SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **MARCH 31, 2003**

or

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

Commission File No. 1-3548

ALLETE, Inc.

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

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

Yes _X_ No ____

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

Yes _X_ No ____

Common Stock, no par value,
86,127,331 shares outstanding
as of April 30, 2003

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DEFINITIONS

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

Abbreviation or Acronym	Term
2002 Form 10-K	ALLETE's Annual Report on Form 10-K for the Year Ended December 31, 2002
ADESA	ADESA Corporation
AFC	Automotive Finance Corporation
ALLETE	ALLETE, Inc.
APB	Accounting Principals Board
Company	ALLETE, Inc. and its subsidiaries
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization Expense
EPA	Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Water	Florida Water Services Corporation
FPSC	Florida Public Service Commission
GAAP	Generally Accepted Accounting Principles
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota	Minnkota Power Cooperative, Inc.
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
NCUC	North Carolina Utilities Commission
NRG Energy	NRG Energy, Inc.
PSCW	Public Service Commission of Wisconsin
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
WDNR	Wisconsin Department of Natