENT AND BOND REGISTRAR. The Trustee is hereby designated as the initial Paying Agent, Authenticating Agent and Bond Registrar. The Issuer shall at the direction of the Lessee, and may from time to time and with the prior consent of the Lessee, designate a successor or successors to the Paying Agent, Bond

Registrar, or Authenticating Agent, whereupon any such successor shall undertake its responsibility in such capacity, but only in compliance with the provisions of this Indenture. Each such party may be removed at any time by the Lessee by an instrument in writing delivered to the Issuer and such party, such removal to take effect upon the appointment of a successor thereto and the acceptance by such successor of its duties and obligations hereunder.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have executed, sealed and delivered this Indenture through their respective duly authorized representatives as of the date first above written.

DEVELOPMENT AUTHORITY OF
FULTON COUNTY

By: /s/Robert J. Shaw

Chairman

ATTEST:

/s/Lewis C. Horne, Jr.

Asst. Secretary

(SEAL)

[Signature Page - Trust Indenture]

SUNTRUST BANK

By: /s/Jack Ellerin

Name: Jack Ellerin
Title: Assistant Vice President

[Signature Page - Trust Indenture]

BOND PURCHASE AGREEMENT

DEVELOPMENT AUTHORITY OF FULTON COUNTY
Taxable Economic Development Revenue Bonds
(ADESA Atlanta, LLC Project)
Series 2002

THIS BOND PURCHASE AGREEMENT dated as of December 1, 2002, among the DEVELOPMENT AUTHORITY OF FULTON COUNTY, a public body corporate and politic organized under the laws of the State of Georgia (the "Issuer"), ADESA ATLANTA, LLC, a New Jersey limited liability company, in its capacity as Purchaser hereunder (the "Purchaser") and ADESA ATLANTA, LLC, a New Jersey limited liability company, in its capacity as lessee under the hereinafter mentioned Lease (the "Lessee").

1. BACKGROUND

(a) The Issuer proposes to issue and sell not to exceed $40,000,000 in aggregate principal amount of its Taxable Economic Development Revenue Bonds (ADESA Atlanta, LLC Project), Series 2002 (the "Bonds"), the proceeds of which shall be used to finance the acquisition, construction, development and equipping of a wholesale vehicle auction facility on approximately 280 acres of land, which facility consists of certain buildings, structures, machinery, equipment and all related real and personal property deemed necessary or desirable in connection therewith (the "Project"). The Project is located in Fulton County, Georgia, and will be leased to the Lessee and used primarily as a wholesale automobile auction facility. The Project will be leased by the Issuer to the Lessee under the terms of a Lease, dated as of December 1, 2002 (the "Lease") between the Issuer and the Lessee requiring the Lessee to pay to the Issuer rental and other payments in such amounts and at such times as shall be required to pay the principal of and interest on the Bonds as and when the same become due. The Bonds shall be issued under and secured by a Trust Indenture dated as of December 1, 2002 (the "Indenture") between the Issuer and SunTrust Bank, Atlanta, Georgia, as Trustee (the "Trustee"), under the terms of which the Issuer's interest in the Lease and the rents, revenues and receipts to be derived by the Issuer under the Lease will be assigned and pledged to the Trustee as security for the payment of the Bonds.

(b) The Issuer proposes to sell the Bonds to the Purchaser and the Purchaser proposes to purchase the Bonds for its own investment purposes and not with a view towards any resale or public distribution thereof.

(c) The proceeds of the Bonds are to be applied to pay costs incurred in connection with the acquisition, construction and installation of the Project as contemplated by the Lease and the Indenture.

(d) The parties hereto contemplate that the interest paid on the Bonds will be includable in the gross income of the recipient or recipients thereof for federal income tax purposes because of the application of certain provisions of the Internal Revenue Code of 1986, as amended, and that, as such, the Bonds may not be offered for sale to the public without registration under the Securities Act of 1933, as amended, unless the Trustee has received an opinion of counsel satisfactory to the Trustee, the Issuer and the Lessee to the effect that failure to register the Bonds will not violate the Securities Act of 1933. The Issuer will cooperate fully at the request of the Lessee, and at Lessee's expense, in effecting such registration and in taking such other steps as may be deemed necessary or appropriate with respect to the Bonds, the Lease, the Indenture or this Bond Purchase Agreement to effect such registration in the event of any future public sale or disposition of the Bonds.

(e) The parties contemplate that the purchase price of the Bonds may be paid by the Purchaser in installments as provided in Paragraph 2 hereof.

2. PURCHASE, SALE AND CLOSING.

(a) Subject to the terms and conditions and in reliance on the representations, warranties and covenants herein set forth, the Purchaser agrees to purchase from the Issuer all of the Bonds, and the Issuer hereby agrees to sell to the Purchaser all of the Bonds, at a price of 100% of the principal amount of the Bonds. The parties agree that the aggregate principal amount of Bonds to be sold and purchased hereunder shall not exceed the principal amount specified in Paragraph 1(a) hereof. Such purchase price shall be deemed to be paid on and as of the date of the initial issuance of the Bonds (the "Closing Date") by (i) the payment of any amount under and pursuant to subparagraph (b) of this Paragraph as is paid on the Closing Date and (ii) the Purchaser's obligation evidenced hereby to make payments in the future under and pursuant to subparagraph (b) of this Paragraph 2. The Bonds shall bear interest at the fixed rate determined as provided in Section 202 of the Indenture.

(b) Pursuant to Section 4.3 of the Lease and Section 602 of the Indenture, the Lessee shall from time to time submit requisitions to the Trustee in an aggregate amount not to exceed $40,000,000. Unless such requisition does not clearly indicate that a copy of it has been sent to the Purchaser, the Trustee shall, upon receipt and review of each requisition, promptly transmit to the Purchaser by telecopy to the telecopier number set forth in Paragraph 9 hereof a letter directing the Purchaser to make payment for the Bonds in the amount of such requisition, in immediately available funds. The Purchaser shall within three (3) days of its receipt of a copy of such requisition from the Lessee or such letter of direction from the Trustee, whichever arrives earlier, pay to the Trustee the amount indicated thereon, and each such payment shall be deemed to be, and shall be, an installment payment of the Bonds. Such payments shall be made in such manner, until the Purchaser's payment obligations under this Agreement shall have been

discharged in full as provided in subparagraph (d) below. The Trustee shall deposit all such payments received from the Purchaser in the Project Fund created under the Indenture.

(c) The Issuer shall be obligated, upon the maturity or earlier redemption of the Bonds, to pay to the Purchaser only up to the aggregate of all installments payments made hereunder as shall have been funded pursuant to the preceding subparagraph and accrued and unpaid interest, if any.

(d) The Purchaser's payment obligations under this Agreement shall be discharged in full on the earlier of (i) the date when the sum of the aggregate payments made hereunder equals $40,000,000 or (ii) the date when any and all directions for payment made pursuant to subparagraph(b) hereinabove made on or prior to the commencement of the Completion Date (as defined in the Lease) have been paid in full.

(e) All Bonds issued by the Issuer are to be sold to the Purchaser under and pursuant to this Bond Purchase Agreement and shall not be sold to any other purchaser or pursuant to any other agreement without an agreement in writing signed by the Issuer, the Trustee and such purchaser.

3. PRIVATE SALE. The Purchaser agrees that it is purchasing the Bonds for its own investment account and not with a view towards any direct or indirect resale or public distribution thereof and agrees to execute and deliver to the Trustee on the Closing Date an investment letter in the form attached hereto as Exhibit "D".

4. ISSUER'S REPRESENTATIONS AND WARRANTIES. The Issuer makes the following representations and warranties to the Purchaser:

(a) The Issuer is a public body corporate and politic created by and existing under the laws of the State of Georgia.

(b) The Issuer has full power and authority under the Constitution and laws of the State of Georgia (i) to acquire, construct and install the Project, (ii) to finance the acquisition, construction and installation of the Project by issuing and selling the Bonds, (iii) to lease the Project to the Lessee as provided in the Lease, (iv) to pledge the rents, revenues and receipts derived pursuant to the Lease to the Trustee as provided in the Indenture, (v) to execute, deliver and perform this Bond Purchase Agreement, the Lease and the Indenture in accordance with their respective terms, and (vi) to carry out and consummate all other transactions contemplated by each of the aforesaid documents.

(c) The Issuer has duly authorized all actions and complied with all provisions of law with respect to the execution, delivery and performance of this Bond Purchase Agreement, the Lease and the Indenture, and has taken all actions necessary or appropriate to insure that such documents constitute valid and legally binding obligations of the Issuer in accordance with their respective terms.

(d) When delivered to and paid for by the Purchaser in accordance with the terms of this Bond Purchase Agreement, the Bonds will have been duly authorized, executed, authenticated and issued and will constitute legal, valid and binding limited obligations of the Issuer enforceable in accordance with their terms and entitled to the benefits of the Indenture, except to the extent that their enforceability may be limited by bankruptcy, insolvency or other laws affecting creditor's rights, and subject to the application of principles of equity, if equitable remedies are sought.

(e) Except for Additional Bonds (as defined in the Indenture), the Issuer has not and will not issue or sell any other bonds or obligations, the principal of and/or interest on which shall be payable from the rents, revenues and receipts derived from the Project or pledged or assigned pursuant to the Indenture or which shall be secured by any lien upon any of the properties constituting the Project.

(f) The execution and delivery of this Bond Purchase Agreement, the Bonds, the Lease and the Indenture and the compliance with the provisions thereof, do not and will not conflict with or constitute on the part of the Issuer a violation of, breach of or default (with or without notice or lapse of time or both) under any constitutional provision, statute, indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Issuer is a party or by which the Issuer or any of its assets is presently bound, or, to the knowledge of the Issuer, any existing order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its activities and property; and all consents, approvals, authorizations and orders of governmental or regulatory authorities, if any, which are required for the consummation of the transactions contemplated in this Bond Purchase Agreement have been obtained.

(g) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, known to be pending or threatened against or affecting the Issuer, nor to the best of the knowledge of the Issuer is there any basis therefor, wherein an unfavorable decision, ruling or finding would materially adversely affect the transactions contemplated by this Bond Purchase Agreement, or which in any way would adversely affect the validity or enforceability of the Bonds, the Lease, the Indenture, this Bond Purchase Agreement or any agreement or instrument to which the Issuer is a party and is used or contemplated for use in the consummation of the transactions contemplated by this Bond Purchase Agreement.

(h) Neither the Issuer nor anyone acting on its behalf (including the Lessee) has directly or indirectly offered for sale or sold any of the Bonds or any similar security of the Issuer to, or solicited any offer to buy any of the same from, anyone other than the Purchaser. Neither the Issuer nor anyone else acting on its behalf will after the date hereof directly or indirectly offer any of the Bonds or any other securities under circumstances which would subject this issue and sale of the Bonds to the provisions of Section 5 of the Securities Act of 1933, as amended.

(i) The Issuer has filed any and all reports with any governmental or public agency as may be required by law, including, without limitation, all reports required to be filed with the Georgia Department of Community Affairs pursuant to O.C.G.A. Section 36-82-10.

5. LESSEE'S REPRESENTATIONS AND WARRANTIES. The Lessee makes the following representations and warranties to the Issuer and the Purchaser:

(a) The Lessee is a limited liability company organized and existing and in good standing under the laws of the State of New Jersey and authorized to transact business in the State of Georgia. The Lessee has full corporate power, authority and legal right to engage in the business and activities conducted or proposed to be conducted by it with respect to the Project, to execute, deliver and perform the Lease and this Bond Purchase Agreement and to perform its obligations thereunder and hereunder, including the making of payments as provided in the Lease.

(b) The Lessee has duly authorized all action for the execution, delivery and performance of the Lease and this Bond Purchase Agreement and has taken all actions necessary or appropriate to insure that such documents, when executed and delivered by the Lessee, will constitute valid and legally binding obligations of the Lessee, enforceable in accordance with their respective terms, except to the extent that their enforceability may be limited by bankruptcy, insolvency or other laws affecting creditors' rights, and subject to the application of principles of equity, if equitable remedies are sought.

(c) The execution and delivery of this Bond Purchase Agreement and the Lease and the compliance with the provisions hereof and thereof by the Lessee, do not conflict with or constitute on the part of the Lessee a material violation of, breach of or default under (i) the Articles of Incorporation or By-Laws of the Lessee, (ii) any indenture, mortgage, deed of trust, lease, note agreement or other agreement or instrument to which the Lessee is a party or by which the Lessee is presently bound, or (iii) any constitutional provision or statute or any order, rule or regulation of any court or governmental or regulatory authorities, applicable to the Lessee.

(d) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending, or, to the Lessee's knowledge, threatened against the Lessee which could reasonably be expected to result in a decision which would materially adversely affect the transactions contemplated by this Bond Purchase Agreement or the Lease or the validity or enforceability of the Bonds, the Lease, this Bond Purchase Agreement, or any agreement or instrument to which the Lessee is a party, and used or contemplated for use in the consummation of the transactions contemplated by this Bond Purchase Agreement or the Lease.

6. LESSEE'S COVENANTS. The Lessee covenants and agrees that it will:

(a) Refrain from taking or omitting to take any action which action or omission would in any way cause the proceeds from the sale of the Bonds to be applied in a

manner contrary to that provided for in the Lease or in the Indenture, as in effect from time to time.

(b) Pay or cause to be paid, all reasonable expenses and costs incident to the authorization, issuance, printing, sale and delivery, as the case may be, of the Bonds, the Lease, the Indenture and this Bond Purchase Agreement, including without limitation (i) all filing, registration and recording fees and expenses; (ii) Trustees' fees and expenses (including the reasonable fees and expenses of its counsel); and (iii) fees and expenses of Bond Counsel and Counsel to the Issuer.

7. CONDITIONS OF PURCHASER'S OBLIGATIONS. The Purchaser's obligation to purchase and pay for the Bonds which is to be delivered as the initial installment hereunder is subject to the fulfillment of the following conditions at or before such delivery, any one or more of which may be waived by the Purchaser:

(a) The Lease, the Indenture and this Bond Purchase Agreement shall have been duly authorized, executed and delivered by the respective parties thereto, in substantially the forms heretofore approved by the Purchaser, with only such changes therein as the Purchaser, the Issuer and the Lessee shall mutually agree upon;

(b) The Bond to be initially delivered shall have been duly authorized, executed and authenticated in accordance with the provisions of the Indenture;

(c) The Purchaser shall have received the following documents:

(i) Executed counterparts of the Lease and the Indenture;

(ii) Opinions dated as of the date of delivery of the Bond to be initially delivered of (A) Counsel for the Issuer in substantially the form of that which is attached hereto as Exhibit "A"; (B) Bond Counsel in substantially the form of that which is attached hereto as Exhibit "B"; and (C) Counsel for the Lessee in substantially the form of that which is attached hereto as Exhibit "C";

(iii) A certificate dated as of the date of delivery of the Bond to be initially delivered, signed by the Chairman or Vice Chairman and the Secretary of the Issuer and in form and substance satisfactory to the Purchaser, to the effect that to the best of the information, knowledge and belief of such officers, each of the representations and warranties set forth in Paragraph 4 hereof and in the Lease is true, accurate and complete in all material respects as of the date of delivery of the Bond to be initially delivered and that the Issuer has complied with each of its covenants and agreements required in this Bond Purchase Agreement to be complied with at or prior to the date of delivery of the Bond to be initially delivered; and

(iv) Such additional opinions, certificates, instruments and other documents as the Purchaser or its counsel may reasonably request to evidence compliance with applicable law, as of the date of delivery of the Bond to be initially delivered.

The Purchaser's obligation to purchase and pay for any of the Bonds at any time or from time to time after the delivery of the Bond to be initially delivered, as herein provided, is subject to the due execution, authentication and delivery to the Purchaser of such pertinent Bond.

8. HOME OFFICE PAYMENT. The Issuer agrees that all amounts payable to the Purchaser with respect to any Bond held by the Purchaser or its nominee may be made to the Purchaser (without any presentment thereof, except upon payment of the final installment of principal, and with a notation of any principal payment being made thereon by the Purchaser) pursuant to and in accordance with the terms of a Home Office Payment Agreement entered into in accordance with Section 202(c) of the Indenture. In the event the Purchaser enters into a Home Office Payment Agreement, the Purchaser agrees that (a) if any Bonds are sold or transferred it will notify the Issuer, the Trustee and the Lessee of the name and address of the transferee, and include a copy of the notation referred to hereafter in this sentence and (b) prior to delivery of such Bonds, a notation shall be made on such Bonds of the date to which interest has been paid thereon and of the amount of any prepayments made on account of the principal thereof. The Purchaser agrees to indemnify the Trustee and hold it harmless from any loss, claim, action, damage or expense arising out of the Purchaser's failure to give the notice or, if it is holding such Bonds, to make the notation with respect to prepayment of the Bonds, as required in the immediately preceding sentence. The rights and obligations of the Issuer, the Lessee and the Purchaser under this Paragraph 8 shall not be assignable upon any partial transfer of the Bonds.

9. NOTICES AND OTHER ACTIONS. Except as set forth elsewhere herein, all notices, demands and formal actions hereunder will be in writing and sent by certified or registered mail to:

The Issuer -	Development Authority of Fulton County
----------	141 Pryor Street, S.W.
	Suite 5001
	Atlanta, Georgia 30303
with copies to:	Lewis C. Horne, Jr., Esq.
----------	Nelson, Mullins, Riley & Scarborough
	999 Peachtree Street, N.E.
	Suite 1400
	Atlanta, Georgia 30309
	Telecopy No.: (404) 817-6050

The Lessee -	ADESA Atlanta, LLC
----------	310 E. 96th Street, Suite 400
	Indianapolis, Indiana 46240
	Attn: General Counsel
	Telecopy No.: (317) 815-3656
with copies to:	Glenn R. Thomson, Esq.
---------------	Alston & Bird LLP
	One Atlantic Center
	1201 West Peachtree Street
	Atlanta, Georgia 30309-3424
	Telecopy No.: (404) 253-8266
The Purchaser -	ADESA Atlanta, LLC
-------------	310 E. 96th Street, Suite 400
	Indianapolis, Indiana 46240
	Attn: General Counsel
	Telecopy No.: (317) 815-3656
The Trustee -	SunTrust Bank
-----------	25 Park Place, 24th Floor
	Atlanta, Georgia 30303
	Attn: Corporate Trust Department
	Telecopy No.: (404) 588-7335

The Issuer, the Lessee, the Purchaser and the Trustee may, by notice given hereunder, designate any further or different addresses or telecopier numbers to which subsequent notices, certifications or other communications shall be sent.

10. SURVIVAL OF REPRESENTATIONS AND AGREEMENTS. All representations, warranties and agreements of the Issuer and the Lessee contained herein shall remain operative and in full force and shall survive (a) the execution and delivery of this Bond Purchase Agreement, and (b) the purchase of any or all of the Bonds hereunder.

11. COUNTERPARTS. This Bond Purchase Agreement may be executed in any number of counterparts with each executed counterpart constituting an original but all of which together shall constitute one and the same instrument.

12. SUCCESSORS; GOVERNING LAW. This Bond Purchase Agreement will inure to the benefit of and be binding upon the parties hereto and their successors and assigns. This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the State of Georgia.

IN WITNESS WHEREOF, each of the parties hereto have executed and sealed this Agreement through its duly authorized representative as of the date and year first above written.

ISSUER

DEVELOPMENT AUTHORITY OF
FULTON COUNTY

(SEAL)

By: /s/ Robert J. Shaw

Chairman

Attest:

/s/ Lewis C. Horne, Jr.

Assistant Secretary

[Signature page - Bond Purchase Agreement]

LESSEE

ADESA ATLANTA, LLC

(SEAL)

By: /s/ Paul J. Lips

Name: Paul J. Lips

Title: Treasurer

Attest:

/s/ Karen C. Turner

Karen C. Turner

Secretary

[Signature Page - Bond Purchase Agreement]

PURCHASER

ADESA ATLANTA, LLC

(SEAL)

By: /s/ Paul J. Lips

Name: Paul J. Lips

Attest: Title: Treasurer

/s/ Karen C. Turner
- ------------------
Karen C. Turner
- ---------------
Secretary

[Signature Page - Bond Purchase Agreement]

ACKNOWLEDGMENT OF TRUSTEE

The undersigned Trustee acknowledges receipt of and agrees to perform those functions required of it pursuant to the provisions of Sections 2 and 8 of this Bond Purchase Agreement:

SUNTRUST BANK, as Trustee

(SEAL) SUNTRUST BANK
CORPORATE
SEAL
GEORGIA

By: /s/ Jack Ellerin
Jack Ellerin
Assistant Vice President

Attest:

/s/ Muriel Shaw
Name: MURIEL SHAW
Title: TRUST OFFICER

[Signature Page - Bond Purchase Agreement]

LEASE AGREEMENT

between

DEVELOPMENT AUTHORITY OF FULTON COUNTY

and

ADESA ATLANTA, LLC

Dated as of December 1, 2002

The interest of Development Authority of Fulton County (the "Issuer") in this Lease Agreement has been assigned to SunTrust Bank, as trustee (the "Trustee") under the Trust Indenture dated as of December 1, 2002, between the Issuer and the Trustee as security for the payment of the principal of, premium, if any, and interest on those certain Taxable Economic Development Revenue Bonds, (ADESA Atlanta, LLC Project) Series 2002, and any Additional Bonds issued under the Indenture.

This Instrument was prepared by:

Alston & Bird LLP
One Atlantic Center
1201 West Peachtree Street
Atlanta, Georgia 30309-3424

CONTENTS

STATE OF GEORGIA
COUNTY OF FULTON

THIS LEASE AGREEMENT made and entered into as of December 1, 2002 (this "Lease") by and between DEVELOPMENT AUTHORITY OF FULTON COUNTY (herein called the "Issuer"), a public body corporate and politic duly organized and existing under the laws of the State of Georgia, as Lessor, and ADESA ATLANTA, LLC (herein called the "Lessee"), a limited liability corporation duly organized and existing under the laws of the State of New Jersey, as Lessee.

WITNESSETH:

WHEREAS, the Issuer was created for the purpose of expanding and developing trade, commerce, industry and employment opportunities in Fulton County, Georgia (the "County"), and in furtherance of such purposes, the Issuer has the power to issue its revenue bonds to provide funds to be used by the Issuer to finance construction, installation, modification, renovation or rehabilitation of land, buildings, structures, facilities and other improvements and fixtures, machinery, equipment, furniture and other property of any nature whatsoever used in connection therewith, as determined by a majority of the members of the Issuer for lease or sale to prospective tenants or purchasers; and

WHEREAS, the Issuer proposes to acquire, construct and equip the Project (as hereinafter defined) within the Issuer's area of authority and to lease the same to the Lessee in a manner consistent with its stated purpose of expanding and developing trade, commerce, industry and employment opportunities in the County.

NOW, THEREFORE, in consideration of the respective representations and agreements herein contained and such other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows (provided, that any obligation of the Issuer to pay money created by or arising out of this Lease shall be payable solely out of the proceeds derived from this Lease, the sale of the Bonds referred to in Section 2.1 hereof, the insurance and condemnation awards as herein provided and any other revenues arising out of or in connection with its ownership, leasing or sale of the Project as hereinafter defined):

ARTICLE I

DEFINITIONS

Section 1.1 DEFINITIONS. In addition to the words and terms elsewhere defined herein, the following words and terms as used herein shall have the following meanings unless the context or use clearly indicates another or different meaning or intent, and any other words and terms defined in the Indenture shall have the same meanings when used

herein as assigned them in the Indenture unless the context or use clearly indicates another or different meaning or intent:

"ACT" means the Development Authorities Law (O.C.G.A. 36-62-1 ET SEQ.), as now or hereafter amended.

"ADDITIONAL BONDS" means additional parity Bonds authorized to be issued by the Issuer pursuant to Section 208 of the Indenture.

"ADDITIONS" shall have the meaning given in Section 6.1 hereof.

"AFFILIATE" means, with respect to any Person, any other Person (i) directly or indirectly controlling or controlled by or under direct or indirect common control with such Person, or (ii) directly or indirectly owning or holding five percent (5%) or more of the equity interest in such Person. For purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"AGREEMENT TERM" means the period beginning on the date hereof and continuing until the expiration of the Lease Term.

"AUTHORIZED ISSUER REPRESENTATIVE" means the person or persons at the time designated to act on behalf of the Issuer by written certificate furnished to the Lessee and the Trustee containing the specimen signature of such person or persons and signed on behalf of the Issuer by its Chairman or Vice Chairman. Any such person shall be subject to the approval of the Lessee and shall be replaced by the Issuer upon the written request of the Lessee.

"AUTHORIZED LESSEE REPRESENTATIVE" means the person or persons at the time designated to act on behalf of the Lessee by written certificate furnished to the Issuer and the Trustee containing the specimen signature of such person or persons and signed on behalf of the Lessee by the Chairman of the Board, the President or any Vice President of the Lessee.

"BONDS" means the 2002 Bonds and any Additional Bonds issued by the Issuer pursuant to the Indenture.

"BOND FUND" means the fund created by Section 502 of the Indenture.

"CLOSING DATE" means the date of the original issuance and sale of the Bonds.

"COMPLETION DATE" shall have the meaning given such term in Section 4.5 hereof.

"CONSTRUCTION FUND" means the fund created by Section 602 of the Indenture.

"CONSTRUCTION PERIOD" means the period between the beginning of construction of the Project or the date on which the Bonds are first delivered to the original purchaser thereof (whichever is earlier) and the Date of Beneficial Occupancy.

"COUNTY" means Fulton County, Georgia, a political subdivision of the State of Georgia, and any public entity, body or authority to which is hereafter transferred or delegated by law the duties, powers, authorities, obligations or liabilities of the present political subdivision.

"DATE OF BENEFICIAL OCCUPANCY" shall have the meaning given such term in Section 4.5 hereof.

"EQUIPMENT" means those items of machinery, equipment and other tangible personal property acquired with the proceeds from the sale of the Bonds or the proceeds from any payment by the Lessee pursuant to Section 4.6 hereof and installed as part of the Project and any item of machinery, equipment and other tangible personal property acquired and installed in substitution thereof and renewals and replacements thereof pursuant to the provisions of Sections 4.1, 6.2(a), 7.1 and 7.2 hereof, less such machinery, equipment and other tangible personal property as may be released from this Lease pursuant to Section 6.2(b) hereof or damaged or destroyed and not restored as provided in Section 7.1 or taken by the exercise of the power of eminent domain as provided in Section 7.2 hereof, but not including any Excluded Property or any machinery, equipment and other tangible personal property installed under the provisions of Section 6.1(b) hereof.

"EXCLUDED PROPERTY" means all personal property (other than such property as is included in the definition of Equipment) and all real property (other than such property as is included in the definition of Land and Improvements) which is not purchased or acquired, directly or indirectly, with the proceeds of the Bonds or expressly transferred to the Issuer by a bill of sale or similar instrument, and all renewals and replacements therefor, in each case whether now owned or hereafter acquired by the Lessee or any other Person, and whether or not installed or located on the Land as described in Section 6.1(b) hereof.

"FORCE MAJEURE EVENT" means, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Georgia or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbance; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Lessee. The settlement of strikes, lockouts and other industrial disturbances shall be entirely

within the discretion of the Lessee, and the Lessee shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Lessee unfavorable to the Lessee.

"GOVERNMENT OBLIGATIONS" means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, or (b) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation by the United States of America.

"GOVERNMENTAL AUTHORITY" means any federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"IMPROVEMENTS" means those certain buildings, facilities and other improvements to real property provided for in the Plans and Specifications which are located on the Land and which do not constitute a part of the Equipment, including, without limitation, all facilities, roads, parking areas, utilities, fences, lighting and other site improvements, as such may from time to time exist.

"ISSUER" means Development Authority of Fulton County, a public body corporate and politic duly organized and existing under the laws of the State of Georgia, and its lawful successors and assigns.

"LAND" means the real estate and interests in real estate described in Exhibit "A" attached hereto and by this reference made a part of this Lease, plus such real estate and interests in real estate as may be added to the provisions of this Lease pursuant to Section 12.5 hereof, less such real estate and interests in real estate as may be released from this Lease pursuant to Sections 8.5 and 11.3 hereof or taken by the exercise of the power of eminent domain as provided in Section 7.2 hereof.

"LEASE" means this Lease Agreement as it now exists and as it may hereafter be amended pursuant to the terms hereof and Article XII of the Indenture.

"LEASE TERM" means the duration of the Lessee's beneficial occupancy of the Project as provided in Section 5.1 hereof, including any applicable Extended Lease Term (as therein defined).

"LEASEHOLD MORTGAGE" shall having the meaning given in Section 8.5(b) hereof.

"LESSEE" means ADESA Atlanta, LLC, a New Jersey limited liability company, and its successors and assigns including any surviving, resulting or transferee corporation as provided in Section 8.3 hereof.

"MORTGAGE" shall have the meaning given in Section 8.7 hereof.

"NET PROCEEDS" when used with respect to any insurance or condemnation award, means the gross proceeds from the insurance or condemnation award with respect to which that term is used remaining after payment of all expenses incurred in the collection of such gross proceeds.

"PERMITTED ENCUMBRANCES" means, as of any particular time, (a) liens for ad valorem taxes and special assessments not then delinquent or permitted to exist as provided in Section 6.3 hereof, (b) the Lease Documents, (c) utility, access and other easements, licenses, rights-of-way, restrictions, reservations and exceptions which, according to the certificate of an Authorized Lessee Representative, will not materially interfere with or impair the operations being conducted at the Project (or, if no operations are being conducted therein, the operations for which the Project was designed or last modified), (d) unfiled and inchoate mechanics', materialmen's or other similar liens for construction work in progress, (e) mechanics', laborers', materialmen's, suppliers' and vendors' liens or other similar liens in connection with the Project Construction or the acquisition, construction and installation of any Additions (as defined in Section 6.1 hereof), (f) such defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as do not, in the aggregate, and in the opinion of the Lessee, materially impair the property affected thereby for the purpose for which it was acquired or is held by the Issuer, (g) the rights of sublessees and other tenants having an interest in all or any portion of the Project, and (h) any Lessee Liens and Issuer Liens (as such terms are defined in Section 8.5(b) hereof).

"PERSON" means any individual, partnership, joint venture, firm, corporation, limited liability company, association, trust or other enterprise (whether or not incorporated) or any Governmental Authority.

"PLANS AND SPECIFICATIONS" means the plans and specifications prepared by or on behalf of the Lessee for the Project, as the same may be amended, modified or supplemented from time to time by the Lessee in accordance with Section 4.1 hereof.

"PROJECT" means the facilities, including the Land, the Improvements and the Equipment, acquired or to be acquired, constructed and installed pursuant to Plans and Specifications, which facilities, as presently contemplated, are generally described in Exhibit "B" hereto, and all Additions described in Section 6.1(b) to the extent the Issuer has received the notice and/or bill of sale or other transfer documents as required by said Section; provided, however, that the term "Project" and the lesser included terms "Improvements" and "Equipment" shall not be deemed to include any part of the Excluded Property except where those terms are used in the definitions of "Date of Beneficial Occupancy," "Construction Period," "Plans and Specifications," and "Project Costs," in Sections 2.1(a) and 2.1(d) and Article IV hereof and in any other provision of this Lease dealing specifically with the acquisition, construction, installation or equipping of property.

"PROJECT CONSTRUCTION" means the design, development, acquisition, construction, installation, equipping and placing into service of the Project, including, without limitation, the design and construction of all Improvements and the acquisition, installation and testing of all Equipment.

"PROJECT COSTS" shall include the following:

(a) all costs of construction, purchase, or other forms of acquisition;

(b) all costs of real or personal property required for the purpose of the Project and all facilities related thereto, including land and any rights or undivided interests therein, easements, franchises, water rights, fees, permits, approvals, licenses, and certificates and the securing of such franchises, permits, approvals, licenses and certificates and the preparation of applications therefor;

(c) all machinery, equipment, initial fuel, and other supplies required for the Project;

(d) financing charges and interest prior to the Date of Beneficial Occupancy;

(e) costs of engineering, architectural and legal services;

(f) fees paid to fiscal agents for financial and other advice or supervision;

(g) costs of Plans and Specifications and all expenses necessary or incidental to the construction, purchase or acquisition of the Project or to determining the feasibility or practicability of the Project;

(h) any fund or funds for the creation of a debt service reserve, a renewal or replacement reserve and such other reserves as may be reasonably required by the Issuer with respect to the financing and operation of the Project and as may be authorized by the Indenture; and

(i) administrative expenses and such other expenses as may be necessary or incidental to the financing of the Project as authorized in the Act.

The foregoing costs and expenses include costs and expenses incurred by the Issuer or the Lessee pursuant to the Inducement Agreement dated as of October 22, 2002, between the Issuer and the Lessee (the "Inducement Agreement") and include repayment of any loans made by the Lessee for the advance payment of any part of such costs, including interest thereon.

"2002 BONDS" means the Taxable Economic Development Revenue Bonds (ADESA Atlanta, LLC Project) Series 2002, issued by the Issuer pursuant to the Indenture.

Section 1.2 CERTAIN RULES OF INTERPRETATION. The definitions set forth in Section 1.1 shall be equally applicable to both the singular and plural forms of the terms therein defined and shall cover all genders.

"Herein," "hereby," "hereunder," "hereof," "hereinbefore," hereinafter" and other equivalent words refer to this Lease and not solely to the particular Article, Section or subdivision hereof in which such word is used.

Reference herein to an Article number (e.g., Article IV) or a Section number (e.g., Section 6.8) shall be construed to be a reference to the designated Article number or section number hereof unless the context or use clearly indicates another or different meaning or intent.

The table of contents, titles and headings of the articles and sections of this Lease Agreement have been inserted for convenience and reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Lease or any provision hereof or in ascertaining intent, if any question of intent should arise.

This Lease and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of this Lease.

ARTICLE II

REPRESENTATIONS

Section 2.1 REPRESENTATIONS BY THE ISSUER. The Issuer makes the following representations as the basis for the undertakings on its part herein contained:

(a) The Issuer is a public body corporate and politic duly organized and existing under the provisions of the Act. Under the provisions of the Act, the Issuer has the power to enter into the transactions contemplated by this Lease and to carry out its obligations hereunder. The Issuer has determined by majority vote of its members that the Project constitutes a "project" within the meaning of the Act. By proper corporate action, the Issuer has duly authorized the execution and delivery of this Lease.

(b) The Issuer proposes to acquire, construct and equip the Project in accordance with the Plans and Specifications, and proposes to lease the Project to the Lessee, all for the purpose of promoting trade, commerce, industry and employment opportunities in the County and the State of Georgia.

(c) The Bonds are to be issued under the Indenture, pursuant to which the Issuer's interest in this Lease and the rents and other revenues derived by the Issuer from its ownership and leasing of the Project will be assigned and pledged to the Trustee, all as security for the payment of the principal of, premium, if any, and interest on the Bonds.

Section 2.2 REPRESENTATIONS BY THE LESSEE. The Lessee makes the following representations as the basis for the undertakings on its part herein contained:

(a) The Lessee, a limited liability company duly incorporated, existing and in good standing under the laws of the State of New Jersey, and qualified to do business under the laws of the State of Georgia, has the power to enter into this Lease and to perform its obligations contained herein, and has been duly authorized to execute and deliver this Lease.

(b) The Lessee is not subject to any provision under its Certificate of Formation, as amended or its Operating Agreement, as amended, or any contractual limitation or provision of any nature whatsoever which in any way limits, restricts or prevents the Lessee from entering into this Lease or performing any of its obligations hereunder.

(c) All of the Project will be located in the County.

ARTICLE III

DEMISING CLAUSES AND WARRANTY OF TITLE

Section 3.1 DEMISE OF THE PROJECT. Commencing on the Closing Date and during the Lease Term, the Issuer agrees to demise and lease to the Lessee, and the Lessee hereby agrees to lease from the Issuer, the Project at the rental set forth in Section 5.3 hereof and in accordance with the provisions of this Lease, subject to Permitted Encumbrances.

Section 3.2 WARRANTY OF TITLE. The Issuer acknowledges that it has received from the Lessee a Limited Warranty Deed with respect to the Land and warrants for itself and its successors and assigns to the Lessee, its successors and assigns, that the Issuer has not and shall not take any actions which would result in the imposition of any liens or encumbrances on the Land except (i) Permitted Encumbrances or (ii) those liens or encumbrances created by or with the written consent of the Lessee.

Section 3.3 QUIET ENJOYMENT. The Issuer covenants and agrees that it will warrant and defend the Lessee in the quiet enjoyment and peaceable possession of the

Project free from all claims of all Persons claiming by or through the Issuer, throughout the Lease Term, so long as the Lessee shall perform the covenants, conditions and agreements to be performed by it hereunder, or so long as the period for remedying any default in such performance shall not have expired.

ARTICLE IV

COMMENCEMENT AND COMPLETION OF THE PROJECT; ISSUANCE OF THE BONDS; ADDITIONAL BONDS

Section 4.1 AGREEMENT TO CONSTRUCT AND EQUIP THE PROJECT; APPOINTMENT OF LESSEE AND CONSTRUCTION AGENT.

(a) The Issuer, to the maximum extent permitted by law, hereby makes, constitutes and appoints the Lessee as its true, lawful and exclusive agent for the Project Construction, and the Lessee hereby accepts such agency to act and do all things on behalf of the Issuer, to exercise all rights, remedies and powers of the Issuer in connection therewith, including, without limitation, the following:

(i) negotiate, enter into, perform and enforce all contracts, purchase or supply orders and other arrangements with respect to the Project Construction (collectively, the "Construction Contracts") on such terms and conditions as are customary and reasonable under the circumstances and as are reasonably consistent with local and national standards and practices with respect to similar facilities;

(ii) apply for and obtain in its own name or the name of the Issuer all necessary permits, licenses, consents, approvals, entitlements and other authorizations which may be required for the Project Construction and the use and occupancy of the Project or any part thereof;

(iii) supervise or negotiate, enter into, perform and enforce contracts for the supervision of the Project Construction;

(iv) prepare, execute and file with the Trustee all requisitions and other requests required under the terms hereof and of the Indenture and to obtain and use monies in the Construction Fund for the payment or reimbursement of Project Costs; and

(v) maintain the Plans and Specifications and adequate books and records with respect to the Project Construction.

The Issuer hereby ratifies and confirms all actions of the Lessee with respect to the Project prior to the date hereof. This appointment of the Lessee to act as agent and all authority hereby conferred or granted is conferred and granted irrevocably, until all activities in connection with the Project Construction shall have been completed, and

shall not be terminated prior thereto unless by the mutual agreement of the Issuer and the Lessee.

(b) The Issuer agrees that it will enter into, or accept the assignment of, such Construction Contracts as the Lessee may request in order to effectuate the purposes of this Section; provided that, unless waived by the Issuer, each such Construction Contract shall be expressly non-recourse to the Issuer.

(c) The Lessee agrees to use its best efforts to cause the Plans and Specifications to be prepared and completed as soon as practicable and in accordance with the requirements of all applicable Governmental Authorities. In addition, to the extent not covered by said Plans and Specifications, the Lessee agrees to prepare the list of Equipment for installation in the Project which Equipment shall be necessary or desirable in the discretion of the Lessee in connection with the use, occupancy and operation of the Project. The Issuer agrees that the Lessee may at any time and from time to time, in its sole discretion, change the Plans and Specifications; provided, however, no such change or changes shall singly or in the aggregate result in the Project not constituting a "project" as defined in the Act or shall, without prior written notice to the Issuer, substantially change the character of the Project or the type of business operations to be conducted at the Project. The Improvements and the Equipment shall be titled in the name of the Issuer and subject to the terms of this Lease.

(d) The Lessee agrees to use its best efforts to (i) cause the Project Construction to be commenced as promptly as practicable after the Closing Date, (ii) to continue said Project Construction with all reasonable dispatch thereafter, and (iii) to cause said Project Construction to be completed as soon as practicable. Notwithstanding anything else herein contained, the Lessee shall not be deemed in default of its duties and obligations under this Section 4.1 during any period that the Lessee is unable, in whole or part, to carry out such duties and obligations by reason of a Force Majeure Event. If said Project Construction is not completed within the time herein contemplated there shall be no resulting liability on the part of the Issuer or the Lessee and there shall be no diminution or postponement in the payment of the rents required in Section 5.3 hereof by the Lessee.

(e) Upon the request of the Lessee, the Issuer will assign to the Lessee all warranties and guaranties of all contractors, subcontractors, suppliers, architects and engineers for the furnishing of labor, materials or equipment or supervision or design in connection with the Project and any rights or causes of action arising from or against any of the foregoing under the Construction Contracts or otherwise.

Section 4.2 AGREEMENT TO ISSUE THE BONDS; APPLICATION OF BOND PROCEEDS; ADDITIONAL BONDS.

(a) In order to provide funds for payment of the Project Costs, the Issuer agrees that it will sell, issue and cause to be delivered, pursuant to the Indenture, the 2002

Bonds, bearing interest, maturing and having the other terms and provisions set forth in the Indenture. Upon receipt of the proceeds derived from the sale of 2002 Bonds, the Issuer will cause said proceeds to be deposited in the Construction Fund.

(b) The Issuer agrees to authorize the issuance of Additional Bonds upon the terms and conditions provided herein and in the Indenture. Additional Bonds may be authorized for the purpose of financing Project Costs to the extent such costs exceed the amount in the Construction Fund, such excess to be evidenced by a certificate signed by the Authorized Lessee Representative, subject to the limitations contained in Section 208 of the Indenture. If the Lessee is not in default hereunder, the Issuer agrees, on request of the Lessee, from time to time, to use its best efforts to issue Additional Bonds in such amounts, maturing on such dates, bearing such rate or rates of interest and redeemable at such times and prices as may be specified by the Lessee and as shall be permitted within the limits and under the conditions specified above and in the Indenture; provided, that (i) the Lessee and the Issuer shall have entered into an amendment to this Lease or a separate lease containing substantially the same terms as this Lease to provide for the lease of any additional properties not constituting Excluded Property to the Lessee and to include a description of such additional properties, to provide for rental payments to be paid by the Lessee to the Issuer as shall be sufficient to pay the principal of and premium, if any, and interest on the Additional Bonds as provided to be paid in the supplemental bond resolution with respect to such Additional Bonds, and to extend the Lease Term or in the case of a separate lease, provide for a lease term of at least ten years if the maturity of any Additional Bonds would occur after the expiration of the Lease Term, and (ii) the Issuer shall have otherwise complied with the provisions of the Indenture with respect to the issuance of such Additional Bonds. Any amendment to this Lease entered into pursuant to clause (i) above will provide that any such additional properties shall be included under this Lease upon terms equivalent to those pertaining to the Project. The Issuer will deposit the proceeds from the sale of Additional Bonds in the same manner as provided in paragraph (a) above.

(c) Upon request of the Lessee, the Issuer agrees to authorize and use its best efforts to issue, and if issued to deposit the proceeds from the sale of, any refunding bonds for the purpose of refunding all or a portion of the outstanding Bonds.

Section 4.3 DISBURSEMENTS FROM THE CONSTRUCTION FUND. In the Indenture, the Issuer has authorized and directed the Trustee that moneys in the Construction Fund shall be used to pay the Project Costs, or to reimburse the Issuer or the Lessee for any Project Costs paid or incurred by the Issuer or the Lessee either before or after execution of this Lease and delivery of the 2002 Bonds. Such payments shall be made by the Trustee upon receipt of a requisition, signed by the Authorized Lessee Representative, stating with respect to each payment to be made:

(1) the requisition number;

(2) if other than the Lessee, the name and address of the person to whom payment is due;

(3) the amount to be paid; and

(4) that each obligation mentioned therein constitutes a Project Cost and has not been the basis of any previous requisition.

In the Indenture, the Issuer has authorized and directed that all moneys remaining in the Construction Fund (including moneys earned pursuant to the provisions of Section 4.8 hereof) upon receipt by the Trustee of the Construction Completion Certificate described in Section 4.5(b) hereof, shall at the written direction of the Lessee, be (i) used by the Issuer for the purchase of Bonds for the purpose of cancellation; or (ii) paid into the Bond Fund; or (iii) a combination of (i) and (ii) as is provided in such direction, provided that amounts approved by the Authorized Lessee Representative shall be retained in the Construction Fund (whether or not then on deposit or to be deposited pursuant to a subsequent requisition) for payment of Project Costs not then due and payable. Any balance remaining of such retained funds after full payment of all such Project Costs shall be used by the Trustee as directed by the Lessee in the manner specified in clauses (i), (ii) and (iii) of this paragraph.

In making any such payment from the Construction Fund, the Trustee may rely on any such requisitions and certificates delivered to it pursuant to this Section and the Trustee shall be relieved of all liability with respect to making such payments in accordance with such requisitions and certificates without inspection of the Project or any other investigation.

Section 4.4 OBLIGATION OF THE PARTIES TO COOPERATE IN FURNISHING DOCUMENTS TO TRUSTEE. The Issuer and the Lessee agree to cooperate with each other in furnishing to the Trustee the documents referred to in Section 4.3 hereof that are required to effect payments out of the Construction Fund, and to cause such requisitions to be directed to the Trustee as may be necessary to effect payments out of the Construction Fund in accordance with Section 4.3 hereof.

Section 4.5 ESTABLISHMENT OF COMPLETION DATE AND DATE OF BENEFICIAL OCCUPANCY. The Completion Date shall be evidenced to the Trustee by a certificate executed by the Authorized Lessee Representative (the "Construction Completion Certificate") stating that as of a date certain (the "Completion Date") the Project Construction was completed and that the Issuer and/or the Lessee received all consents, approvals or other licenses for applicable Governmental Authorities required for the use, occupancy and operation of the Project. The Construction Completion Certificate shall be delivered within ten (10) days of the Completion Date as determined by the Lessee.

The Date of Beneficial Occupancy shall be evidenced to the Trustee by a certificate signed by the Authorized Lessee Representative (the "Beneficial Occupancy

Certificate") stating that the Date of Beneficial Occupancy has occurred and specifying said date. The "Date of Beneficial Occupancy" shall mean the earliest to occur of (i) the Completion Date or (ii) the day on which commercial operations at the Project have begun. The Beneficial Occupancy Certificate shall be delivered within ten (10) days of the date of the occurrence of the Date of Beneficial Occupancy.

Notwithstanding the foregoing, the Construction Completion Certificate and the Beneficial Occupancy Certificate shall state that they are given without prejudice to any rights of the Issuer or the Lessee against third parties which exist on the date of such certificate or which may subsequently come into being. The Issuer and the Lessee agree to cooperate in causing such certificates to be furnished to the Trustee.

Section 4.6 LESSEE REQUIRED TO PAY CONSTRUCTION AND EQUIPMENT COSTS IN EVENT CONSTRUCTION FUND INSUFFICIENT. In the event the moneys in the Construction Fund available for payment of the Project Costs should not be sufficient to pay such costs in full and the Lessee has not requested that the Issuer issue Additional Bonds for such purpose, the Lessee agrees to complete the Project Construction and to pay all that portion of the Project Costs as may be in excess of the moneys available therefor or in the Construction Fund by making payments directly to the construction contractor or contractors or the suppliers of materials and equipment as the same shall become due or by paying into the Construction Fund the moneys necessary to complete the Project in which case the Issuer will proceed to complete the Project Construction and the cost thereof will be paid from the Construction Fund. The Issuer does not make any warranty, either express or implied, that the moneys which will be paid into the Construction Fund and which, under the provisions of this Lease, will be available for payment of the Project Costs will be sufficient to pay all such Project Costs. The Lessee agrees that if, after exhaustion of the moneys in the Construction Fund, the Lessee should pay any portion of the Project Costs pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Issuer or from the Trustee or from the holders of any of the Bonds (except to the extent that Additional Bonds may be issued to pay such excess Project Costs) nor shall it be entitled to any diminution of the rents payable under Section 5.3 hereof. All Land, Improvements and Equipment acquired with funds provided by the Lessee as provided herein shall be titled in the name of the Issuer and subject to the terms of this Lease.

Section 4.7 ISSUER TO PURSUE REMEDIES AGAINST CONTRACTORS AND SUBCONTRACTORS AND THEIR SURETIES. In the event of any default of any supplier, contractor or subcontractor under any Construction Contract entered into in connection with the Project Construction or in the event of breach of warranty with respect to any material, workmanship or performance guaranty, the Issuer, at the request and sole cost of the Lessee, will promptly proceed either separately or in conjunction with others, to exhaust the remedies of the Issuer against any defaulting supplier, contractor or subcontractor and against any surety thereof or for the performance of any contract made in connection with the Project. Unless the Lessee shall request the Issuer to proceed in another manner, the Issuer shall proceed, in connection with any such default, only through the Lessee as

agent for the Issuer; and the Lessee, as such agent and in the name of the Issuer, shall prosecute, defend or settle any action or proceeding or take any other action involving any such supplier, contractor, subcontractor or surety which the Lessee deems reasonably necessary. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing prior to the Completion Date shall be paid into the Construction Fund and after the Completion Date shall be applied in the manner specified in Section 4.3 hereof.

Section 4.8 INVESTMENT OF CONSTRUCTION FUND AND BOND FUND MONEYS PERMITTED. Any moneys held as a part of the Construction Fund or the Bond Fund shall be invested or reinvested by the Trustee upon the written request and direction of the Lessee in only those investments permitted under the Indenture. Notwithstanding the foregoing, the Issuer acknowledges and agrees that pursuant to the Bond Purchase Agreement, payment of the Bonds may be made in installments commencing on the Closing Date.

ARTICLE V

EFFECTIVE DATE OF THIS LEASE; DURATION OF LEASE TERM; RENTAL PROVISIONS

Section 5.1 EFFECTIVE DATE OF THIS LEASE, DURATION OF LEASE TERM. The agreements contained in this Lease shall become effective and the Agreement Term shall begin as of the dated date hereof. The Lease Term shall not commence until the Date of Beneficial Occupancy. Unless sooner terminated or extended in accordance with the provisions of this Lease, this Lease and the Lease Term shall expire at midnight on the tenth anniversary of the thirty-first day of December of the year immediately following the year in which the Date of Beneficial Occupancy occurs; provided, however, if for any reason the entire Project has not been transferred to the Lessee pursuant to Article XI hereof, then the Lease Term shall continue until such Project has been so transferred (such period after the Stated Termination Date shall herein be called the "Extended Lease Term").

Section 5.2 DELIVERY AND ACCEPTANCE OF POSSESSION. The Issuer agrees to deliver to the Lessee sole and exclusive possession of the Project (subject to the right of the Issuer or the Trustee to enter thereon for inspection purposes and to the other provisions of Section 8.2 hereof) on the Date of Beneficial Occupancy and the Lessee agrees to accept possession of the Project upon such delivery; provided, however, that the Lessee shall be permitted to enter the Project prior to the Date of Beneficial Occupancy for the purpose of fulfilling its duties and obligations as agent for the Issuer in connection with the Project Construction as provided in Article IV hereof and to install and maintain its own equipment..

Section 5.3 RENTS AND OTHER AMOUNTS PAYABLE.

(a) The Lessee shall make payments to the Trustee during the Agreement Term for the account of the Issuer in such amounts and at such times as are sufficient to pay (i) the principal of and premium, if any, on the Bonds (whether due and payable at maturity or upon the redemption (in whole or in part) or acceleration of the Bonds) and (ii) accrued interest on the Bonds. In any event each rental payment under this Section shall be sufficient to pay the total amount of the principal of, premium, if any, and interest payable on the Bonds and if at any time the balance in the Bond Fund is insufficient to make required payments of the principal of, premium, if any, and interest due on the Bonds on such date, the Lessee shall forthwith pay any such deficiency.

Anything herein to the contrary notwithstanding, any amount at any time deposited in the Bond Fund shall be credited against the next succeeding payment and shall reduce the payment to be made by the Lessee to the extent such amount is in excess of the amount required for payment of the principal of and premium, if any, on Bonds theretofore called for redemption and past due interest in all cases where such Bonds have not been presented for payment; and further, if the amount held by the Trustee in the Bond Fund should be sufficient to pay at the times required the principal of, premium, if any, and interest on the Bonds then remaining unpaid, the Lessee shall not be obligated to make any further payments under the provisions of this Section.

The payments due and payable during the Extended Lease Term (as defined in Section 5.1 hereof) shall be $1.00 per year.

(b) The Lessee agrees to pay to the Trustee (to the extent not paid from the Construction Fund) until the principal of, premium, if any, and interest on the Bonds shall have been fully paid, its reasonable and necessary fees, charges and expenses (including reasonable fees and expenses of counsel) as provided in the Indenture, as and when the same become due. In addition, the Lessee agrees to pay the reasonable and necessary fees, charges and expenses of the Trustee appointed with the consent of the Lessee in accordance with the Indenture. The Lessee may, without creating a default hereunder, withhold any payment required to be made under this subsection (b) in order to contest in good faith the validity, necessity or reasonableness of any such fees, charges or expenses.

(c) The Lessee agrees to pay the reasonable and necessary expenses (including attorneys' fees and expenses) not otherwise provided for in this Lease, which may be incurred by the Issuer, or for which the Issuer may in any way become liable, as a result of issuing any of the Bonds, the Project Construction and the leasing of the Project to the Lessee, or being a party to this Lease or the Indenture, or issuing the Bonds.

(d) In the event the Lessee should fail to make any of the payments required in this Section, the item or installment so in default shall continue as an obligation of the Lessee until the amount in default shall have been fully paid, and the Lessee agrees to pay

the same with interest thereon at the rate of interest borne by the Bonds until paid. The provisions of this Section shall be subject to the provisions of Section 9.7 hereof.

Section 5.4 PLACE OF PAYMENTS. The payments provided for in Section 5.3(a) hereof shall either be paid directly to the Trustee for the account of the Issuer and deposited in the Bond Fund or be paid directly to the holder or holders of Bonds in accordance with a home office payment agreement entered into pursuant to Section 202(c) of the Indenture. The payments provided for in Section 5.3(b) and (c) hereof shall be paid directly to the parties to whom such payments are due.

Section 5.5 OBLIGATIONS OF LESSEE HEREUNDER UNCONDITIONAL. Subject to the provisions of Section 9.7 hereof, the obligations of the Lessee to make the payments required in Section 5.3(a) hereof shall be absolute and unconditional and shall not be subject to diminution by set-off, counterclaim, abatement or otherwise. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Lessee (i) will not suspend or discontinue any payments provided for in Section 5.3(a) hereof except to the extent the same have been prepaid, and (ii) except as provided in Sections 11.1 and 11.5 hereof, will not terminate the Agreement Term for any cause, including, without limiting the generality of the foregoing, failure of the Issuer to complete the Project Construction, failure of the Issuer's title to the Project or any part thereof, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Georgia or any political subdivision of either thereof or any failure of the Issuer to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Lease. Nothing contained in this Section shall be construed to release the Issuer from the performance of any of the agreements on its part herein contained; and in the event the Issuer should fail to perform any such agreement on its part, the Lessee may institute such action against the Issuer as the Lessee may deem necessary to compel performance or recover its damages for nonperformance so long as such action shall not do violence to the agreements on the part of the Lessee contained in the preceding sentence. The Lessee may, however, at its own cost and expenses and in its own name or in the name of the Issuer, prosecute or defend any action or proceeding or take any other action involving third persons which the Lessee deems reasonably necessary in order to insure the acquisition, construction and equipping of the Project or to secure or protect its right of possession, occupancy and use hereunder, and in such event the Issuer hereby agrees to cooperate fully with the Lessee and to take all action necessary to effect the substitution of the Lessee for the Issuer in any such action or proceeding if the Lessee shall so request.

ARTICLE VI

MAINTENANCE, MODIFICATIONS, TAXES AND INSURANCE

Section 6.1 MAINTENANCE AND MODIFICATIONS OF PROJECT BY LESSEE.

(a) The Lessee agrees that during the Lease Term it will at its own expense (i) keep the Project in as reasonably safe condition as its operations shall permit and (ii) keep the Improvements and the Equipment and all other facilities and improvements forming a part of the Project in reasonably good repair and in good operating condition.

(b) The Lessee may from time to time, in its sole discretion and at its own expense, make any additions, modifications or improvements to the Project, including (i) the acquisition of additional real property or any interests therein, (ii) the acquisition, construction and equipping of additional buildings, utilities, parking facilities and other improvements on or under the Land, and (iii) the installation of additional machinery, equipment and other tangible personal property in the Project, on the Land or in any additional buildings and improvements (collectively, the "Additions"); provided, however, no such Additions shall materially impair the effective use of the Project or result in any part of the Project not being a "project" within the meaning of the Act. The Lessee shall furnish to the Issuer the plans for any such Additions. The Issuer shall not be obligated to pay any costs or expenses in connection with the design, acquisition, construction or installation of any such Additions.

At any time and from time to time, the Lessee may elect by giving notice thereof to the Issuer to include any such Additions or portions thereof as a part of the Project (collectively, herein called "Project Improvements"); provided that to the extent any such Project Improvements include personal property, such notice shall be accompanied by a bill of sale, assignment or other instrument transferring title thereof to the Issuer. No transfer instrument shall be required in the case of the Project Improvements which constitute real property and upon the giving of such notice to the Issuer such Project Improvements shall be deemed a part of the Project and titled in the name of the Issuer. If no such notice is given by the Lessee to the Issuer, such Additions shall be deemed Excluded Property.

Any such Additions constituting Excluded Property, may be removed by the Lessee at any time and from time to time; provided that any damage to the Project occasioned by such removal shall be repaired by the Lessee at its own expense. All Excluded Property, whether or not installed in the Project or located on or adjacent to the Land, shall remain the sole property of the owner thereof in which the Issuer shall not have any interest, and shall not be subject to the provisions of this Lease or the Indenture. The Issuer agrees to execute and deliver at the request of the Lessee or any other Person having an interest in the Project or any part thereof any landlord's waivers and other

releases in connection with the acquisition, construction and installation of such Excluded Property.

Nothing contained in the preceding provisions of this Section 6.1(b) shall prevent the Lessee from granting any deeds to secure debt, mortgages, security agreements or other similar liens or encumbrances or entering into any sale/leaseback transactions with respect to any Additions (whether in the form of a conditional sale, financing lease or otherwise) and the Issuer agrees to execute and deliver at the request of the Lessee any instruments, waivers, releases, financing statements or other documents necessary or appropriate to confirm any such grant. These provisions shall be in addition to the rights of the Lessee set forth in Sections 8.5 and 8.7 hereof.

(c) Subject to the Lessee's usual safety and security requirements of persons located on the Land, the Issuer, the Trustee and their respective duly authorized agents shall have the right, upon giving the Lessee at least 48 hours prior written notice, to enter upon any part of the Land during normal daylight business hours, and examine and inspect the same as may be reasonably necessary for the purpose of determining whether the Lessee is in compliance with its obligations under this Section 6.1; provided that no such inspection shall interfere with the business operations at the Project.

Section 6.2 REMOVAL OF EQUIPMENT. The Issuer shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary Equipment. In any instance where the Lessee in its sole discretion determines that any items of Equipment have become inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary, the Lessee may remove such items of Equipment and (on behalf of the Issuer), sell, trade-in, exchange or otherwise dispose of them (as a whole or in part) and retain all proceeds or consideration received in connection therewith without any responsibility or accountability to the Issuer therefor, provided that in the event that any such removal shall result in the Project not being deemed to constitute a "project" under the Act, the Lessee shall substitute (either by direct payment of the costs thereof or by advancing to the Issuer the funds necessary therefor) and install other machinery or equipment or otherwise take such additional actions which would cause the Project to constitute a "project" under the Act.

The removal from the Project of any portion of the Equipment pursuant to the provisions of this Section shall not entitle the Lessee to any abatement or diminution in amount of the rents payable under Section 5.3 hereof.

The Lessee will not remove or permit the removal of any of the Equipment except in accordance with the provisions of this Section. At the request of the Lessee, the Issuer shall execute such bills of sale, releases or other documents reasonably required by the Lessee in order to accomplish any sale, trade-in, exchange or other disposition of Equipment pursuant to this Section.

Section 6.3 TAXES, OTHER GOVERNMENTAL CHARGES AND UTILITY CHARGES.

(a) The Issuer and the Lessee acknowledge that under present law no part of the Project owned by the Issuer will be subject to ad valorem taxation by the State of Georgia or by any political or taxing subdivision thereof, and that under present law the income and profits (if any) of the Issuer from the Project are not subject to either Federal or Georgia taxation. The Issuer further acknowledges that it has entered into this Lease to enable the Lessee to enjoy a reduction in ad valorem taxation afforded by the reduced value of Lessee's interest in the Project, as set forth in that certain Memorandum of Agreement Regarding Lease Structure and Valuation of Leasehold Interest among the Issuer, the Lessee and the Fulton County Board of Tax Assessors (the "Property Tax Memorandum"). Pursuant to the Property Tax Memorandum, the Issuer agrees that the Lessee will not be required to make any payments in lieu of taxes or other similar payments, provided that the Lessee will pay, as the same respectively become lawfully due and payable, (i) all ad valorem taxes assessed with respect to the Lessee's leasehold interest in the Project during the Lease Term; (ii) all taxes and governmental charges of any kind whatsoever upon or with respect to the Project or any machinery, equipment or other property installed or brought by the Lessee therein or thereon (including, without limiting the generality of the foregoing, any taxes levied upon or with respect to the income or profits of the Issuer from the Project which, if not paid, will become a lien on the Project or a charge on the revenues and receipts therefrom prior to or on a parity with the lien or charge of the Indenture; (iii) all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project; and (iv) all assessments and charges lawfully made by any governmental body for public improvements that may be secured by lien on the Project; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Lessee shall be obligated to pay only such installments as are required to be paid during the Lease Term.

(b) It is the understanding and intent of the parties that the Issuer's acquisition of title to the Project, including but not limited to the Equipment, shall be solely for the purpose of leasing the same to the Lessee pursuant to the terms hereof. It is further the understanding and intent of the parties that, for purposes of the sales and use taxes imposed by Article 8 of Title 48 of the Official Code of Georgia Annotated, the conveyance to the Issuer of title to the Project or any portion thereof by the Lessee as contemplated herein shall not be a taxable transaction for sales and use tax purposes in accordance with the holding of FOOTPRESS CORPORATION V. STRICKLAND, 242 Ga. 686, 251 S.E.2d 278 (1978).

(c) The Lessee may, at its own expense and in its own name and behalf or in the name and behalf of the Issuer, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom. The Issuer will cooperate fully with the Lessee in any such contest.

Section 6.4 INSURANCE AND INDEMNITY.

(a) During the Project Construction and throughout the Agreement Term, the Lessee shall, in its own name or in the name of the Issuer, keep the Project continuously insured against such risks and in such amounts as are customarily insured against by the Lessee and in such amounts as is consistent with the Lessee's customary practices, paying as the same become due all premiums in respect thereto; provided that the Lessee may satisfy the requirements of this Section through self-insurance in accordance with its customary practices at other locations. Any policies of insurance so obtained by the Lessee shall include the Issuer as a named insured, as its interest may appear, if such endorsement is obtainable and customary. The Lessee may, in its own name or in the name of the Issuer, prosecute or defend any action or proceeding, or take any other action involving claims against the carrier of the insurance required hereby, including the settlement of such claims, which the Lessee deems necessary or desirable under the circumstances.

(b) The Lessee shall also indemnify and defend the Issuer and the Trustee, and their respective officers, directors, employees and agents (collectively the "Indemnified Parties" or individually an "Indemnified Party"), and hold the same harmless against all liabilities, loses, suits, actions, damages, penalties, costs and expenses (collectively, "Indemnified Losses") incurred in connection with or with respect to (i) the issuance or sale of the Bonds, (ii) the Project Construction, or (iii) the operation of the Project by the Lessee; provided, however, that the indemnification required by this Section 6.4 shall not include indemnification for Indemnified Losses resulting directly or indirectly from the gross negligence, bad faith or willful misconduct of any Indemnified Party; and provided, further, that the indemnity provided in this Section shall be effective only to the extent of any Indemnified Loss in excess of the Net Proceeds of any insurance carried with respect to the loss sustained. Unless the Lessee shall request an Indemnified Party to proceed in another manner, an Indemnified Party shall proceed in connection with any claim against which indemnification is provided hereunder, only through the Lessee as agent for such Indemnified Party unless there is a conflict; and the Lessee, as such agent and in the name of such Indemnified Party, shall defend or settle any such claim, action or proceeding or take any other action with respect thereto as the Lessee shall deem reasonably necessary and appropriate.

(c) The provisions of this Section 6.4 shall survive the termination of this Agreement and the Indenture and the resignation or removal of the Trustee.

Section 6.5 ADVANCES BY ISSUER OR TRUSTEE. In the event the Lessee shall (i) fail to maintain the insurance coverage required by Section 6.4 hereof or (ii) fail to correct or repair any hazardous condition at the Project which poses an immediate threat of injury to or death of any Person, and such failure shall continue for thirty (30) days after receipt of written notice from the Issuer or the Trustee demanding that such failure be remedied and indicating the intent of such party to cure such failure at the expense of the Lessee, the Issuer or the Trustee may (but unless satisfactorily indemnified shall be under no

obligation to) take out the required policies of insurance and pay the premiums on the same or take appropriate actions to correct such hazardous condition; and all amounts so advanced therefor, by the Issuer or the Trustee shall become an additional obligation of the Lessee to said party, which amounts, together with interest thereon at the rate of interest borne by the Bonds from the date thereof, the Lessee agrees to pay.

ARTICLE VII

DAMAGE, DESTRUCTION AND CONDEMNATION

Section 7.1 DAMAGE AND DESTRUCTION. Unless the Lessee shall elect to exercise its option to purchase the Project pursuant to the provisions of Section 11.1 hereof, if prior to full payment of the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) the Project is destroyed (in whole or in part) or is damaged by fire or other casualty all Net Proceeds of insurance received by the Issuer, the Lessee or the Trustee resulting from claims for such losses shall be paid to the Lessee and applied in one or more of the following ways at the sole discretion of the Lessee:

(a) The restoration by the Lessee, as agent for and on behalf of the Issuer, of the property damaged or destroyed to substantially the same condition as it existed prior to the event causing such damage or destruction, with such changes, alterations, and modifications (including the substitution and addition of other property) as may be desired by the Lessee and will not impair the utility of the Project; or

(b) Payment into the Bond Fund to be applied by the Trustee toward the redemption of the principal of any of the Bonds, in whole or in part, together with accrued interest thereon to the date of redemption; or

(c) Payment to the Lessee for any other purpose.

The Lessee shall not be obligated to report the use of such proceeds to the Issuer or the Trustee or to make any accounting with respect to the use of any such Net Proceeds. The Issuer hereby makes, constitutes and appoints the Lessee as its agent with power of substitution, and the Lessee hereby accepts such agency, to repair, rebuild or restore the property damaged as provided above.

Section 7.2 CONDEMNATION. Unless the Lessee shall elect to exercise its option to purchase the Project pursuant to the provisions of Section 11.1 hereof, if prior to full payment of the Bonds (or provision for payment having been made in accordance with the provisions of the Indenture) title to, or the temporary use of, the Project or any part thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Net Proceeds received by the Issuer, the Lessee, the Trustee or any of them,

from any award made in such eminent domain proceedings, shall be paid to the Lessee and applied in one or more of the following ways at the sole discretion of the Lessee:

(a) The restoration of the improvements of the Project to substantially the same condition as they existed prior to the exercise of the said power of eminent domain, with such changes, alterations, and modifications (including the substitution and addition of other property) as may be desired by the Lessee and will not impair the utility of the Project;

(b) The acquisition, by the Issuer at the request of the Lessee of other machinery, equipment or other tangible personal property suitable for the Lessee's operation of the Project (which property shall be deemed a part of the Project and available for use and occupancy by the Lessee without the payment of any rent other than herein provided to the same extent as if such other property were specifically described herein and demised hereby); provided, that such property shall be acquired by the Issuer subject to no liens or encumbrances other than those approved by the Lessee.

(c) Payment into the Bond Fund to be applied by the Trustee toward the redemption of the principal of the Bonds, in whole or in part, together with accrued interest thereon to the date of redemption; or

(d) Payment to the Lessee for any other purpose.

The Lessee shall not be obligated to report to the Issuer or the Trustee or to make any accounting therefor.

The Issuer shall cooperate fully with the Lessee in the handling and conduct of any prospective or pending condemnation proceeding with respect to the Project or any part thereof and will, to the extent it may lawfully do so, permit the Lessee to litigate in any such proceeding in the name and behalf of the Issuer. In no event will the Issuer voluntarily settle, or consent to the settlement of, any prospective or pending condemnation proceeding with respect to the Project or any part thereof without the written consent of the Lessee.

Section 7.3 CONDEMNATION OF EXCLUDED PROPERTY. The Lessee shall also be entitled to the Net Proceeds of any condemnation award or portion thereof made for damages to or takings of its own property or for damages on account of the taking of or interference with the Lessee's rights to possession, use or occupancy of the Project.

ARTICLE VIII

SPECIAL COVENANTS

Section 8.1 NO WARRANTY OF DESIGN, CONDITION OR SUITABILITY BY THE ISSUER. THE ISSUER MAKES NO WARRANTY, EITHER EXPRESS OR IMPLIED, AS TO THE DESIGN OR CONDITION OF THE PROJECT OR THAT IT WILL BE SUITABLE FOR THE LESSEE'S PURPOSES OR NEEDS.

Section 8.2 INSPECTION OF THE PROJECT. During the Lease Term, the Lessee agrees that upon receipt by the Lessee of at least two days' prior written notice from the Issuer, the Issuer and its duly authorized agents who are reasonably acceptable to the Lessee shall have the right at all reasonable times during business hours, subject to the Lessee's usual safety and security requirements, to enter upon the Land and to examine and inspect the Project without interference or prejudice to the Lessee's operations.

Section 8.3 LESSEE TO MAINTAIN ITS EXISTENCE; CONDITIONS UNDER WHICH EXCEPTIONS PERMITTED. The Lessee agrees that during the Agreement Term it will maintain its existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it; provided, that the Lessee may, without violating the agreement contained in this Section, consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it, or transfer all or substantially all of its assets to another Person, but only on condition that the Person resulting from or surviving such merger (if other than the Lessee) or consolidation or the Person to which such transfer is made (i) shall expressly assume and agree in writing to perform all of the Lessee's obligations under this Lease, and (ii) if an entity, shall be organized and existing under the laws of one of the states of the United States of America or the District of Columbia or, if not, shall appoint and maintain a local agent for service of process in the State of Georgia.

Section 8.4 QUALIFICATION IN GEORGIA. The Lessee covenants that it is and throughout the Agreement Term it will continue to be either organized or qualified to do business under the laws of the State of Georgia.

Section 8.5 GRANTING OF EASEMENTS AND LEASEHOLD MORTGAGES.

(a) The Lessee may at any time or times cause to be granted easements, licenses, rights-of-way (temporary or perpetual and including the dedication of public highways) and other rights or privileges in the nature of easements with respect to any property included in the Project, or the Lessee may cause to be released existing easements, licenses, rights-of-way and other rights or privileges in the nature of easements, held with respect to any property included in the Project with or without consideration and the Issuer agrees that at the request of the Lessee it shall execute and

deliver any instrument necessary or appropriate to confirm and grant or release any such easements, license, right-of-way or other right or privilege.

(b) The Lessee shall at all times and from time to time have the right to encumber all of the Lessee's right, title and interest under this Lease by mortgage, deed to secure debt, security agreement, assignment or other security instrument, including, without limitation, assignment of the rents, issues and profits from the Project, as security for any debt of the Lessee, (such mortgage, deed to secure debt or other instrument(s) being hereinafter referred to as a "Leasehold Mortgage", and the holder(s) from time to time of such Leasehold Mortgage being hereinafter referred to as a "Leasehold Mortgagee").

In the event that a Leasehold Mortgagee shall provide the Issuer and the Trustee with written notice of its name and address (a "Notice of Leasehold Mortgage"), then, following receipt by the Issuer of such Notice of Leasehold Mortgage and for so long as such Leasehold Mortgage shall remain unsatisfied of record or until written notice of satisfaction of such Leasehold Mortgage is given by the Leasehold Mortgagee to the Issuer, the provisions of this Section 8.5 shall apply to each such Leasehold Mortgagee. Upon written request of such Leasehold Mortgagee, the Issuer shall acknowledge receipt of a Notice of Leasehold Mortgage by an instrument in recordable form provided to the Issuer and the Trustee by the Leasehold Mortgagee. In the event of any assignment of a Leasehold Mortgage or in the event of a change of address of a Leasehold Mortgagee or of an assignee of such Leasehold Mortgagee written notice of such new name and/or address shall be promptly provided to the Issuer.

No cancellation, rejection, surrender, amendment or modification (other than by expiration of the Lease Term) of this Lease or release of the Lessee hereunder shall be effective as to any Leasehold Mortgagee (provided that such Leasehold Mortgagee has given a Notice of Leasehold Mortgage) unless consented to in writing by such Leasehold Mortgagee. Without limiting the generality of the foregoing, no rejection of this Lease by Lessee or by a trustee in bankruptcy for the Lessee shall be effective as to any Leasehold Mortgagee (provided that such Leasehold Mortgagee has given a Notice of Leasehold Mortgage) unless consented to in writing by such Leasehold Mortgagee.

The Issuer and the Trustee shall, on serving the Lessee with any notice of any default under this Lease, simultaneously serve a copy of such notice upon each Leasehold Mortgagee (provided that such Leasehold Mortgagee has given a Notice of Leasehold Mortgage). No such notice by the Issuer to the Lessee shall be deemed to have been duly given unless and until a copy thereof has been so provided to every Leasehold Mortgagee in the manner specified herein (provided that such Leasehold Mortgagee has given a Notice of Leasehold Mortgage). From and after the date such notice has been given to a Leasehold Mortgagee, each such Leasehold Mortgagee shall have the same period, after its receipt of such notice, for remedying any default specified in such notice or causing the same to be remedied as is given to the Lessee after the giving of such notice to the Lessee to remedy, commence remedying or cause to be remedied the defaults specified in

any such notice, but Leasehold Mortgagee shall in no manner be obligated to do so. The Issuer and the Trustee shall accept such cure by or at the instigation of the Leasehold Mortgagee as if the same had been performed by the Lessee. The Lessee hereby authorizes each Leasehold Mortgagee to take any such action that such Leasehold Mortgagee deems necessary to cure any such default and does hereby authorize entry upon the Project by each such Leasehold Mortgagee for the purpose of curing such defaults.

(c) In the event that the Issuer or the Trustee shall elect to terminate this Lease by reason of any default of the Lessee under Article X, such Leasehold Mortgagee shall have the right, which right shall be exercised, if at all, within fifteen (15) days after such Leasehold Mortgagee is notified of the Issuer's election to terminate the Lease, to postpone and extend the specified date for the termination of this Lease as fixed by the Issuer in its notice of termination for a period of not more than six (6) months, provided that such Leasehold Mortgagee shall, during such six (6) month period, (A) pay or cause to be paid any Annual Rental and other payments and charges as the same become due and continue its good faith efforts to perform all of the Lessee's other obligations under this Lease, excepting (i) obligations of the Lessee to satisfy or otherwise discharge any lien, charge or encumbrance against Lessee's interest in this Lease or the Project provided that such lien, charge or encumbrance is junior in priority to the lien of the mortgage held by such Leasehold Mortgagee and does not effect the Issuer's fee simple interest in the Project, and (ii) past non-monetary obligations then in default and not reasonably susceptible of being cured by such Leasehold Mortgagee, and (B) if not enjoined or stayed, take steps to acquire or sell the Lessee's interest in this Lease by foreclosure of the Leasehold Mortgage or other appropriate means and prosecute the same to completion with due diligence.

If at the end of such six (6) month period such Leasehold Mortgagee is complying with the immediately preceding paragraph and such Leasehold Mortgagee is prohibited by any process or injunction issued by any court of competent jurisdiction or by reason of any action in any court of competent jurisdiction from commencing or prosecuting foreclosure or other appropriate proceedings in the nature thereof, this Lease shall not then terminate, and the time for completion by such Leasehold Mortgagee of its proceedings shall continue so long as such Leasehold Mortgagee is enjoined or stayed and thereafter for so long as such Leasehold Mortgagee proceeds in good faith and with due diligence to complete steps to acquire or sell the Lessee's interest in this Lease by foreclosure of the Leasehold Mortgage or by other appropriate means. Nothing in this paragraph, however, shall be construed to extend this Lease beyond the original Lease Term, nor to require a Leasehold Mortgagee to continue foreclosure proceedings after a default has been cured. In the event that such default shall be cured and the Leasehold Mortgagee shall discontinue such foreclosure proceedings, this Lease shall continue in full force and effect as if the Lessee had not defaulted under this Lease.

In the event that a Leasehold Mortgagee complies with this subsection 8.5(c) and Leasehold Mortgagee acquires the Lessee's right title and interest herein by foreclosure or

otherwise, then, upon the acquisition of the Lessee's right, title and interest herein by such Leasehold Mortgagee or its designee, or any other purchaser or assignee at a foreclosure sale or otherwise, this Lease shall continue in full force and effect as if the Lessee had not defaulted under this Lease.

The granting of a Leasehold Mortgage shall not be deemed to constitute an assignment or transfer of this Lease or of the leasehold estate hereby created, and any conveyance of the leasehold estate created hereby from Lessee to a Leasehold Mortgagee by foreclosure or otherwise, or from Leasehold Mortgagee as attorney-in-fact of the Lessee to a purchaser at a foreclosure sale, shall not be deemed to constitute an assignment or transfer of this Lease or of the leasehold estate hereby created requiring the assumption of the obligations of the Lessee hereunder, but such purchaser or assignee of this Lease and of the leasehold estate hereby created shall be deemed to have agreed to perform all of the terms, covenants and conditions on the part of the Lessee to be performed hereunder from and after the date of such purchase and assignment. Upon such conveyance, the Issuer and the Trustee shall recognize such Leasehold Mortgagee, or any other purchaser or assignee, as the Lessee hereunder. From and after the date of such sale or assignment, the holder of any Leasehold Mortgage then existing or thereafter placed on the leasehold estate hereby created shall be considered a Leasehold Mortgagee as contemplated by this Lease, and the Leasehold Mortgagee thereunder shall be entitled to receive the benefit of any and all provisions of this Lease intended for the benefit of a Leasehold Mortgagee, subject to the obligations and duties of the Leasehold Mortgagee under this Lease.

(d) In the event that this Lease is terminated as a result of any default by the Lessee hereunder or any other cause (including, without limitation, a rejection of this Lease by the Lessee's trustee in bankruptcy pursuant to 11 U.S.C. Section 365 or any equivalent provision of law), the Issuer shall provide each Leasehold Mortgagee (provided that such Leasehold Mortgagee has given a Notice of Leasehold Mortgage) with written notice that the Lease has been terminated, together with a statement of all sums which would at that time be due under this Lease but for such termination, and of all other defaults, if any, then known to the Issuer. The Issuer shall enter into a new lease (hereinafter referred to as the "New Lease") of the Project with any Leasehold Mortgagee or its designee for the remainder of the term of this Lease with the same covenants, conditions and agreements (including, without limitation, any and all options to extend or renew the term of this Lease, but excluding any requirements which have been satisfied by the Lessee prior to termination) as are contained herein, subject only to (i) the conditions of title as the Project are subject to on the date of the execution of the original Lease, (ii) the right, if any, of any parties then in possession of any part of the Project by, through or under Lessee, and (iii) the lien and encumbrance of any security instrument encumbering the Issuer's fee simple interest in the Project upon receipt by the Issuer of a written request from such Leasehold Mortgagee on or before sixty (60) days after the date of the Issuer's notice of termination given pursuant to this subsection 8.5(d) and thereafter, the lessee under the New Lease shall have the same right, title and interest in and to the Project as

the Lessee had under this Lease. The obligations of the Issuer to enter into a New Lease shall be subject to the following conditions:

(i) Such Leasehold Mortgagee or its designee shall pay or cause to be paid to the Issuer at the time of the execution and delivery of such New Lease any and all sums which would at the time of execution and delivery thereof be due pursuant to this Lease but for such termination and, in addition thereto, all reasonable expenses, including reasonable attorney's fees, which the Issuer shall have incurred by reason of the Lessee's default of which Leasehold Mortgagee has been notified and provided an opportunity to cure as required by this Lease, and such termination and the execution and delivery of the New Lease and which have not otherwise been received by the Issuer from the Lessee or any other party in interest under the Lessee. Upon the execution of such New Lease, the Issuer shall allow the Lessee named therein as an offset against the sums otherwise due under this subsection 8.5(d), an amount equal to the net income derived by the Issuer from the Project during the period from the date of termination of this Lease to the date of beginning of the term of such New Lease; and

(ii) Such Leasehold Mortgagee or its designees shall agree to cure any defaults of the Lessee under the terminated Lease of which the Issuer shall have notified Leasehold Mortgagee other than a default existing under subsections 10.01(c), (d) or (e) hereof.

The new lessee under such New Lease shall, upon entering into such New Lease, acquire all of the right, title and interest of the Lessee in and to any and all subleases of all or any part of the Project.

(e) So long as any Leasehold Mortgage is in existence, unless all Leasehold Mortgagees shall otherwise expressly consent in writing, the fee title to the Project and the leasehold estate of the Lessee herein created shall not merge but shall remain separate and distinct, notwithstanding the acquisition of said fee title and said leasehold estate by the Issuer or by the Lessee, or by a third party, by purchase or otherwise.

(f) Notices from the Issuer to the Leasehold Mortgagee shall be mailed to the address furnished the Issuer pursuant to Notice of Leasehold Mortgage, and those from the Leasehold Mortgagee to the Issuer shall be mailed to the address designated pursuant to the provisions of Section 12.1 of this Lease. Such notices, demands and requests shall be given in the manner described in Section 12.1 of this Lease and shall in all respects be governed by the provisions of that section.

(g) The Issuer shall, on request in connection with the financing or refinancing of the Lessee's leasehold interest in the Project, execute, acknowledge and deliver to a Leasehold Mortgagee an agreement, prepared at the sole cost and expense of the Lessee, in form satisfactory to the Leasehold Mortgagee and the Issuer among the Issuer, the Lessee and the Leasehold Mortgagee, agreeing to all the provisions of this Article XI. In

addition, the Lessee shall reimburse the Issuer for any reasonable attorneys' fees and expenses actually incurred in reviewing such agreement.

Section 8.6 WAIVER OF LANDLORD'S LIEN.

(a) The Issuer hereby waives any right to distrain Excluded Property or any other personal property of the Lessee or any other Person which does not constitute a part of the Project, and any landlord's lien or similar lien upon Lessee and any landlord's lien or similar lien upon Excluded Property, any other personal property of Lessee or any other Person and any alterations belonging to any Person, regardless of whether such lien is created by statute or otherwise. The Issuer agrees, at the request of the Lessee, to execute a waiver of any landlord's or similar lien for the benefit of any present or future holder of a security interest in, or lessor of, any of the Excluded Property, any other personal property of any Person or any alterations belonging to any Person.

(b) The Issuer acknowledges, and agrees in the future to acknowledge (in a written form reasonably satisfactory to the Lessee), to such Persons, at such times and for such purposes as the Lessee may reasonably request, that any property included in Excluded Property is not subject to this Lease and do not constitute fixtures or improvements (regardless of whether or to what extent such Excluded Property is affixed to the Project), and that the Issuer has no right, title or interest in or to any Excluded Property.

Section 8.7 GRANTING OF MORTGAGES BY ISSUER. Upon the written request of the Lessee and with the consent of the holders of not less than a majority in the aggregate principal amount of the Bonds then outstanding, the Issuer agrees to execute and deliver to any Person specified by the Lessee (a "Mortgagee") with or without receipt of consideration and at all times and from time to time, any mortgage, deed to secure debt, security agreement, assignment or other security instrument (herein called a "Mortgage") encumbering the Issuer's fee simple interest in the Project as security for any debt of Lessee or any other Person.

In addition, upon the written request of the Lessee and with the consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding, the Issuer and the Trustee shall execute and deliver such subordination agreements, consents or other documents or instruments in recordable form having the effect of subordinating all or any part of their respective interests in the Project, this Lease and the Trust Estate to the interests of the holder or holders of any Mortgage.

Section 8.8 ESTOPPEL CERTIFICATES. The Issuer and the Trustee shall, without charge, at any time and from time to time hereafter, within five (5) days after written request of the Lessee to do so, certify by written instrument duly executed and acknowledged to any Leasehold Mortgagee, Mortgagee or purchaser, or proposed Leasehold Mortgagee, Mortgagee or proposed purchaser, or any other Person, firm or corporation specified in such request: (i) as to whether this Lease has been supplemented

or amended, and if so, the substance and manner of such supplement or amendment; (ii) as to the existence of any default hereunder known to the Issuer or the Trustee; (iii) as to the existence of any offsets, counterclaims or defenses hereto on the part of the Lessee known to the Issuer or the Trustee; (iv) as to the commencement and expiration dates of the term of this Lease; and (v) as to any other matters as may be reasonably so requested. Any such certificate may be relied upon by the Lessee and any other person, firm or corporation to whom the same may be addressed, and the contents of such certificate shall be binding on the Issuer and the Trustee as to the Lessee and the addressee(s) of such certificate.

Section 8.9 AUTHORIZED ISSUER REPRESENTATIVE. Unless otherwise specified herein, whenever under the provisions hereof the approval of the Issuer is required or the Issuer is required to take some action at the request of the Lessee, such approval may be made or such action may be taken by the Authorized Issuer Representative; and the Lessee or the Trustee shall be authorized to act on any such approval or action and the Issuer shall have no complaint against the Lessee or the Trustee as a result of any such action taken.

Section 8.10 AUTHORIZED LESSEE REPRESENTATIVE. Unless otherwise specified herein, whenever under the provisions hereof the approval of the Lessee is required or the Lessee is required to take some action at the request of the Issuer, such approval may be made or such action may be taken by the Authorized Lessee Representative; and the Issuer or the Trustee shall be authorized to act on any such approval or action and the Lessee shall have no complaint against the Issuer or the Trustee as a result of any such action taken.

ARTICLE IX

ASSIGNMENT, SUBLEASING, PLEDGING AND SELLING; REDEMPTION; RENT PREPAYMENT AND ABATEMENT

Section 9.1 ASSIGNMENT AND SUBLEASING. This Lease may be assigned in whole or in part, and the Project may be subleased as a whole or in part, by the Lessee without the necessity of obtaining the consent of the Issuer, the Trustee or any other Person; provided, however, except as provided below no assignment (other than pursuant to Section 8.3 hereof) or sublease shall relieve the Lessee from primary liability for any of its obligations hereunder. The Lessee agrees to cause any sublessee of the Project or any portion thereof to operate the Project as a "project" as defined in the Act. Notwithstanding the foregoing, the Lessee shall be relieved of liability hereunder in the event of an assignment of its interest in this Agreement if (i) the assignee expressly assumes and agrees in writing to perform all of the Lessee's obligations under this Lease and (ii) if the assignee is a foreign Person (i.e. a natural Person residing outside the United States of America or an entity not organized and existing under the laws of one of

the states of the United States of America or the District of Columbia), such Person shall appoint and maintain an agent for service of process in the State of Georgia.

Section 9.2 ASSIGNMENT AND PLEDGE OF REVENUES BY ISSUER. Pursuant to the Indenture, the Issuer has assigned and pledged its interest in any moneys receivable under this Lease, excluding payments pursuant to Sections 5.3(b), 5.3(c) and 6.4 hereof, as security for the payment of the principal of, premium, if any, and interest on the Bonds, but such assignment and pledge shall be subject and subordinate to this Lease.

Section 9.3 RESTRICTIONS ON SALE OF PROJECT BY ISSUER. The Issuer agrees that, except as otherwise expressly permitted under the terms of this Lease or the Indenture, it will not sell, assign, transfer or convey the Project during the Agreement Term and that it will not take any other action which may reasonably be construed as tending to cause or induce the levy or assessment of additional ad valorem taxes on the Project. If the laws of Georgia at the time shall permit such action to be taken, nothing contained in this Section shall prevent the consolidation of the Issuer with, or merger of the Issuer into, or transfer of the Project as an entirety to, any public corporation whose property and income are not subject to taxation and which has corporate authority to carry on the business of owning and leasing the Project; provided, (i) that no such action shall be taken without the prior written consent of the Lessee, unless such action shall be required by law, and (ii) that upon any such consolidation, merger or transfer, the due and punctual payment of the principal of, premium, if any, and interest on the Bonds according to their tenor, and the due and punctual performance and observance of all the agreements and conditions of this Lease to be kept and performed by the Issuer, shall be expressly assumed in writing by the corporation resulting from such consolidation or surviving such merger or to which the Project shall be transferred as an entirety.

Section 9.4 REDEMPTION OF BONDS. The Issuer, at the request at any time of the Lessee and if the same are then redeemable, shall forthwith take all steps that may be necessary under the applicable redemption provisions of the Indenture to effect redemption of all or part of the then outstanding Bonds, as may be specified by the Lessee, on the earliest redemption date on which such redemption may be made under such provisions or upon the date set for the redemption by the Lessee pursuant to Sections 7.1, 7.2 or 11.1 hereof or Article III of the Indenture.

Section 9.5 PREPAYMENT OF RENTS. There is expressly reserved to the Lessee the right, and the Lessee is authorized and permitted at any time it may choose, to prepay all or any part of the rents payable under Section 5.3(a) hereof, and the Issuer agrees to accept such prepayment of rents when the same are tendered by the Lessee. All rents so prepaid shall be credited on the rental payments specified in Section 5.3(a) hereof, in the order of their due dates and at the election of the Lessee shall be used for the redemption of outstanding Bonds in the manner and to the extent provided in the Indenture.

Section 9.6 PRESENTMENT OF BONDS FOR CANCELLATION. The Lessee expressly reserves the right and is authorized to present any principal amount of Bonds to the Issuer

or the Trustee for cancellation. If all of the outstanding Bonds are presented to the Issuer or the Trustee for cancellation, then, upon payment to the Issuer or the Trustee of any amounts payable to the Issuer due hereunder (other than the payments pursuant to Section 5.3(a) hereof), this Lease may be terminated upon notice given pursuant to Section 11.5(b) hereof. If a portion of the Outstanding Bonds are presented to the Issuer or the Trustee for cancellation, the resulting reduction in the amount of Bonds outstanding shall entitle the Lessee to an appropriate reduction in the payments required by Section 5.3(a) hereof on all succeeding rental payment dates. All Bonds so presented and canceled shall thereafter no longer be considered outstanding for any purpose of the Indenture or this Lease, including the calculation of payments under Section 5.3(a) hereof. The Lessee may present Bonds for partial cancellation and reissuance of new Bonds for the portions not canceled, or for partial cancellation and notation thereof on such Bonds, such notation to be made on the Table of Partial Redemptions on such Bonds in the same manner as provided for partial redemptions in Section 306 of the Indenture.

Section 9.7 LESSEE ENTITLED TO CERTAIN RENT ABATEMENTS IF BONDS PAID PRIOR TO MATURITY. If at any time the aggregate moneys in the Bond Fund shall be sufficient to retire in accordance with the provisions of the Indenture all of the Bonds at the time outstanding, and to pay all fees and charges of the Trustee due or to become due through the date on which the last of the Bonds is retired under circumstances not resulting in termination of the Lease Term, and if the Lessee is not at the time otherwise in default under Article VI hereof, the Lessee shall be entitled to use and occupy the Project from the date on which such aggregate moneys are in the hands of the Trustee to and including midnight on the last day of the Lease Term, without the payment of the amounts required by Section 5.3(a) during that interval (but otherwise on the terms and conditions hereof).

Section 9.8 REFERENCE TO BONDS INEFFECTIVE AFTER BONDS PAID. Upon payment in full of the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and all fees and charges of the Trustee, all references in this Lease to the Bonds shall be ineffective and the holders of any of the Bonds shall not thereafter have any rights hereunder, saving and excepting those that shall have theretofore vested. For purposes of this Lease, the Bonds shall be deemed fully paid when so paid according to the provisions of Article IX of the Indenture.

ARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section 10.1 EVENTS OF DEFAULT DEFINED. The following shall be "events of default" under this Lease and the terms "event of default" or "default" shall mean, whenever they are used in this Lease, any one or more of the following events:

(a) Failure by the Lessee to pay when due the portion of the payments required to be paid under Section 5.3(a) hereof representing payment of the principal of,

and premium, if any, on the Bonds and the continuance thereof for a period of ten (10) calendar days after receipt by the Lessee of written notice of such failure;

(b) Failure by the Lessee to pay when due the portion of the payments required to be paid under Section 5.3(a) hereof representing payments of interest on the Bonds, and the continuance thereof for a period of ten (10) calendar days after receipt by the Lessee of written notice of such failure;

(c) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsections (a) and (b) of this Section, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied, given to the Lessee by the Issuer, unless the Issuer shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in such notice cannot practically be corrected within the applicable period, it shall not be an event of default if the Lessee initiates appropriate corrective measures during such period and such measures are thereafter diligently pursued by the Lessee;

(d) A proceeding or case shall be commenced, without the application or consent of the Lessee in any court of competent jurisdiction seeking (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts of Lessee, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of the Lessee or of all or any substantial part of its assets, or (iii) similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or cause shall continue undismissed, or an order, judgment, or decree approving or ordering any of the foregoing shall be entered and shall continue in effect for a period of ninety (90) days; or an order for relief against the Lessee shall be entered against the Lessee in an involuntary case under the United States Bankruptcy Code (as now or hereafter in effect) or other applicable law and shall continue in effect for a period of ninety (90) days; or

(e) The Lessee shall admit in writing its inability to pay its debts generally as they become due or shall file a petition in voluntary bankruptcy or shall make any general assignment for the benefit of its creditors, or shall consent to the appointment of a receiver or trustee of all or substantially all of its property, or shall commence a voluntary case under the United States Bankruptcy Code (as now or hereafter in effect), or shall file in any court of competent jurisdiction a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, or shall fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under such United States Bankruptcy Code or other applicable law.

The term "liquidation, reorganization or dissolution of the Lessee" as used in this subsection, shall not be construed to include the cessation of the existence of the Lessee resulting from a merger or consolidation of the Lessee into or with another Person or a

dissolution or liquidation of the Lessee following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 8.3 hereof.

The foregoing provisions of this Section are subject to the following limitations: if by reason of a Force Majeure Event the Lessee is unable in whole or in part to carry out the agreements on its part herein contained, other than the obligations on the part of the Lessee contained in Article V and Sections 6.3, 6.4 and 8.6 hereof, the Lessee shall not be deemed in default during the continuance of such inability.

Section 10.2 REMEDIES ON DEFAULT. Whenever any event of default referred to in Section 10.1 hereof shall have happened and be subsisting and subject to the provisions of this Section 10.2, the Issuer may take any one or more of the following remedial steps:

(a) The Issuer may, at its option, declare all amounts payable under Section 5.3(a) hereof for the remainder of the Agreement Term to be immediately due and payable, whereupon the same shall become immediately due and payable. If the Issuer elects to exercise the remedy afforded in this Section 10.2(a) and accelerates all amounts payable under Section 5.3(a) hereof for the remainder of the Agreement Term, the amount then due and payable by the Lessee as accelerated rents shall be the sum of (1) the aggregate principal amount of the outstanding Bonds, and (2) all interest and redemption premium, if any, on the Bonds accruing to the date of such acceleration. Such sums as may then become payable shall be paid into the Bond Fund and after the Bonds and accrued interest thereon have been fully paid and any costs occasioned by such default have been satisfied, any excess moneys in the Bond Fund shall be returned to the Lessee as an overpayment of rents; provided, however, upon the occurrence of an event of default described in subsections (d) or (e) of Section 10.1 hereof, all amounts payable under Section 5.3(a) hereof for the remainder of the Agreement Term shall be deemed automatically accelerated without the necessity of any declaration or the taking of any other action whatsoever.

(b) The Issuer or the Trustee may re-enter and take possession of the Project without terminating this Lease, and sublease the Project for the account of the Lessee, holding the Lessee liable for the difference in the rent and other amounts payable by such sublessee in such subleasing and the rents and other amounts payable by the Lessee hereunder.

(c) The Issuer may terminate the Lease Term, exclude the Lessee from possession of the Project and use its best efforts to lease the Project to another for the account of the Issuer, holding the Lessee liable for all rent and other payments due up to the effective date of such leasing.

(d) In the event any of the Bonds shall at the time be outstanding and unpaid, the Issuer or the Trustee may have access to and inspect, examine and make copies of all books and records of the Lessee to the Project.

(e) The Issuer may take whatever action at law or in equity may appear necessary or desirable to collect the rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Lessee under this Lease.

Any amounts collected pursuant to action taken under this Section shall be paid into the Bond Fund and applied in accordance with the provisions of the Indenture or, if the Bonds have been fully paid (or provision for payment thereof has been made in accordance with the provisions of the Indenture), to the Lessee.

Notwithstanding anything else herein contained, the Issuer and the Trustee shall be prohibited from accelerating rental payments hereunder and exercise any other rights or remedies provided herein, at law or otherwise, unless and until the Issuer or the Trustee shall have given the Lessee not less than thirty (30) days' prior written notice of its intent to declare an event of default, accelerate rental payments and/or exercise any such rights or remedies and the Lessee shall have failed to cure said event of default prior to the expiration of said 30-day period. Any such notice shall be a separate notice from any notice given pursuant to Section 10.1 hereof and shall specify with particularity the event or events of default that have occurred and are continuing and which actions are proposed to be taken by the Issuer and/or the Trustee as a result of any such event of default.

Section 10.3 NO REMEDY EXCLUSIVE. No remedy herein conferred upon or reserved to the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Lease or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given to the Issuer hereunder shall also extend to the holders of the Bonds who shall be deemed third party beneficiaries of all covenants and agreements herein contained.

Section 10.4 AGREEMENT TO PAY REASONABLE ATTORNEYS' FEES AND EXPENSES. In the event the Lessee should default under any of the provisions of this Lease and the Issuer or the Trustee should employ attorneys or incur other expenses for the collection of rent or the enforcement of performance or observance of any obligation or agreement on the part of the Lessee herein contained, the Lessee agrees that it will on demand therefor pay to the Issuer the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

Section 10.5 NO ADDITIONAL WAIVER IMPLIED BY ONE WAIVER. In the event any agreement contained in this Lease should be breached by either party and thereafter

waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 10.6 RESCISSION OF REMEDIES. Notwithstanding anything else herein contained, the Lessee may at any time after an event of default under Section 10.1 hereof, cure said default by the payment of all amounts due and payable (other than amounts payable as a result of any acceleration) or the performance of any duty or obligation then in default and upon said cure the Issuer and the Trustee shall (i) rescind and annul any acceleration of rent payable hereunder and (ii) cease the exercise of any rights or remedies initiated as a result of such event of default, and take such steps as may be necessary to place the Lessee in the same position as it was prior to such event of default, and the rights of the Lessee hereunder shall be fully restored and reinstated as if such event of default never occurred.

ARTICLE XI

OPTIONS IN FAVOR OF LESSEE

Section 11.1 GENERAL OPTION TO PURCHASE PROJECT. The Lessee shall have, and is hereby granted, the option to purchase the entire Project (less those portions which have already been purchased by Lessee, if any, as provided herein) at any time during the Agreement Term and whether or not an Event of Default has occurred and is continuing.

To exercise such option, the Lessee shall give written notice to the Issuer and to the Trustee, if any of the Bonds shall then be unpaid, and shall specify therein the date of closing such purchase, which date shall be not less than fifteen days from the date such notice is mailed. The purchase price which shall be paid to the Issuer by the Lessee in the event of its exercise of the option granted in this Section shall be the sum of the following:

(1) an amount of money which will be sufficient (or Government Obligations the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee will be sufficient), when added to any amount already on deposit in the Construction Fund and the Bond Fund, to pay the interest on the then outstanding Bonds until the earliest permissible redemption date following the closing of such purchase and to pay the principal of and interest on all of the Bonds on such redemption date;

(2) an amount of money equal to the fees and expenses of the Trustee under the Indenture accrued and to accrue (including counsel fees and expenses) until such final payment and redemption of the Bonds; plus

(3) the sum of $10.00 which shall be paid by the Lessee to the Issuer.

In the event of the exercise of the option granted in this Section, any Net Proceeds of insurance or condemnation shall be paid directly to the Lessee.

Section 11.2 OPTION TO PURCHASE A PORTION OF THE PROJECT. The Lessee shall have and is hereby granted an option to purchase any portion of the Project at any time and from time to time and whether or not an Event of Default has occurred and is continuing, provided that it furnishes the Issuer with the following:

(a) A notice in writing containing (i) a description of that portion of the Project with respect to which such option is to be exercised and (ii) a statement that the Lessee intends to exercise its option to purchase such portion of the Project on a date stated, which shall not be less than ten (10) nor more than ninety (90) days from the date of such notice.

(b) A certificate of the Authorized Lessee Representative, dated not more than ninety days prior to the date of the purchase and stating that, in the opinion of the person signing such certificate, (i) the portion of the Project with respect to which the option is exercised are not needed for the operation of the remaining portion of the Project or that sufficient right and title is reserved to the Issuer to fulfill said needs, (ii) the purchase will not impair the usefulness of the remaining portion of the Project and will not destroy the means of ingress thereto and egress therefrom.

(c) A statement setting forth the original Project Costs attributable to such portion of the Project, as depreciated using rates calculated in accordance with generally accepted accounting principles.

The Issuer agrees that upon receipt of the notice and certificate required in this Section to be furnished to it by the Lessee and the amount specified in subsection (c) of this Section, the portion of the Project with respect to which the Lessee shall have exercised the option granted in this Section shall automatically cease to be a portion of the Project leased hereunder on the date stated in such certificate and on such date shall automatically be released from the provisions of this Lease and the Indenture without the necessity of any further action by the Issuer or the Lessee. In the event the Lessee shall exercise the option granted to it under this Section the Lessee shall not be entitled to any abatement or diminution of the rents payable under Section 5.3 hereof.

If the Lessee purchases any unimproved part of the Project pursuant to the provisions of the preceding paragraph, the Lessee and the Issuer agree that all walls presently standing or hereafter erected on or contiguous to the boundary line of the Land so purchased by the Lessee shall be party walls and each party grants the other a 10-foot easement adjacent to any such party wall for the purpose of inspection, maintenance, repair and replacement thereof and the tying-in of new construction. If the Lessee utilizes any party wall for the purpose of tying-in new construction that will be utilized under common control with the Project, the Lessee may also tie-in to the utility facilities on the Land for the purpose of serving the new construction and may remove any non-

loadbearing wall panels in the party wall; provided, however, that if the property so purchased ceases to be operated under common control with the Project, the Lessee covenants that it will install non-loadbearing wall panels similar in quality to those that have been removed and will provide separate utility services for the new construction. No wall may be so utilized by the Lessee unless prior thereto the Issuer has been furnished with a certificate of the Authorized Lessee Representative stating that the proposed utilization will not impair the usefulness of the Project for the purposes for which it was designed to be used.

The purchase price payable by the Lessee in connection with the purchase of a portion of the Project in accordance with this Section shall be deposited in the Bond Fund and used to pay the principal of the Bonds.

If and to the extent under any particular circumstances there is deemed any inconsistency between the provisions of this Section and provisions of Section 6.2, the provisions of Section 6.2 shall be held as controlling and shall supersede the provisions of this Section.

Section 11.3 CONVEYANCE ON PURCHASE. At the closing of the purchase pursuant to the exercise of any option to purchase granted in this Article, the Issuer will, upon receipt of the applicable purchase price (if any), deliver to the Lessee the following:

(a) If the Indenture shall not at the time have been satisfied in full, a release by the Issuer from the provisions of the Indenture of the property with respect to which such option was exercised.

(b) Documents (including, without limitation, a limited warranty deed and a bill of sale) customarily used in commercial real estate transactions involving improved property conveying to the Lessee good and marketable title to the Project with respect to which such option was exercised as such Project then exists, subject to the following: (i) those liens and encumbrances (if any) to which title to said property was subject when conveyed to the Issuer; (ii) those liens and encumbrances created by the Lessee or to the creation or suffering of which the Lessee consented in writing; (iii) those liens and encumbrances resulting from the failure of the Lessee to perform or observe any of the agreements on its part contained in this Lease; and (iv) if the option is exercised while any condemnation proceeding is pending the rights and title of the condemning authority.

Notwithstanding the foregoing, in order to facilitate the transfer of the Project to the Lessee upon the Lessee's exercise of an option to purchase provided in this Article XI, the Issuer agrees to execute and deliver to the Trustee, as escrow agent, on the date of execution and delivery of this Lease the documents referred to in subsection (b) above to be held pursuant to a Documents Escrow Agreement dated as of December 1, 2002 among the Issuer, the Lessee and the Trustee. The Issuer hereby appoints the Lessee as its attorney-in-fact for the purpose of dating, completing and filing such documents upon

satisfaction by the Lessee of any and all conditions to the exercise of such purchase option as provided herein, and acknowledges and agrees that such appointment is irrevocable and coupled with an interest.

Section 11.4 RELATIVE POSITION OF OPTIONS AND INDENTURE. The options respectively granted to the Lessee in this Article shall be and remain prior and superior to the Indenture and may be exercised whether or not the Lessee is in default hereunder, provided that such default will not result in the nonfulfillment of any condition to the exercise of any such option.

Section 11.5 LESSEE'S OPTION TO TERMINATE. The Lessee shall have the following options to terminate this Agreement whether or not the Lessee is in default hereunder or there exists an Event of Default hereunder:

(a) At any time prior to payment in full of the Bonds within the meaning of the Indenture, and particularly Article IX thereof, the Lessee may terminate the Agreement Term by irrevocably depositing in the Bond Fund moneys which will be sufficient, or Government Obligations the principal of and interest on which when due will provide moneys which, together with any moneys on deposit in the Bond Fund, will be sufficient, according to the provisions of Article IX of the Indenture, to pay in full all of the Bonds then outstanding, and fees and expenses due or to become due to the Trustee and by making adequate provision for the publication of any redemption notice that may be required by the Indenture.

(b) At any time after payment in full of the Bonds within the meaning of the Indenture, and particularly Article IX thereof, the Lessee may terminate the Agreement Term by giving the Issuer notice in writing, and such termination shall become effective forthwith.

Notwithstanding anything else herein contained, the purchase of the Project by the Lessee pursuant to any option provided in this Lease shall automatically terminate the Lease Term, if not previously terminated.

Section 11.6. CONVEYANCE OF PROJECT AT END OF LEASE TERM. Notwithstanding anything else herein contained, the Issuer shall have the right and option on or after the Stated Termination Date to convey the Project to the Lessee, with or without receipt of any consideration therefor, by executing any recording documents conveying to the Lessee good and marketable title to the Project subject to such liens and encumbrances as are described in Section 11.3(b)(i) through (iv).

ARTICLE XII

MISCELLANEOUS

Section 12.1 NOTICES. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered or certified mail return receipt requested, postage prepaid, addressed as follows:

if to the Issuer:	Development Authority of Fulton County 141 Pryor Street, S.W. Suite 5001 Atlanta, Georgia 30303
with a copy to:	Nelson, Mullins, Riley & Scarborough 999 Peachtree Street, N.E. Suite 1400 Atlanta, Georgia 30309 Attn: Lewis C. Horne, Jr., Esq.
if to the Lessee:	ADESA Atlanta, LLC 310 E. 96th Street, Suite 400 Indianapolis, Indiana 46240 Attn: General Counsel
with a copy to:	Alston & Bird LLP 1201 West Peachtree Street Atlanta, Georgia 30309 Attn: Glenn R. Thomson, Esq.
if to the Trustee:	SunTrust Bank 25 Park Place, 24th Floor Atlanta, Georgia 30303

A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Lessee to the other shall also be given to the Trustee. The Issuer, the Lessee and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 12.2 BINDING EFFECT. Lease shall inure to the benefit of and shall be binding upon the Issuer, the Lessee and their respective successors and assigns, subject, however, to the limitations contained in Section 8.3, 9.1, 9.2 and 9.3 hereof.

Section 12.3 SEVERABILITY. In the event any provision of this Lease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 12.4 AMOUNTS REMAINING IN FUNDS. It is agreed by the parties hereto that any amounts remaining in the Bond Fund and the Project Fund upon expiration or sooner termination of the Lease Term as provided in this Lease, after payment in full of the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture) and the fees, charges and expenses of the Trustee in accordance with the Indenture shall belong to and be paid to the Lessee by the Issuer as overpayment of rents.

Section 12.5 AMENDMENTS,CHANGES AND MODIFICATIONS. Except as otherwise provided in this Lease or in the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full (or provision for the payment thereof having been made in accordance with the provisions of the Indenture), this Lease may not be effectively amended, changed, modified, altered or terminated without the concurring written consent of the Trustee, which consent shall not be unreasonably withheld.

Notwithstanding anything to the contrary contained herein, this Lease may be amended without the consent of the Trustee or of the holders of any of the Bonds for the purpose of subjecting additional real or personal property to the provisions hereof. Any such addition shall become effective upon the delivery by the Lessee and the acceptance by the Issuer of the following:

(a) a certificate of the Authorized Lessee Representative setting out a description of the real or personal property to be added to this Lease and stating that the Lessee owns such real or personal property free and clear of any and all liens, mortgages, encumbrances and clouds on title except such as would constitute Permitted Encumbrances; and

(b) documents conveying to the Issuer good and marketable title to the real or personal property described in the certificate referred to above and identifying said real or personal property as being subject to the provisions of this Lease.

Upon the delivery and acceptance of the foregoing documents, the real or personal property so added shall become part of the Project and this Lease shall ipso facto be amended to include such property, without the necessity of any further amendatory instrument, subject to all of the provisions of this Lease, and the Lessee shall be entitled to the use and occupancy of such additional property without increase in the amounts payable under Section 5.3 hereof so long as such additional property is acquired without expense to the Issuer. The Issuer will, however, execute such instruments amendatory hereto as shall be requested by the Lessee to confirm the addition of any such property to the provisions hereof.

Section 12.6 EXECUTION COUNTERPARTS. This Lease may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 12.7 CAPTIONS. The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions of this Lease.

Section 12.8 RECORDING OF LEASE. This Lease or at the option of the Lessee, a memorandum hereof in form and substance satisfactory to the Lessee, and every assignment hereof shall be recorded in the office of the Clerk of Superior Court of Fulton County, Georgia, or in such other office as may be at the time provided by law as the proper place for such recordation.

Section 12.9 LAW GOVERNING CONSTRUCTION OF LEASE. This Lease shall be governed by, and construed in accordance with, the laws of the State of Georgia.

Section 12.10 NET LEASE. This Lease shall be deemed a "net lease," and the Lessee shall pay absolutely net during the Lease Term the rent and all other payments required hereunder, without abatement, deduction or set-off other than those herein expressly provided.

Section 12.11 SURVIVAL OF PURCHASE OPTIONS. Notwithstanding anything else herein contained, the purchase options granted to the Lessee hereunder and the provisions of Sections 5.3(b) and 6.4 hereof shall survive the expiration or earlier termination of the Agreement Term.

IN WITNESS WHEREOF, the Issuer and the Lessee have caused this Lease to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

Signed, sealed and delivered in the presence of:

/s/ Carmen Vaughn
Unofficial Witness

/s/ Ruanne E. Clay
Notary

My commission expires

March 20, 2003

(NOTARIAL SEAL)

DEVELOPMENT AUTHORITY OF FULTON COUNTY

By: /s/ Robert J. Shaw
Chairman

(SEAL)

Attest:

/s/ Lewis C. Horne, Jr.
Asst. Secretary

[Signature Page - Lease]

Signed, sealed and delivered
in the presence of:

/s/ Scott Anderson
Unofficial Witness

/s/ Cheryl A. Shrader
Notary

My commission expires

9/24/08

CHERYL SHRADER, Notary Public
Resident of Tipton County, Indiana
My Commission Expires: 9-24-2008
(NOTARIAL SEAL)

ADESA ATLANTA, LLC

By: /s/ Paul J. Lips
Paul J. Lips, Treasurer

(SEAL)

Attest:

/s/ Karen C. Turner
Karen C. Turner, Secretary

[Signature Page - Lease]

SECOND AMENDED AND RESTATED COMMITTED FACILITY LETTER

December 24, 2002

ALLETE, Inc.
30 West Superior Street
Duluth, Minnesota 55802
Attn: Corporate Treasurer

Ladies and Gentlemen:

Reference is hereby made to that certain Amended and Restated Committed Facility Letter among the banks party thereto, ABN AMRO Bank N.V., as agent for such banks and yourselves dated as of December 28, 2000, as amended by that certain First Amendment to Committed Facility Letter dated as of December 27, 2001, and that certain Second Amendment to Committed Facility Letter dated as of February 7, 2002 (together with all exhibits, schedules, attachments, appendices and amendments thereof, the "EXISTING COMMITTED FACILITY LETTER"). The parties to the Existing Committed Facility Letter desire that the Existing Committed Facility Letter be amended and restated in its entirety, without constituting a novation, all on the terms and conditions contained herein. Accordingly, in consideration of the premises and the agreements, provisions and covenants contained herein, the Existing Committed Facility Letter is hereby amended and restated in its entirety to be and to read as follows:

LaSalle Bank National Association (the "Agent" and, in its individual capacity, a "Bank") and the other Banks (as defined below) are pleased to advise ALLETE, Inc. (the "Company") that the Banks (defined below) have severally approved, subject to the conditions outlined in this letter, a committed credit facility (the "Facility"). The amount available under the Facility shall not exceed at any time the aggregate sum of the Commitments (defined below). This Facility shall terminate on December 23, 2003 (the "TERMINATION DATE"). The Facility shall be available under the following terms and conditions (certain capitalized terms being used and not otherwise defined as set forth in SECTION 8):

1. LOANS.

The Company may from time to time before the Termination Date borrow Eurodollar Loans, or if one or more conditions exist as set forth in Section 3(b) or Section 3(c) hereof, Prime Rate Loans. The aggregate outstanding amount of the Loans shall not at any time exceed the aggregate sum of the Commitments. The Company may borrow, repay and reborrow in accordance with the terms hereof.

a. BORROWING PROCEDURES

i. PRIME RATE LOANS. Each Prime Rate Loan shall be on prior telephonic notice (promptly confirmed in writing) from any Authorized Officer received by the Agent not later than 11:00 a.m. (Chicago, Illinois time), on the

day such Loan is to be made. Each such Notice of Borrowing shall specify (i) the borrowing date, which shall be a Banking Day, and (ii) the amount of the Loan. Each Prime Rate Loan shall be in the amount of $5,000,000 or a higher integral multiple of $1,000,000. A Prime Rate Loan shall only be available if the Agent has given written notice to the Company that one or more conditions exist as set forth in Section 3(b) or Section 3(c) hereof.

ii. EURODOLLAR LOANS. Each Eurodollar Loan shall be made upon at least three Banking Days' prior written or telephonic notice from any Authorized Officer received by the Agent not later than 3:00 p.m. (Chicago, Illinois time). Each such Notice of Borrowing shall specify (i) the borrowing date, which shall be a Banking Day, (ii) the amount of such Loan, and (iii) the Interest Period for such Loan. Each Eurodollar Loan shall be in the amount of $5,000,000 or a higher integral multiple of $1,000,000.

iii. The Agent shall give prompt telephonic or telecopy notice to each Bank of the contents of each Notice of Borrowing and of such Bank's share of such Loan.

iv. Not later than 11:00 a.m. (Chicago time) (or 1:00 p.m. (Chicago time) in the case of any Prime Rate Loan) on the date of each borrowing, each Bank participating therein shall (except as provided in subsection (v) of this Section) make available its share of such Loan, in Federal or other funds immediately available in Chicago, to the Agent at its address set forth next to its signature below. Unless the Agent is notified by a Bank that any applicable condition specified in Section 4 has not been satisfied, the Agent will make the funds so received from the Banks available to the Company by depositing such funds in the manner specified in the related Notice of Borrowing.

v. Unless the Agent shall have received notice from a Bank prior to the date of any borrowing that such Bank will not make available to the Agent such Bank's share of such Loan, the Agent may assume that such Bank has made such share available to the Agent on the date of such borrowing in accordance with subsection (iv) of this Section 1(a), and the Agent may, in reliance upon such assumption (but shall not be obligated to), make available to the Company on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Agent, such Bank and the Company severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Company until the date such amount is repaid to the Agent, at (i) in the case of the Company, a rate per annum equal to the higher of (x) the Prime Rate and (y) the interest rate applicable thereto pursuant to Section 1(b)(ii), and (ii) in the case of such Bank, the Prime Rate. If such Bank shall repay to the

Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan included in such Loan for purposes of this Agreement.

b. INTEREST

i. PRIME RATE LOANS. The unpaid principal of each Prime Rate Loan shall bear interest prior to maturity at a rate per annum equal to the Prime Rate in effect from time to time plus the Applicable Margin. Accrued interest on Prime Rate Loans shall be payable quarterly on the 30th day of each December, March, June and September and at maturity.

ii. EURODOLLAR LOANS. The unpaid principal amount of each Eurodollar Loan shall bear interest prior to maturity at a rate per annum equal to LIBOR in effect for the Interest Period with respect to such Eurodollar Loan plus the Applicable Margin. Accrued interest on each Eurodollar Loan shall be payable on the last day of the Interest Period applicable to such Loan and, if such Interest Period shall exceed three months, at three month intervals after the date of the Eurodollar Loan.

iii. INTEREST AFTER MATURITY. Any principal of any Loan which is not paid when due, whether at the stated maturity, upon acceleration or otherwise, shall bear interest from and including the date such principal shall have become due to (but not including) the date of payment thereof in full at a rate per annum equal to the Prime Rate from time to time in effect plus the Applicable Margin plus 2% per annum (but until the end of any Interest Period for a Eurodollar Rate Loan, not less than 2 % in excess of the rate otherwise applicable for such Loan). After maturity, accrued interest shall be payable on demand.

iv. MAXIMUM RATE. In no event shall the interest rate applicable to any amount outstanding hereunder exceed the maximum rate of interest allowed by applicable law, as amended from time to time. Any payment of interest or in the nature of interest in excess of such limitation shall be credited as a payment of principal unless the Company shall request the return of such amount.

v. METHOD OF CALCULATING INTEREST AND FEES. Interest on each Loan shall be computed on the basis of a year consisting of (i) 365 days for Prime Rate Loans, and (ii) 360 days for Eurodollar Loans, and paid for actual days elapsed. Fees shall be computed on the basis of a year consisting of 360 days and paid for actual days elapsed.

c. DISBURSEMENTS AND PAYMENTS

The Agent shall transfer the proceeds of each Loan as directed by an Authorized Officer. Each Eurodollar Loan shall be payable on the earlier of the last day of the Interest Period

applicable thereto or the Termination Date. Each Prime Rate Loan shall be payable on the Termination Date. All payments to the Banks shall be made to the Agent at LaSalle Bank National Association ABA No. 071 000 505, Account No. 1378018, reference ALLETE not later than 2:00 p.m., Chicago, Illinois time, on the date when due and shall be made in lawful money of the United States of America (in freely transferable U.S. dollars) and in immediately available funds. Any payment that shall be due on a day, which is not a Banking Day, shall be payable on the next Banking Day, subject to the definition of "Interest Period".

d. PREPAYMENT; COMMITMENT REDUCTIONS

The Company may prepay any Loan in whole or in part from time to time (but, if in part, in an amount not less than $1,000,000 and integral multiples of $1,000,000 in excess thereof) without premium or penalty (subject to the following paragraph) upon (i) 3 Business Days prior written notice to the Agent with respect to any Eurodollar Loan and (ii) prior written notice delivered to the Agent prior to 10:00 a.m. (Chicago, Illinois time) on the date of such prepayment with respect to any Prime Rate Loan.

If the Company shall prepay any Loan, it shall pay to the Agent at the time of each prepayment, or at such later time designated by the Agent, any and all costs described in Section 3(g) hereof.

The Company may reduce the amount of Commitments from time to time in amounts not less than $1,000,000 and integral multiples of $1,000,000 in excess thereof without premium or penalty upon (i) 3 Business Days prior written notice to the Agent, provided that the aggregate amount of Commitments shall not exceed the aggregate principal amount of Loans then outstanding. Any such reduction shall be applied ratably to the Commitments of the Banks and may not be reinstated.

e. NOTE

The Company's obligations with respect to the Loans shall be evidenced by a note for each Bank in the form attached as EXHIBIT A (each, a "Note" and, collectively, the "Notes"). The amount, the rate of interest for each Loan and the Interest Period (if applicable) shall be endorsed by the respective Bank on the schedule attached to its Note, or at any Bank's option, in its records, which schedule or records shall be conclusive, absent manifest error, PROVIDED, HOWEVER, that the failure of any Bank to record any of the foregoing or any error in any such record shall not limit or otherwise affect the obligation of the Company to repay all Loans made to it hereunder together with accrued interest thereon.

2. FEES.

a. CERTAIN FEES

The Company shall pay, or cause to be paid, to the Agent certain fees set forth in the Fee Letter at the time specified in the Fee Letter for payment of such amounts.

b. FACILITY FEE

The Company agrees to pay to the Banks a facility fee at the Fee Rate on the amount of the Facility (whether or not used). Such facility fee shall be payable by the Company quarterly on the 30th day of each December, March, June and September after the date hereof and on the Termination Date as set forth in Section 1(c) hereof.

c. UTILIZATION FEE

For each day the aggregate amount of Loans outstanding exceeds 33% of the Commitments as in effect on such day, the Company agrees to pay to the Banks, in addition to any other amounts payable hereunder, a utilization fee on the aggregate outstanding amount of Loans on such date at a rate per annum equal to the Utilization Fee Rate. Such utilization fee shall be payable by the Company on the date when the next interest payment on such Loans is due in accordance with Section 1(b) hereof and on the Termination Date as set forth in Section 1(c) hereof.

3. ADDITIONAL PROVISIONS RELATING TO LOANS.

a. INCREASED COST

The Company agrees to reimburse each Bank for any increase in the cost to such Bank of, or any reduction in the amount of any sum receivable by such Bank in respect of, making or maintaining any Eurodollar Loans (including the imposition, modification or deemed applicability of any reserves, deposits or similar requirements). The additional amount required to compensate any Bank for such increased cost or reduced amount shall be payable by the Company to such Bank within five days of the Company's receipt of written notice from such Bank specifying such increased cost or reduced amount and the amount required to compensate such Bank therefor, which notice shall, in the absence of manifest error, be conclusive and binding on the Company. In determining such additional amount, a Bank may use reasonable averaging, attribution and allocation methods.

b. DEPOSITS UNAVAILABLE OR INTEREST RATE UNASCERTAINABLE; IMPRACTICABILITY

If the Company has notified the Agent of its intention to borrow a Eurodollar Loan for an Interest Period and the Agent or any Bank determines (which determination shall be conclusive and binding on the Company) that:

(1) deposits of the necessary amount for such Interest Period are not available to such Bank in the London interbank market or, by reason of circumstances affecting such market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(2) LIBOR will not adequately and fairly reflect the cost to the Bank of making or funding a Eurodollar Loan for such Interest Period; or

(3) the making or funding of Eurodollar Loans has become impracticable as a result of any event occurring after the date of this Agreement which, in the opinion of the Bank, materially and adversely affects such Loans or the interbank eurodollar market;

then any notice of a Eurodollar Loan previously given by the Company and not yet borrowed shall be deemed to be a notice to make a Prime Rate Loan.

c. CHANGES IN LAW RENDERING EURODOLLAR LOANS UNLAWFUL

If at any time due to the adoption of, or change in, any law, rule, regulation, treaty or directive or in the interpretation or administration thereof by any court, central bank, governmental authority or governmental agency charged with the interpretation or administration thereof, or for any other reason arising subsequent to the date hereof, it shall become (or, in the good faith judgment of any Bank, raise a substantial question as to whether it is) unlawful for such Bank to make or fund any Eurodollar Loan, Eurodollar Loans shall not be made hereunder for the duration of such illegality. If any such event shall make it unlawful for any Bank to continue any Eurodollar Loans previously made by it hereunder, the Company shall, after being notified by such Bank of the occurrence of such event, on such date as shall be specified in such notice, either convert such Eurodollar Loan to a Prime Rate Loan or prepay in full such Eurodollar Loan, together with accrued interest thereon, without any premium or penalty (except as provided in Section 3(g)).

d. DISCRETION OF THE BANKS AS TO MANNER OF FUNDING

Each Bank shall be entitled to fund and maintain its funding of all or any part of the Loans in any manner it sees fit; it being understood, however, that for purposes of this Note, all determinations hereunder shall be made as if such Bank had actually funded and maintained each Eurodollar Loan during the Interest Period for such Eurodollar Loan through the purchase of deposits having a term corresponding to such Interest Period and bearing an interest rate equal to LIBOR for such Interest Period.

e. TAXES

All payments by the Company of principal of, and interest on, the Loans and all other amounts payable hereunder shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties,

withholdings or other charges of any nature whatsoever imposed by any taxing authority, but excluding franchise taxes and taxes imposed on or measured by each respective Bank's net income or receipts (such non-excluded items being called "Taxes"). If any withholding or deduction from any payment to be made by the Company hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Company will

i. pay directly to the relevant authority the full amount required to be so withheld or deducted;

ii. promptly forward to each Bank an official receipt or other documentation satisfactory to such Bank evidencing such payment to such authority; and

iii. pay to each Bank such additional amount or amounts as is necessary to ensure that the net amount actually received by such Bank will equal the full amount such Bank would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against any Bank or on any payment received by such Bank hereunder, such Bank may pay such Taxes and the Company will promptly pay such additional amount (including any penalty, interest or expense) as is necessary in order that the net amount received by such Bank after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount such Bank would have received had no such Taxes been asserted.

If the Company fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to any Bank the required receipts or other required documentary evidence, the Company shall indemnify such Bank for any incremental Tax, interest, penalty or expense that may become payable by such Bank as a result of any such failure.

f. INCREASED CAPITAL COSTS

If any change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank, regulator or other governmental authority affects or would affect the amount of capital required or expected to be maintained by any Bank or any entity controlling any Bank, and such Bank determines (in its sole and absolute discretion) that the rate of return on its or such controlling entity's capital as a consequence of the Loans made by such Bank or the commitment hereunder is reduced to a level below that which such Bank or such controlling entity could have achieved but for the occurrence of any such circumstance, then, in any such case, upon notice from time to time by any Bank to the Company, the Company shall immediately pay directly to such Bank additional amounts sufficient to compensate such Bank or such controlling entity for such reduction in rate

of return. A statement of any Bank as to any such additional amount or amounts (including calculations thereof in reasonable detail) shall, in the absence of manifest error, be conclusive and binding on the Company. In determining such amount, each Bank may use reasonable averaging, attribution and allocation methods.

g. FUNDING LOSSES

The Company will indemnify the Banks upon demand against any loss or expense which any Bank may sustain or incur (including, without limitation, any loss or expense sustained or incurred in obtaining, liquidating or employing deposits or other funds acquired to effect, fund or maintain any Loan) as a consequence of (i) any failure of the Company to make any payment when due of any amount due hereunder, (ii) any failure of the Company to borrow a Loan on a date specified therefor in a notice thereof, or (iii) any payment (including any payment upon any Bank's acceleration of the Loans) or prepayment of any Eurodollar Loan on a date other than the last day of the Interest Period for such Loan.

4. CONDITIONS PRECEDENT.

a. INITIAL LOAN

The obligation of each Bank to make the initial Loan shall be subject to the prior or concurrent satisfaction of each of the following conditions precedent:

i. The Company shall have delivered to the Agent a certificate dated the date of the initial Loan of its Secretary or Assistant Secretary as to (i) resolutions of its Board of Directors then in full force and effect authorizing the execution, delivery and performance of this Agreement, the Notes, and each of the other Loan Documents; and (ii) the incumbency and signatures of those of its officers authorized to act with respect to this Agreement, the Note and each of the Loan Documents executed by it, upon which certificate the Banks may conclusively rely until it shall have received a further certificate of the Secretary or Assistant Secretary of the Company canceling or amending such prior certificate.

ii. Each Bank shall have received its respective Note duly executed and delivered by the Company.

iii. The Agent shall have received an opinion dated the date of the initial Loan from counsel to the Company in form satisfactory to the Agent.

iv. The Company shall have paid to the Agent, for the account of the Banks, a renewal fee equal to 0.20% of the Commitments in effect on the date hereof, such fee to be distributed to the Banks based upon their share of the Commitments on the date hereof.

b. EACH LOAN

The obligation of each Bank to make any Loan (including the initial Loan) shall be subject to the following statements being true and correct before and after giving effect to such Loan: (i) the representations and warranties set forth in Section 5 shall be true and correct with the same effect as if then made (unless stated to relate solely to an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date); and (ii) no Event of Default or Unmatured Event of Default shall have occurred and be continuing.

Each request for a Loan shall be deemed a representation by the Company, as to the matters set forth in this Section.

5. REPRESENTATIONS.

The Company represents and warrants to the Banks that:

a. ORGANIZATION

It is a corporation duly organized and in good standing under the laws of its state of organization and duly qualified to do business in each jurisdiction where such qualification is necessary.

b. AUTHORIZATION

The execution and delivery of this Agreement, the Note and the other Loan Documents and the performance by the Company of its obligations hereunder and thereunder are within the Company's powers and have been duly authorized by all necessary action on the Company's part, and do not and will not contravene or conflict with the Company's organizational documents or violate or constitute a default under any law, rule or regulation any presently existing requirement or restriction imposed by judicial, arbitral or other governmental instrumentality or any agreement, instrument or indenture by which the Company is bound.

c. ENFORCEABILITY

This Agreement is the Company's legal, valid and binding obligation, enforceable in accordance with its terms.

d. FINANCIAL STATEMENTS

The audited financial statements of the Company as at December 31, 2001 and the interim financial statements of the Company as at September 30, 2002, copies of which have been furnished to the Agent, have been prepared in accordance with generally accepted accounting principles consistently applied, and present fairly the financial condition of the

Company at the date thereof and the results of its operations for the period then ended. Since the date of such interim financial statements, there has been no Material Adverse Change.

e. USE OF PROCEEDS

The Company agrees that proceeds of any Loan shall be used solely for the purpose of providing liquidity support with respect to commercial paper borrowings of the Company or for other valid general corporate purposes.

6. COVENANTS.

From the date of this Agreement and thereafter until the termination of the Facility and until the Obligations are paid in full, the Company agrees that it will:

a. FINANCIAL INFORMATION. Furnish to the Agent:

i. As soon as available and in any event within 60 days after the end of each of the first three fiscal quarters of each fiscal year of the Company, consolidated balance sheets of the Company, and internally prepared unaudited consolidating balance sheets of the Company and its subsidiaries, each as at the end of such fiscal quarter, and statements of earnings and cash flow of the Company, and internally prepared unaudited consolidating statements of earnings of the Company and its subsidiaries, each for such quarter and for the period commencing at the beginning of such fiscal year and ending with the end of such quarter, certified by the chief financial officer of the Company;

ii. as soon as available and in any event within 120 days after the end of each fiscal year of the Company, a copy of the annual audit report for such fiscal year for the Company, including balance sheets of the Company as of the end of such fiscal year and statements of earnings and cash flow for such fiscal year, in each case certified in a manner acceptable to the Agent by independent public accountants acceptable to the Agent together with the internally prepared unaudited (a) consolidating balance sheets as of the end of such fiscal year, and (b) statements of earnings for the period commencing at the beginning of such fiscal year and ending with the end of such fiscal year, of the Company and its subsidiaries;

iii. upon the occurrence of a Unmatured Event of Default or Event of Default, notice of such Unmatured Event of Default or Event of Default; and

iv. such other information with respect to the condition or operations, financial or otherwise, of the Company as any Bank may from time to time reasonably request.

b. FURTHER RESTRICTIONS ON USE OF PROCEEDS

Not, and not permit any Subsidiary or affiliate of the Company to, use the proceeds of any Loan, directly or indirectly, for the purpose of (i) purchasing any securities underwritten or privately placed by ABN AMRO Incorporated ("AAI"), an affiliate of the Agent, (ii) purchasing from AAI any securities in which AAI makes a market or (iii) refinancing or making payments of principal, interest or dividends on any securities issued by the Company, or any Subsidiary or affiliate of the Company, and underwritten, privately placed or dealt in by AAI.

c. PROHIBITION OF FUNDAMENTAL CHANGES. The Company shall not:

i. Enter into any transaction of merger of consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or

ii. Convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial portion of its business or property without the prior written consent of the Required Banks, which consent shall not be unreasonably withheld.

Notwithstanding the foregoing provisions of this subsection (c), the Company may merge or consolidate with any other Person if the Company is the surviving corporation or the surviving corporation assumes the liabilities of the Company by operation of law or otherwise.

d. MAXIMUM RATIO OF FUNDED DEBT TO TOTAL CAPITAL

The Company shall at all times, measured as of the end of each fiscal quarter of the Company, maintain a maximum ratio of Funded Debt to Total Capital of .60 to 1.0.

e. INTEREST COVERAGE RATIO

The Company shall maintain at all times an Interest Coverage Ratio of not less than 3.00 to 1.00, as determined at the end of each fiscal quarter of the Company.

7. EVENTS OF DEFAULT.

a. EVENTS. Each of the following shall constitute an Event of Default:

i. The Company fails to pay when due any principal of, or interest on, any Loan or any other amount payable hereunder or under any Note;

ii. Any material representation or warranty of the Company made or deemed made hereunder or under any other writing or certificate furnished by or

on behalf of the Company to the Agent for the purposes of or in connection with this Agreement shall prove to have been false or misleading in any material respect when made or deemed made;

iii. The Company defaults in the due performance or observance of Section 6(b) hereof or the Company defaults in any material respect in the due performance or observance of any other agreement contained herein or in any other Loan Document and such default shall continue for 30 days after notice thereof shall have been given to the Company from the Agent;

iv. The maturity of any indebtedness of the Company under any agreement or obligation in an aggregate principal amount exceeding $5,000,000 shall be accelerated, or any default shall occur under one or more agreements or instruments under which such indebtedness may be issued or created and such default shall continue for a period of time sufficient to permit the holder or beneficiary of such indebtedness or a trustee therefor to cause the acceleration of the maturity of such indebtedness or any mandatory unscheduled prepayment, purchase or funding thereof;

v. Judgments or orders for the payment of money in excess of $5,000,000 shall be rendered against the Company and such judgments or orders shall continue unsatisfied and unstayed for a period of 30 days:

vi. The Company or any Subsidiary shall

(1) become insolvent or generally fail to pay, or admit in writing its inability or unwillingness to pay, debts as they become due;

(2) apply for, consent to or acquiesce in the appointment of a trustee, receiver, sequestrator or other custodian for the Company or any Subsidiary or any property thereof, or make a general assignment for the benefit of creditors;

(3) in the absence of such application, consent or acquiescence, permit or suffer to exist the appointment of a trustee, receiver, sequestrator or other custodian for the Company or any Subsidiary or for a substantial part of the property thereof, and such trustee, receiver, sequestrator or other custodian shall not be discharged within 30 days;

(4) permit or suffer to exist the commencement of any bankruptcy, reorganization, debt arrangement or other case or proceeding under any bankruptcy or insolvency law, or any dissolution, winding up or liquidation proceeding, in respect of the Company or any Subsidiary and, if any such case or proceeding is not commenced by the Company or such Subsidiary, such case or proceeding shall be consented to or acquiesced in

by the Company or such Subsidiary or shall result in the entry of an order for relief or shall remain for 60 days undismissed; or

(5) take any action authorizing, or in furtherance of, any of the foregoing; or

vii. any Material Adverse Change shall have occurred.

b. REMEDIES

Upon the occurrence of an Event of Default under Section 7(a)(vi), the commitment of the Banks to make Loans shall be terminated and the Notes and all other obligations hereunder shall become immediately due and payable in full; and upon the occurrence of any other Event of Default, the commitment of the Banks to make Loans may be terminated by the Banks and the Agent tray declare the Notes and the principal of and accrued interest on each Loan, and all other amounts payable hereunder, to be forthwith due and payable in full.

8. DEFINITIONS.

As used in this Agreement:

"AGENT" means LaSalle Bank National Association, in its capacity as Agent for the Banks hereunder, and its successors in such capacity.

"APPLICABLE MARGIN" means (i) with respect to Eurodollar Loans, (a) 0.525% per annum for any day Level I Status exists; (b) 0.750% per annum for any day Level II Status exists; (c) 0.850% per annum for any day Level III Status exists; (d) 1.300% per annum for any day Level IV Status exists; and (e) 2.000% per annum for any day Level V Status exists; and (ii) with respect to Prime Rate Loans, (a) 0.000% per annum for any day Level I Status exists; (b) 0.000% per annum for any day Level II Status exists; (c) 0.000% per annum for any day Level III Status exists; (d) 0.500% per annum for any day Level IV Status exists; and (e) 1.500% per annum for any day Level V Status exists.

"AUTHORIZED OFFICER" means each officer or employee of the Company who is authorized to request Loans, to confirm in writing any such request and to agree to rates of interest, as set forth on the schedule of Authorized Officers most recently delivered by the Company to the Agent.

"BANK" means each bank listed on the signature page hereof, or which subsequently becomes a party hereto by execution of a Joinder Agreement, and its successors and assigns.

"BANKING DAY" means any day other than a Saturday, Sunday or other day on which the Banks are required or permitted to close in Chicago and, with respect to Eurodollar Loans on which dealings in Dollars are carried on in the London interbank market.

"COMMITMENT" means, with respect to each Bank, the amount set forth opposite the name of such Bank on the signature pages hereof, or on a Joinder Agreement, as applicable.

"CONSOLIDATED EBITDA" means, for any period, for the Company and its subsidiaries (which for purposes of this definition shall include any subsidiary consolidated into the financial statements of the Company other than ALLETE Water Services, Inc. and any other subsidiary of the Company as to which the Company has announced on or prior to December 15, 2002 that it will discontinue the operations of such subsidiary) on a consolidated basis, (A) the sum of the amounts for such period of (i) Consolidated Net Income, (ii) to the extent deducted in arriving at Consolidated Net Income, net federal, state and local income taxes in respect of such period, (iii) to the extent deducted in arriving at Consolidated Net Income, Consolidated Interest Expense, (iv) to the extent deducted in arriving at Consolidated Net Income, the amount charged for the amortization of intangible assets, (v) to the extent deducted in arriving at Consolidated Net Income, the amount charged for the depreciation of assets, and (vi) to the extent deducted in arriving at Consolidated Net Income, extraordinary losses, less (B) the amount for such period of, to the extent added in arriving at Consolidated Net Income, extraordinary gains, all as determined on a consolidated basis in accordance with GAAP.

"CONSOLIDATED INTEREST EXPENSE" means, with reference to any period of the Company and its subsidiaries (which for purposes of this definition shall include any subsidiary consolidated into the financial statements of the Company other than ALLETE Water Services, Inc. and any other subsidiary of the Company as to which the Company has announced on or prior to December 15, 2002 that it will discontinue the operations of such subsidiary), the sum of (i) all interest charges (including capitalized interest, imputed interest charges with respect to capitalized leases and all amortization of debt discount and expense and other deferred financing charges) of the Company and its subsidiaries on a consolidated basis, and (ii) all commitment or other fees payable in respect of the issuance of standby letters of credit or other credit facilities for the account of the Company or its subsidiaries, all as determined on a consolidated basis in accordance with GAAP.

"CONSOLIDATED NET INCOME" means, for any period of the Company and its subsidiaries (which for purposes of this definition shall include any subsidiary consolidated into the financial statements of the Company other than ALLETE Water Services, Inc. and any other subsidiary of the Company as to which the Company has announced on or prior to December 15, 2002 that it will discontinue the operations of such subsidiary), the amount for such period of consolidated net income (or net loss) of the Company and its subsidiaries, as determined on a consolidated basis in accordance with GAAP.

"EURODOLLAR LOAN" means any Loan which bears interest at a rate determined with reference to LIBOR (plus the Applicable Margin).

"EVENT OF DEFAULT" means an event described in Section 7(a).

"FACILITY" has the meaning set forth in the initial paragraph of this Agreement.

"FEDERAL FUNDS RATE" means, the per annum rate at which overnight federal funds are from time to time offered to the Agent by any bank in the interbank market, as stated by the Agent.

"FEE LETTER" means that certain letter between the Borrower and LaSalle Bank National Association and its affiliates relating to certain fees to be paid by the Borrower to, and solely for the account of, LaSalle Bank National Association and its affiliates, as such letter may from time to time be amended.

"FEE RATE" means a rate per annum equal to (i) 0.100% per annum for any day Level I Status exists; (ii) 0.125% per annum for any day Level II Status exists; (iii) 0.150% per annum for any day Level III Status exists; (iv) 0.200% per annum for any day Level IV Status exists; and (v) 0.500% per annum for any day Level V Status exists.

"FUNDED DEBT" means, for any entity on a consolidated basis (without duplication): (i) all indebtedness of such entity for borrowed money; (ii) the deferred and unpaid balance of the purchase price owing by such entity on account of any assets or services purchased (other than trade payables and other accrued liabilities incurred in the ordinary course of business that are not overdue by more than 180 days unless being contested in good faith) if such purchase price is (A) due more than nine months from the date of incurrence of the obligation in respect thereof or (B) evidenced by a note or a similar written instrument; (iii) all capitalized lease obligations; (iv) all indebtedness secured by a Lien on any property owned by such entity, whether or not such indebtedness has been assumed by such entity or is nonrecourse to such entity; (v) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money (other than such notes or drafts from the deferred purchase price of assets or services to the extent such purchase price is excluded from clause (ii) above); (vi) indebtedness evidenced by bonds, notes or similar written instrument; (vii) the face amount of all letters of credit and bankers' acceptances issued for the account of such entity, and without duplication, all drafts drawn thereunder (other than such letters of credit, bankers' acceptances and drafts for the deferred purchase price of assets or services to the extent such purchase price is under interest rate agreements or currency agreements); (viii) guaranty obligations of such entity with respect to indebtedness for borrowed money of another entity (including affiliates) in excess of $25,000,000 in the aggregate; provided, however, that in no event shall any calculation of Funded Debt include (a) deferred taxes, (b) securitized trade receivables, (c) deferred credits including regulatory assets and contributions in aid of construction, (d) the lease obligations for Lake Superior Paper, Inc. relating to paper mill

equipment as provided for under an operating lease extending to 2012 or (e) 75% of the indebtedness associated with Square Butte.

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time, applied by the Company and any subsidiary on a basis consistent with the preparation of the Company's financial statements furnished to the Agent.

"INTEREST COVERAGE RATIO" means, for any period of four consecutive fiscal quarters of the Company ending with the most recently completed such fiscal quarter, the ratio of (A) Consolidated EBITDA to (B) Consolidated Interest Expense for such period.

"INTEREST PERIOD" means for any Eurodollar Loan, a period of one, two, three or six months, as designated by the Company, in each case commencing on the date of such Loan. Each Interest Period that would otherwise end on a day which is not a Banking Day shall end on the next succeeding Banking Day unless such next Banking Day would be the first Banking Day in the next calendar month, in which case such Interest Period shall end on the preceding Banking Day. Any Interest Period for a Eurodollar Loan which begins on the last Banking Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Banking Day of the calendar month at the end of such Interest Period. No Interest Period shall extend beyond the Termination Date, and in such case, the Termination Date shall be deemed the end of the Interest Period.

"JOINDER AGREEMENT" means a joinder agreement in the form attached hereto as Exhibit "B."

"LEVEL I STATUS" means, subject to Section 9(r) hereof, the S&P Rating is A- or higher and the Moody's Rating is A3 or higher.

"LEVEL II STATUS" means, subject to Section 9(r) hereof, Level I Status does not exist, but the S&P Rating is BBB+ or higher and the Moody's Rating is Baa1 or higher.

"LEVEL III STATUS" means, subject to Section 9(r) hereof, neither Level I Status nor Level II Status exists, but the S&P Rating is BBB or higher and the Moody's rating is Baa2 or higher.

"LEVEL IV STATUS" means, subject to Section 9(r) hereof, none of Level I Status, Level II Status nor Level III Status exists, but the S&P Rating is BBB- or higher and the Moody's Rating is Baa3 or higher.

"LEVEL V STATUS" means, subject to Section 9(r) hereof, none of Level I Status, Level II Status, Level III Status nor Level IV Status exists.

"LIBOR" means a rate of interest equal to the per annum rate of interest at which United States dollar deposits in an amount comparable to the principal balance of the Eurodollar Loan to be made by the Agent in its capacity as a Bank and for a period equal to the relevant Interest Period are offered in the London Interbank Eurodollar market at 11:00 a.m. (London time) two Business Days prior to the commencement of each Interest Period, as displayed in the Bloomberg Financial Markets system, or other authoritative source selected by the Agent in its reasonable discretion, divided by a number determined by subtracting from 1.00 the maximum reserve percentage for determining reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency liabilities, such rate to remain fixed for such Interest Period. The Agent's determination of LIBOR shall be conclusive, absent manifest error.

"LOAN" means a loan made pursuant to Section 1.

"LOAN DOCUMENTS" means this Agreement, the Notes and each other agreement, document or instrument delivered in connection with this Agreement.

"MATERIAL ADVERSE CHANGE" means any change in the business, organization, assets, properties or condition (financial or other) of the Company which could materially and adversely affect the Company's ability to perform hereunder including, without limitation, representations, warranties, covenants and payment of Obligations.

"MOODY'S RATING" means the rating assigned by Moody's Investors Service, Inc. and any successor thereto that is a nationally recognized rating agency to the outstanding senior unsecured non-credit enhanced long-term indebtedness of the Company (or if neither Moody's Investors Service, Inc. nor any such successor shall be in the business of rating long-term indebtedness, a nationally recognized rating agency in the U.S. as mutually agreed between the Agent and the Company). Any reference in this Agreement to any specific rating is a reference to such rating as currently defined by Moody's Investors Service, Inc. (or such a successor) and shall be deemed to refer to the equivalent rating if such rating system changes.

"NOTE" has the meaning set forth in SECTION 1.5.

"NOTICE OF BORROWING" means a notice from the Company to the Agent requesting the making of a Loan and which is delivered pursuant to Section 1(a)(i) or Section 1(a)(ii) hereof.

"OBLIGATIONS" means all obligations (monetary or otherwise) of the Company arising under or in connection with this Agreement, the Notes and each of the other Loan Documents.

"PRIME RATE" means a floating rate of interest equal to the higher (redetermined daily) of (i) the per annum rate of interest announced by the Agent from time to time at its principal office in Chicago as its prime rate for Dollar loans or (ii) the Federal Funds Rate plus 0.5%. (The "prime rate" is set by the Agent based upon various factors and is used as a reference

point for pricing some loans. It is not necessarily the best rate available to the Agent's customers at any point in time.)

"PRIME RATE LOAN" means any Loan which bears interest at a rate determined by reference to the Prime Rate.

"REQUIRED BANKS" means, at any time, Banks having at least 66-2/3% of the aggregate amount of the Commitments.

"S&P RATING" means the rating assigned by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. and any successor thereto that is a nationally recognized rating agency to the outstanding senior unsecured non-credit enhanced long-term indebtedness of the Company (or, if neither such division nor any successor shall be in the business of rating long-term indebtedness, a nationally recognized rating agency in the U.S. as mutually agreed between the Agent and the Company). Any reference in this Agreement to any specific rating is a reference to such rating as currently defined by Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc. (or such a successor) and shall be deemed to refer to the equivalent rating if such rating system changes.

"SUBSIDIARY" means ALLETE Automotive Services, Inc.

"TAXES" has the meaning set forth in Section 3(e).

"TOTAL CAPITAL" means the sum of retained earnings, stockholders' equity (including preferred stock and QUIPs), all determined with respect to the Company and its subsidiaries on a consolidated basis in accordance with GAAP consistently applied, and Funded Debt.

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

"UTILIZATION FEE RATE" means a rate equal to (i) 0.125% per annum for any day Level I Status exists; (ii) 0.125% per annum for any day Level II Status exists; (iii) 0.125% per annum for any day Level III Status exists; (iv) 0.250% per annum for any day Level IV Status exists; and (v) 0.500% per annum for any day Level V Status exists.

9. GENERAL.

a. INSTRUCTIONS

The Company hereby authorizes the Agent and each Bank to rely upon telephonic, written or facsimile instructions of any person identifying himself or herself as an Authorized Officer and upon any signature which the Agent or such Bank believes to be genuine, and the Company shall be bound thereby in the same manner as if such person were authorized

or such signature were genuine. The Company agrees to indemnify the Agent and each Bank from and against all losses and expenses arising out of the Agent's or such Bank's reliance on said instructions or signatures.

b. PAYMENTS

Payments hereunder and under the Note shall be made in immediately available funds in Dollars without off-set, counter-claim or other deduction.

c. COSTS

The Company shall pay all costs of the Agent with respect to the negotiation, preparation, execution and delivery of this Agreement and the other Loan Documents, any amendments, waivers, consents or modifications with respect thereto and all costs of the Agent and each Bank in connection with the of enforcement or collection of every kind, including but not limited to all reasonable attorneys' fees, court costs and expenses incurred by the Agent or any Bank in connection with collection or protection or enforcement of any rights hereunder whether or not any lawsuit is ever filed.

d. INDEMNIFICATION

In consideration of the execution and delivery of this Agreement by the Agent and each Bank and the extension of credit hereunder, the Company hereby indemnifies, exonerates and holds the Agent and each Bank and each of its respective officers, directors, employees and agents (collectively, the "Indemnified Parties") free and harmless from and against any and all actions, causes of action, suits, losses, costs, liabilities and damages, and expenses incurred in connection therewith (irrespective of whether such Indemnified Party is a party to the action for which indemnification hereunder is sought), including reasonable attorneys' fees and disbursements (collectively, the "Indemnified Liabilities"), incurred by the Indemnified Parties or any of them as a result of, or arising out of, or relating to any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds of any Loan or any investigation, litigation or proceeding related to any environmental cleanup, audit, compliance or other matter relating to the protection of the environment or the release by the Company of any hazardous material, except for any such Indemnified Liabilities arising for the account of a particular Indemnified Party by reason of the relevant Indemnified Party's gross negligence or willful misconduct. If and to the extent that the foregoing undertaking may be unenforceable for any reason, the Company hereby agrees to make the maximum contribution to the payment in satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

e. NOTICES

All notices and other communications provided to any party hereto under this Agreement or any other Loan Document shall be in writing or by facsimile and addressed, delivered or transmitted to such party at its address or facsimile number set forth below its

signature hereto or at such other address or facsimile number as may be designated by such party in a notice to the other parties. Any notice, if mailed and properly addressed with postage prepaid shall be deemed given five days after mailed. Any notice sent by courier service shall be deemed given when received. Any notice, if transmitted by facsimile, shall be deemed given when transmitted.

f. SURVIVAL

The Obligations of the Company under Sections 2(b), 3(a), 3(e), 3(f), 3(g), 9(c), 9(d) and 10(g) hereof shall survive any payment of the principal of and interest on the Loans and the termination of this Agreement.

g. COUNTERPARTS

This Agreement may be executed in any number of separate counterparts, each of which when so executed and delivered shall be an original, and all such counterparts shall together constitute one and the same instrument. Delivery of an executed counterpart via facsimile or other method shall be as effective as delivery of an original executed counterpart.

h. AMENDMENT AND WAIVER

Any provision of this Agreement or any other Loan Document may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Company and the Required Banks (and, if the rights or duties of the Agent are affected thereby, by the Agent); PROVIDED that no such amendment, waiver or modification shall, unless signed by all the Banks, (i) change the Commitment of any Bank (except for a ratable decrease in the Commitments of all Banks) or subject any Bank to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or any fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan or any fees hereunder or (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the number of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement. Any waiver by the Agent or any Bank of any rights hereunder or under any other Loan Document shall not constitute a waiver of any other rights of the Agent and the Banks from time to time.

i. JURISDICTION

ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR THE NOTE OR ANY OTHER LOAN DOCUMENT OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF THE AGENT, ANY BANK OR THE COMPANY SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF ILLINOIS OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS; PROVIDED, HOWEVER, THAT ANY

SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT THE AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. THE COMPANY HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF ILLINOIS AND OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE AND IRREVOCABLY CONSENTS TO PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF ILLINOIS. THE COMPANY HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT THE COMPANY HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, THE COMPANY HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS AGREEMENT, THE NOTE AND EACH OTHER LOAN DOCUMENT.

j. WAIVER OF JURY TRIAL

THE COMPANY, THE AGENT AND THE BANKS WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, THE NOTE OR ANY OTHER LOAN DOCUMENT, AND THE COMPANY, THE AGENT AND THE BANKS AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT A JURY.

k. CONFIDENTIALITY

The Company, the Agent and the Banks hereby agree and acknowledge that all information relating to the Company or any subsidiary, which is (i) furnished by the Company to the Agent and the Banks pursuant hereto and (ii) non-public, confidential or proprietary in nature, shall be kept confidential by the Agent and the Banks in accordance with applicable law, PROVIDED that such information and other information relating to the Company and its subsidiaries may be distributed by the Agent and each Bank to the Agent and such Bank's respective directors, officers, employees, attorneys, affiliates, auditors and regulators (and, upon the order of any court or other governmental agency having jurisdiction over the Agent or any Bank, to any other person or entity). The provisions of this Section 9(k) shall survive the termination of this Agreement.

l. APPLICABLE LAW

This Agreement, the Notes and each other Loan Document shall be governed by the internal laws of the State of Illinois applicable to contracts made and to be performed entirely within such State.

m. SHARING OF SET-OFFS

Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest due with respect to any Note held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of principal and interest due with respect to any Note held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Notes held by the other Banks, and such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Notes held by the Banks shall be shared by the Banks pro rata; PROVIDED that nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Company other than its indebtedness under the Notes. The Company agrees, to the fullest extent it may effectively do so under applicable law, that each Bank and any holder of a participation in a Note, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights under applicable law, and with respect to such holder of such a participation as fully as if such holder of a participation were a direct creditor of the Company in the amount of such participation.

n. PARTICIPATIONS

Any Bank may at any time grant to one or more banks or other institutions (each a "PARTICIPANT") participating interests in its Commitment or any or all of its Loans. In the event of any such grant by a Bank of a participating interest to a Participant, whether or not upon notice to the Company and the Agent, such Bank shall remain solely responsible for the performance of its obligations hereunder, and the Company and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Company hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement. The Company agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Section 3 with respect to its participating interest.

o. ASSIGNMENTS

Any Bank may at any time assign to one or more banks or other financial institutions (each an "ASSIGNEE") all, or a proportionate part of all, of its rights and obligations under this Agreement and the Notes, and such Assignee shall assume such rights and obligations, pursuant to a Joinder Agreement in substantially the form of Exhibit B hereto executed by such Assignee and such transferor Bank, with (and subject to) the subscribed consent of the Company, which shall not be unreasonably withheld, and the Agent, which shall not be unreasonably withheld; PROVIDED that if an Assignee is an affiliate of such transferor Bank or was a Bank immediately prior to such assignment, no such consent of the Company shall be required; and PROVIDED FURTHER that, if such assignment is in respect of a proportionate part of the transferor Bank's rights and obligations hereunder and under the Notes, the amount of such Bank's Commitment (together with the Commitment of any affiliate of such Bank), after taking into account such assignment, is at least an amount equal to $5,000,000. Upon execution and delivery of such instrument and payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, such Assignee shall be a Bank party to this Agreement and shall have all the rights and obligations of a Bank with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this Subsection 9(o), the transferor Bank, the Agent and the Company shall make appropriate arrangements so that, if required, a new Note is issued to the Assignee. In connection with any such assignment, the transferor Bank shall pay to the Agent an administrative fee for processing such assignment in the amount of $3,500.

p. FEDERAL RESERVE BANKS

Any Bank may at any time assign all or any portion of its rights under this Agreement and its Note to one or more of the Federal Reserve Banks which comprise the Federal Reserve System. No such assignment shall release the transferor Bank from its obligations hereunder.

q. IDENTITY OF HOLDERS

The Agent and the Company may, for all purposes of this Agreement, treat any Bank as the holder of any Note drawn to its order (and owner of the Loans evidenced thereby) until written notice of assignment, participation or other transfer shall have been received by them.

r. SPLIT-RATINGS

In the event the Company's S&P Rating and Moody's Rating do not fall within the same Level Status, then (1) if the S&P Rating's Level Status and the Moody's Rating's Level

Status are in consecutive Level Status categories, the lower Level Status shall be deemed to apply for purposes of this Agreement or (2) if the S&P Rating's Level Status and the Moody's Rating's Level Status are not in consecutive Level Status categories, then the Level Status immediately above the lower of the S&P Rating's Level Status and the Moody's Rating's Level Status shall be deemed to apply for purposes of this Agreement. For purposes of this Agreement, Level I Status shall be deemed the highest and Level V Status shall be deemed the lowest.

s. CONTINUED EFFECT; NO NOVATION

Notwithstanding anything contained herein, this Agreement is not intended to and does not serve to effect a novation of the Obligations. Instead, it is the express intention of the parties hereto to reaffirm the indebtedness which is outstanding as of the date hereof created under the Existing Committed Facility Letter which is evidenced by the notes provided for therein.

t. ADDITIONAL LENDERS

The Company may, upon the approval of the Agent, add additional lenders as Banks hereto (each a "NEW BANK"), PROVIDED that if as a result of the addition of any New Bank the aggregate amount of Commitments then in effect would exceed $200,000,000, the approval of the Required Banks shall also be required prior to adding any such New Bank. Costs incurred by the Agent in connection with adding any New Bank shall be paid by the Company, and the legal documentation pursuant to which any New Bank is added shall be in form and substance reasonably satisfactory to the Agent.

u. RESIGNATION OF ABN AMRO

The parties acknowledge that effective as of the date hereof ABN AMRO Bank N.V. is no longer the Agent under the Facility and its Commitment has terminated.

10. THE AGENT.

a. APPOINTMENT AND AUTHORIZATION

Each Bank irrevocably appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto.

b. AGENTS FEE

The Company shall pay to the Agent for its own account fees in the amounts and at the times previously agreed upon between the Company and the Agent.

c. AGENT AND AFFILIATES

LaSalle Bank National Association shall have the same rights and powers under this Agreement as any other Bank and may exercise or refrain from exercising the same as though it were not the Agent, and LaSalle Bank National Association and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Company or affiliate of the Company as if it were not the Agent hereunder.

d. ACTION BY AGENT

The obligations of the Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Agent shall not be required to take any action with respect to any Event of Default, except as expressly provided in Section 7(b). The Agent's duties hereunder and under the other Loan Documents are only those expressly set forth herein and therein and nothing herein or therein shall be deemed to impose on the Agent any fiduciary obligation to any Bank or the Company.

e. CONSULTATION WITH EXPERTS

The Agent may consult with legal counsel (who may be counsel for the Company), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

f. LIABILITY OF AGENT

Neither the Agent nor any of its directors, officers, agents, or employees shall be liable to any Bank for any action taken or not taken by it in connection herewith (i) with the consent or at the request of the Required Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible to any Bank for or have any duty to any Bank to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of the Company; (iii) the satisfaction of any condition specified in Article III, except receipt of items required to be delivered to the Agent; (iv) the existence or continuance of an Event of Default; or (iv) the validity, effectiveness or genuineness of this Agreement, the Notes, the other Loan Documents or any other instrument or writing furnished in connection herewith. The Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex or similar writing) believed by it in good faith to be genuine or to be signed by the proper party or parties.

g. INDEMNIFICATION

Each Bank shall, ratably in accordance with its Commitment, indemnify the Agent (to the extent not reimbursed by the Company) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from the Agent's gross negligence or willful misconduct) that the Agent may suffer or incur in connection with this Agreement or any action taken or omitted by the Agent hereunder.

h. CREDIT DECISION

Each Bank acknowledges that it has, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement.

i. SUCCESSOR AGENT

The Agent may resign at any time by giving written notice thereof to the Banks and the Company. Upon any such resignation, the Required Banks shall have the right to appoint a successor Agent, which successor Agent shall be satisfactory to the Company. If no successor Agent shall have been so appointed by the Required Banks, and shall have accepted such appointment, within 30 days after the retiring Agent gives notice of resignation, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $100,000,000 and shall otherwise be subject to the consent of the Company, which consent shall not be unreasonably withheld. Upon the acceptance of its appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent.

Agreed to this 24th day of December, 2002

ALLETE, INC.

By: James Vizanko

Title: Vice President, Chief Financial

Officer, and Treasurer

Address: 30 West Superior Street
Duluth, Minnesota 55802
Attention: Corporate Treasurer

Facsimile No.: (218) 723-3912

Please acknowledge your agreement to the foregoing by signing and returning a copy of this letter.

Commitment: $40,000,000

LASALLE BANK NATIONAL ASSOCIATION, individually as a Bank and as Agent.

By: /s/ Denis J. Campbell IV

Title: Senior Vice President

Address: LaSalle Bank National Association
Syndications Unit
135 South LaSalle Street, Suite 1425
Chicago, Illinois 60603
Attention: Damatria Gilbert
Facsimile: (312) 904-4448
Telephone: (312) 904-8277

With copies to:

LaSalle Bank National Association
135 South LaSalle Street
Chicago, Illinois 60603
Attention: Chip Campbell
Facsimile: (312) 904-1994
Telephone: (312) 904-4497

Commitment: $40,000,000 BANK ONE

By: /s/ Sharon K. Webb

Name: Sharon K. Webb

Title: Associate Director

Commitment: $40,000,000

SUNTRUST BANK

By: /s/ Paul M. Sunerall

Name: PAUL M. SUNERALL

Title: VICE PRESIDENT

Commitment: $30,000,000

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Mark Halldorson

Name: Mark H. Halldorson

Title: Assistant Vice President

By: /s/ James D. Heinz

Name: James D. Heinz

Title: Senior Vice President

Wells Fargo Bank, National Association

Commitment: $25,000,000 U.S. BANK NATIONAL ASSOCIATION

By: /s/ Robert E. Grover

Name: Robert E. Grover

Title: Senior Vice President

AMENDMENT
TO THE
MINNESOTA POWER
EXECUTIVE ANNUAL INCENTIVE PLAN

The Minnesota Power Executive Annual Incentive Plan (the "Plan") dated January 1, 1999, is amended as follows:

1. Effective September 1, 2000, Section 1.1, is amended to read as follows:

ESTABLISHMENT OF THE PLAN. ALLETE, Inc., a Minnesota corporation, formerly Minnesota Power & Light Company (hereinafter referred to as the "Company"), hereby establishes an annual incentive compensation plan (the "Plan"), as set forth in this document. The Plan allows for annual cash payments to Participants based on the Company's annual performance relative to both financial and non-financial goals.

2. Effective September 1, 2000, the title of the Plan is amended to be the ALLETE Executive Annual Incentive Plan.

3. Effective January 23, 2002, Section 2.11 is amended to read as follows:

"RETIREMENT" shall, with respect to a Participant, have the meaning ascribed to such term in the tax qualified retirement plan maintained by the Company or subsidiary for the benefit of such Participant. In the event Participant is eligible for benefits under more than one such tax qualified retirement plan, the earliest date provided under any of said plans shall be the meaning ascribed under this Plan.

ALLETE, Inc., formerly
Minnesota Power, Inc., formerly
Minnesota Power & Light Company

By: /s/ Philip R. Halverson

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

AMENDMENTS TO THE MINNESOTA POWER EXECUTIVE LONG TERM INCENTIVE COMPENSATION PLAN

Set forth below are amendments to the Minnesota Power Executive Long Term Incentive Compensation Plan (the "Plan") dated January 1, 1996, each authorized and effective as of the date indicated:

1. Effective May 11, 1999, Section 4.1 is amended to read as follows:

> Subject to Section 4.2 herein, the total number of Shares available for grant under the Plan shall not exceed (a) two million, one hundred thousand (2,100,000) Shares as constituted at the time of the annual meeting of stockholders on May 14, 1996, (before the two-for-one stock split which became effective March 2, 1999) plus (b) two million, five hundred thousand (2,500,000) Shares as constituted at the time of the annual meeting of stockholders on May 11, 1999, reduced by the number of Shares as to which Options or Shares have been granted or issued since that time. Shares may be (i) authorized but unissued Shares of common stock, or (ii) Shares purchased on the open market. Shares underlying lapsed or forfeited Grants, Grants that are not paid in stock, previously acquired Shares tendered to exercise an Option or Shares withheld in accordance with Section 16.2 to satisfy tax withholding obligations may be re-used for other Grants. Shares purchased on the open market shall increase the number of Shares available for grant under the Plan.

2. Effective May 11, 1999 Section 6.1 is amended to read as follows:

> GRANT OF OPTIONS. Subject to the terms and conditions of the Plan, Options may be granted to an Eligible Employee at any time and from time to time, as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Shares subject to Options granted to each participant (subject to Article 4 herein) and consistent with the provisions of the Plan, in determining the terms and

conditions pertaining to such Options; PROVIDED, HOWEVER, the maximum number of Shares subject to Options which may be granted to any single Participant during any one calendar year is three hundred thousand (300,000). The Committee may grant ISOs, NQSOs or a combination thereof.

3. Effective May 11, 1999, the second paragraph of Section 7.1 is amended to read as follows:

The Committee shall have complete discretion in determining the number of SARs granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs; PROVIDED, HOWEVER, the maximum number of SARs which may be granted to any single Participant during any one calendar year is forty thousand (40,000).

4. Effective May 11, 1999, Section 9.1 is amended to read as follows:

GRANT OF PERFORMANCE UNITS AND PERFORMANCE SHARES. Subject to the terms of the Plan, Performance Units and/or Performance Shares may be granted to an Eligible Employee at any time and from time to time, as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and/or Performance Shares granted to each Participant (subject to Article 4 herein) and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Grants; PROVIDED, HOWEVER, the maximum payout to any single Participant with respect to Performance Units granted in any one calendar year shall be 200% of base salary determined at the earlier of the beginning of the Performance Period and at the time the performance goals are set by the Committee and with respect to Performance Shares shall be forty thousand (40,000) Shares.

5. Effective with respect to Options exercised on or after July 1, 1999 a second paragraph of Section 6.1 is added to read as follows:

> The Committee may provide that a Participant who exercises all or part of an Option by payment of the Option Price with already owned Shares, shall be granted an additional Option (an "Ownership Retention Option") for a number of Shares of stock equal to the number of Shares tendered to exercise the previously granted Option. As determined by the Committee, each Ownership Retention Option shall (a) have a grant date which is the date as of which the previously granted Option is exercised, and (b) be exercisable on the terms and condition as set by the Committee, except that the Option Price shall be determined as of the Ownership Retention Option grant date.

6. Effective with respect to Options exercised on or after July 1, 1999, the third paragraph of Section 6.6 is amended to read as follows:

> The Option Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash or its equivalent, (b) by tendering, either by actual or constructive delivery, previously acquired Shares having an aggregate fair market value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for at least six months prior to their tender to satisfy the Option Price), (c) by Share withholding or (d) by a combination of (a), (b), and/or (c).

7. Effective with respect to Grants exercised on or after July 1, 1999, Section 12 is amended to read as follows:

> The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due such Participant by virtue of (1) the exercise of any SAR or Option or (2) the satisfaction of any requirements or goals with respect to any Grants. If any such deferral election is permitted, the Committee

shall, in its sole discretion, establish rules and procedures for such payment deferrals.

8. Effective with respect to Grants on or after July 1, 1999, Section 18.6 is added to read as follows:

CODE SECTION 162(m). The Committee may provide in a Grant Agreement that, in the event Code Section 162(m), or any successor provision relating to excessive employee remuneration, would operate to disallow a deduction by the Company for all or part of any payment of a Grant under the Plan, a Participant's receipt of the portion that would not be deductible by the Company shall be deferred until the next succeeding year or years in which the Participant's remuneration either does not exceed the limit set forth in Code Section 162(m) or is not subject to Code Section 162(m).

9. Effective September 1, 2000, the first paragraph of Section 1.1, is amended to read as follows:

ESTABLISHMENT OF THE PLAN. ALLETE, Inc., a Minnesota corporation, formerly Minnesota Power & Light Company (hereinafter referred to as the "Company"), hereby establishes an outside incentive compensation plan to be known as the "ALLETE Executive Long Term Incentive Compensation Plan" (hereinafter referred to as the "Plan"), as set forth in this document. The Plan permits the grant of nonqualified stock options (NQSO), incentive stock options (ISO), stock appreciation rights (SAR), restricted stock, performance units, performance shares and other grants.

10. Effective September 1, 2000, Section 2.7 is amended to read as follows:

"COMPANY" means ALLETE, Inc., a Minnesota corporation, formerly known as Minnesota Power & Light Company, or any successor thereto as provided in Article 17 herein.

11. Effective January 23, 2002, Section 2.31 is amended to read as follows:

"RETIREMENT" shall, with respect to a Participant, have the meaning ascribed to such term in the tax qualified retirement plan maintained by the Company or subsidiary for the benefit of such Participant. In the event Participant is eligible for benefits under more than one such tax qualified retirement plan, the earliest date provided under any of said plans shall be the meaning ascribed under this Plan.

12. Effective May 14, 2002, Section 4.1 is amended to read as follows:

Subject to Section 4.2 herein, the total number of Shares available for grant under the Plan shall not exceed (a) two million, one hundred thousand (2,100,000) Shares as constituted at the time of the annual meeting of stockholders on May 14, 1996 (before the two-for-one stock split which became effective March 2, 1999), plus (b) two million, five hundred thousand (2,500,000) Shares as constituted at the time of the annual meeting of stockholders on May 11, 1999, plus (c) three million (3,000,000) Shares as constituted at the time of the annual meeting of shareholders on May 14, 2002 reduced by the number of Shares as to which Options or Shares have been granted or exercised since that time. Shares may be (i) authorized but unissued Shares of common stock, or (ii) Shares purchased on the open market. Shares underlying lapsed or forfeited Grants, Grants that are not paid in stock, previously acquired Shares tendered to exercise an Option or Shares withheld in accordance with Section 16.2 to satisfy tax withholding obligations may be re-used for other Grants. Shares purchased on the open market shall increase the number of Shares available for grant under the Plan.

13. Effective October 16, 2002, Section 2.12 is amended to remove the words "full time" from the definition of Employee.

14. Effective January 22, 2003, the 2nd Paragraph of Section 6.1, which was added to the Plan effective for Options exercised on or after July 1, 1999, is deleted in its entirety, thereby terminating the availability of Ownership Retention Options.

ALLETE, Inc.
formerly Minnesota Power & Light Company

By: /s/ Philip R. Halverson

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

Minnesota Power

Director Compensation Deferral Plan

Amended and Restated

Effective

January 1,1990

TABLE OF CONTENTS

MINNESOTA POWER

DIRECTOR COMPENSATION DEFERRAL PLAN

Amended and Restated Effective January 1, 1990

SECTION 1
ESTABLISHMENT AND PURPOSE

Minnesota Power & Light Company, sometimes known as Minnesota Power, (the "Company") established, effective as of June 1982, a plan for the deferral of director's fees in order to provide certain members of the Board of Directors of the Company the opportunity to defer payment of certain Director's compensation. The Company hereby amends said plan by adopting the Minnesota Power Director Compensation Deferral Plan, amended and restated effective as of January 1, 1990 (the "Plan"). It is intended that this Plan be exempt from the participation, vesting, funding, and fiduciary requirements of Title 1 of the Employee Retirement Income Security Act of 1974.

SECTION 2
ELIGIBILITY FOR PARTICIPATION

A Director of the Company who is not an employee of the Company is eligible to participate in the Plan.

SECTION 3
DEFERRALS

3.1 Permitted Deferrals.

Any Director of the Company may, by making a Deferral Election prior to December 31 of any year, defer all or part of his or her compensation as a Director payable by the Company in cash during the ensuing year. A new Director who did not sit on the Board as of December 1 of the preceding year may, as soon as he or she is elected to the Board, make a Deferral Election with respect to cash compensation expected to be received in the current year. Compensation paid in stock and any expense reimbursement or travel allowance may not be deferred. If less than all of a Director's anticipated annual cash compensation is deferred, the amount to be deferred shall be in increments of 10% of the amount anticipated to be available for deferral.

An election shall be effective only if it is timely filed with and accepted by the Company, and if all the terms and conditions of the Plan are satisfied in full. If a Deferral Election Form is not returned by December 31 of any year, the Director shall be deemed to have irrevocably elected to continue for the ensuing year the deferral elections made on the last Deferral Election Form turned in and accepted by the Company for a preceding year.

3.2 Deferral Election Form.

Deferral Elections shall be made by duly completing a Deferral Election Form provided by the Company. This form shall specify the benefit payment option elected by the Director from the following

options allowed under this Plan: it shall permit deferral for a stated number of years, deferral until retirement from active service on the Board, or deferral until a certain age is reached, provided that in no event may payment of benefits commence later than age 70 1/2.

3.3 Election to Defer Irrevocable.

Except as otherwise expressly provided in this Plan, a Director's election to defer any amounts pursuant to the Plan shall be irrevocable when made and accepted by the Company and shall not be subject to amendment or modification in any manner whatsoever thereafter.

SECTION 4
DEFERRAL ACCOUNT

4.1 Establishment of Deferral Accounts.

The Company shall establish a Deferral Account for each Director making a Deferral Election. All such Deferral Accounts shall be utilized solely as a means for the measurement and determination of the benefits to be paid to a Director pursuant to the Plan. Deferral Accounts shall not be funded and shall neither constitute nor be treated as a trust fund or any interest in specific assets or properties of the Company.

4.2 Crediting of Deferral Accounts.

Each Deferral Account will be credited with any amounts deferred by a Director pursuant to this Plan as such amounts are earned. The Company shall at the appropriate time deduct from all compensation paid or deferred any federal, state or local tax required

by law to be withheld, including any required deduction of FICA taxes on compensation earned during the current year even though receipt of such compensation is in part deferred until a future year. Each January, before any distribution of Benefits, each Deferral Account shall also be credited at an annual rate of return equal to the overall percentage return on capital (long-term debt, preferred stock, and common equity) of the Company for the calendar year. This return shall be calculated by dividing the Company's "Consolidated Income Before Interest Charges" by consolidated capitalization which shall include notes payable. A sample calculation is attached hereto as Exhibit A. With respect to amounts in an account for part of a year, interest shall be computed on the basis of a 360 day year with 12 months of 30 days.

4.3 Statement of Accounts.

A Statement of Account in such form as the Company deems desirable setting forth the balance to the credit each Director in his or her Deferral Account shall be provided to each participating Director at least annually.

4.4 Contractual Obligation.

It is intended that the Company is under a contractual obligation to make payments to Directors from the general funds and assets of the Company in accordance with the terms and conditions of the Plan. Payments will reduce the balance shown on a Director's Deferral Account. A Director shall have no rights to such payments, other than as a general, unsecured creditor of the Company.

SECTION 5
PAYMENT OF BENEFITS

5.1 Form of Payment of Benefits.

The amount held in the Deferral Account pursuant to each Deferral Election shall be paid in accordance with such Deferral Election. Such Benefits will be paid either in a lump sum or in equal annual installments over a term of two to ten years. Benefits shall be paid each January, beginning with the first January that all requirements and conditions for payment under the Plan and on the Deferral Election Form shall have been satisfied (i.e. stated age has been reached, stated period of years has elapsed, or termination of membership on the Board has occurred).

5.2 Recipients of Payments: Designation of Beneficiary.

All payments of Benefits to be made by the Company under the Plan shall be made to the participating Director, if living. Except as otherwise provided herein, in the event of a Director's death prior to the receipt of any or all Benefit payments hereunder, all subsequent payments to be made under the Plan shall be made to the Beneficiary designated by the Director, and, unless otherwise specified in the Director's Beneficiary designation, in the event a Beneficiary dies before receiving all payments due to such Beneficiary pursuant to this Plan, the then remaining amounts shall be paid in a lump sum to the legal representatives of the Beneficiary's estate.

The participating Director shall designate a Beneficiary, or during his or her lifetime change such designation, by filing a written notice of such designation with the Company in such form and subject to such rules and regulations as the Company may prescribe. If no Beneficiary designation shall be in effect at the time when any benefits payable under this Plan shall become due, the remaining amounts shall be paid in a lump sum to the legal representative of the Director's estate.

If the Director's compensation constitutes community property, then any Beneficiary designation made by the Director other than a designation of such Director's spouse shall not be effective if any such Beneficiary or beneficiaries are to receive more than fifty percent (50%) of the aggregate benefits payable hereunder, unless such spouse shall approve such designation in writing.

In the event a benefit is payable to a minor or person declared incompetent or to a person incapable of handling the disposition of his or her property, the Company may determine to pay such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent or person. The Company may require proof of incompetency, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

5.3 Generation-Skipping Tax

Notwithstanding any provisions in this Plan to the contrary, the Company may withhold any benefits payable to a Beneficiary as a result

of the death of the Director (or the death of any Beneficiary designated by the Director) until such time as (i) the Company is able to determine whether a generation-skipping transfer tax, as defined in Chapter 13 of the Internal Revenue Code of 1986, or any substitute provision therefor, is payable by the Company; and (ii) the Company has determined the amount of generation- skipping transfer tax that is due, including interest thereon. If any such tax is payable, the Company shall reduce the benefits otherwise payable hereunder to such Beneficiary by the amount necessary to provide said Beneficiary with a benefit equal to the amounts that would have been payable if the original benefits had been calculated on the basis of a value for the Director's Deferral Account reduced by an amount equal to the generation-skipping transfer tax and any interest thereon that is payable as a result of the death in question. The Company may also withhold from distribution by further reduction of the then net value of benefits calculated in accordance with the terms of the previous sentence such amounts as the Company feels are reasonably necessary to pay additional generation-skipping transfer tax and interest thereon from amounts initially calculated to be due. Any amounts so withheld, and not actually paid as a generation-skipping transfer tax or interest thereon, shall be payable as soon as there is a final determination of the applicable generation-skipping tax and interest thereon.

SECTION 6

CHANGE OF LAW AND ALTERNATIVE PAYMENT FORM

The Company may make payments to any Director or Beneficiary of any benefits or deferred amounts to be paid under the Plan, in

advance of the date when otherwise due, if, based on a change in federal tax law or regulation, published rulings or similar announcements by the Internal Revenue Service, decision by a court of competent jurisdiction involving the Plan, a Director or a Beneficiary, or a closing agreement made under Section 7121 of the Internal Revenue Code of 1986 that involves the Plan, a Director or a Beneficiary, it determines that a Director or Beneficiary will recognize income for federal income tax purposes with respect to amounts that are otherwise not then payable under the Plan. The Company may also make such payments to any Director or Beneficiary in advance of the date when otherwise due if it shall be determined that the Plan is subject to the requirements of Parts 2 and 3 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, because such Plan is not maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees.

SECTION 7

NON-TRANSFERABILITY

In no event shall the Company make any payment under the Plan to any assignee or creditor of a Director or a Director's Beneficiary. Prior to the time of payment hereunder, a Director or Beneficiary shall have no rights by way of anticipation or otherwise to assign or otherwise dispose of any interest under the Plan nor shall such rights be assigned or transferred by operation of law.

SECTION 8
ADMINISTRATION AND CLAIMS PROCEDURES

8.1 Administration.

This Plan shall be administered by the officers of the Company. The Company may from time to time establish rules for the administration of the Plan that are not inconsistent with the provisions of the Plan.

8.2 Filing a Claim.

Any Director or Beneficiary, or his or her authorized representative, may make a claim for benefits due him or her under the Plan by making a written request therefor to the Company, setting forth with specificity the facts and events which give rise to the claim. The Company shall promptly respond, consistent with any legal requirements that may apply.

8.3 Expenses.

The cost of payment from the Plan and the expense of administering the Plan shall be borne by the Company.

8.4 Tax Withholding.

The Company shall have the right to deduct from all payments to be made under the Plan, any federal, state or local taxes or other charges required by law to be withheld with respect to such payments.

SECTION 9

AMENDMENT AND TERMINATION

The Company expects the Plan to be permanent, but since future conditions affecting the Company cannot be anticipated or foreseen, the Company must necessarily and does hereby reserve the right to amend, modify, terminate or partially terminate the Plan at any time and in any manner whatsoever by action of the Board of the Company. Any such amendment, modification, termination or partial termination of the Plan that does not materially increase the cost of the Plan to the Company, may occur by action of the Company with the written concurrence of the Chairman of the Board; provided, however, that only the Board shall have the power to terminate or partially terminate the Plan or change the Plan Crediting Rate, which shall be changed on a prospective basis only; and, provided further, no amendment, termination or other change in the Plan shall reduce the amounts credited to a Director's Deferral Account on the date of such amendment, termination or other change, which shall be payable to such Director or such Director's beneficiary as otherwise provided herein.

SECTION 10

APPLICABLE LAW

The Plan shall be governed and construed in accordance with the laws of the State of Minnesota. The invalidity of any portion of the Plan shall not invalidate the remainder hereof and said remainder shall continue in full force. The captions and other titles herein are

designed for convenience only and are not to be resorted to for the purpose of interpreting any provision of the Plan.

SECTION 11
BINDING AGREEMENT

The provisions of the Plan shall be binding upon the Director, his or her heirs, personal representatives and beneficiaries, and subject to the rights granted to amend or terminate the Plan, the provisions of the Plan shall also be binding upon the Company, its successors and assigns.

Pursuant to a resolution duly adopted by the Board on April 25, 1990, Minnesota Power has caused this instrument to be executed by its duly authorized officers this day of July, 1990.

MINNESOTA POWER

By: /s/ A. J. Sandbulte
Chairman

ATTEST:

By: /s/ Thomas A. Micheletti
Secretary

Exhibit A

DIRECTOR'S FEES INVESTMENT RETURN CALCULATION

INVESTMENT RETURN = CONSOLIDATED INCOME BEFORE INTEREST CHARGES

AVERAGE CONSOLIDATED CAPITALIZATION
(TO INCLUDE NOTES PAYABLE)

EXAMPLE CALCULATION (1988):

CONSOLIDATED INCOME B/4 INTEREST 1/ = $114,969 = 11.08%

AVERAGE CONSOLIDATED CAPITAL 2/ $1,037,180

1/ SOURCE: 1988 ANNUAL REPORT
2/ BASED ON LAST TWO YEAR'S ENDING CAPITALIZATION TO INCLUDE NOTES PAYABLE:

	1987	1988	AVG
TOTAL CAPITALIZATION	$1,011,405	$1,057,561	$1,034,483
NOTES PAYABLE	4,994	400	2,697
TOTAL	$1,016,399	$1,057,961	$1,037,180

EXHIBIT 12

ALLETE
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND
SUPPLEMENTAL RATIOS OF EARNINGS TO FIXED CHARGES (UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31	2002	2001	2000	1999	1998
MILLIONS EXCEPT RATIOS					
Income from Continuing Operations Before Income Taxes	$191.6	$204.5	$215.3	$108.1	$130.1
Add (Deduct)					
Undistributed Income from Less than 50% Owned Equity Investments	-	-	-	(0.6)	(14.1)
Minority Interest	-	0.1	-	1.8	2.0
	191.6	204.6	215.3	109.3	118.0
Fixed Charges					
Interest on Long-Term Debt	67.9	74.0	54.5	48.4	48.5
Capitalized Interest	0.8	1.0	0.9	0.7	1.0
Other Interest Charges - Net	5.3	12.9	15.9	12.0	17.1
Interest Component of All Rentals	9.9	10.4	8.5	4.8	5.7
Distributions on Redeemable Preferred Securities of Subsidiary	6.0	6.0	6.0	6.0	6.0
Total Fixed Charges	89.9	104.3	85.8	71.9	78.3
Earnings Before Income Taxes and Fixed Charges (Excluding Capitalized Interest)	$280.7	$307.9	$300.2	$180.5	$195.3
Ratio of Earnings to Fixed Charges	3.12	2.95	3.50	2.51	2.49
Earnings Before Income Taxes and Fixed Charges (Excluding Capitalized Interest)	$280.7	$307.9	$300.2	$180.5	$195.3
Supplemental Charges	13.6	14.2	14.8	15.4	14.5
Earnings Before Income Taxes and Fixed and Supplemental Charges (Excluding Capitalized Interest)	$294.3	$322.1	$315.0	$195.9	$209.8
Total Fixed Charges	$ 89.9	$104.3	$ 85.8	$71.9	$78.3
Supplemental Charges	13.6	14.2	14.8	15.4	14.5
Fixed and Supplemental Charges	$103.5	$118.5	$100.6	$87.3	$92.8
Supplemental Ratio of Earnings to Fixed Charges	2.84	2.72	3.13	2.24	2.26

THE SUPPLEMENTAL RATIO OF EARNINGS TO FIXED CHARGES INCLUDES MINNESOTA POWER'S OBLIGATION UNDER A CONTRACT WITH SQUARE BUTTE WHICH EXTENDS THROUGH 2026, PURSUANT TO WHICH MINNESOTA POWER IS ENTITLED TO APPROXIMATELY 71% OF THE OUTPUT OF A 455-MEGAWATT COAL-FIRED GENERATING UNIT (UNIT). MINNESOTA POWER IS OBLIGATED TO PAY ITS PRO RATA SHARE OF SQUARE BUTTE'S COSTS BASED ON UNIT OUTPUT ENTITLEMENT. MINNESOTA POWER'S PAYMENT OBLIGATION IS SUSPENDED IF SQUARE BUTTE FAILS TO DELIVER ANY POWER, WHETHER PRODUCED OR PURCHASED, FOR A PERIOD OF ONE YEAR. SQUARE BUTTE'S FIXED COSTS CONSIST PRIMARILY OF DEBT SERVICE. VARIABLE OPERATING COSTS INCLUDE THE PRICE OF COAL PURCHASED FROM BNI COAL UNDER A LONG-TERM CONTRACT. (SEE NOTE 13.)

EXHIBIT 23(a)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-51989, 333-26755, 333-16445, 333-16463, 333-82901, 333-91348) of ALLETE, Inc. of our report dated January 20, 2003 relating to the consolidated financial statements, which appears on page 56 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 20, 2003 relating to the financial statement schedule, which appears on page 78 of this Form 10-K.

We also consent to the incorporation by reference in the Prospectus constituting part of the Registration Statements on Form S-3 (Nos. 333-02109, 333-40797, 333-58945, 333-41882, 333-54330, 333-57104, 333-71320, 333-91346) of ALLETE, Inc. of our report dated January 20, 2003 relating to the consolidated financial statements, which appears on page 56 of this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 20, 2003 relating to the financial statement schedule, which appears on page 78 of this Form 10-K.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Minneapolis, Minnesota
February 13, 2003

EXHIBIT 23(b)

CONSENT OF GENERAL COUNSEL

The statements of law and legal conclusions under "Item 1. Business" in ALLETE's Annual Report on Form 10-K for the year ended December 31, 2002 have been reviewed by me and are set forth therein in reliance upon my opinion as an expert.

I hereby consent to the incorporation by reference of such statements of law and legal conclusions in Registration Statement Nos. 333-02109, 333-40797, 333-58945, 333-41882, 333-54330, 333-57104, 333-71320 and 333-91346 on Form S-3, and Registration Statement Nos. 33-51989, 333-26755, 333-16445, 333-16463, 333-82901 and 333-91348 on Form S-8.

Philip R. Halverson

Philip R. Halverson
Duluth, Minnesota
February 13, 2003

EXHIBIT 99(a)

CERTIFICATION OF ANNUAL REPORT

I, David G. Gartzke, Chairman, President and Chief Executive Officer of ALLETE, Inc. (Company), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2002 (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 14, 2003

David G. Gartzke

David G. Gartzke
Chairman, President and
Chief Executive Officer

EXHIBIT 99(b)

CERTIFICATION OF ANNUAL REPORT

I, James K. Vizanko, Vice President, Chief Financial Officer and Treasurer of ALLETE, Inc. (Company), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2002 (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 14, 2003

James Vizanko

James K. Vizanko
Vice President, Chief Financial
Officer and Treasurer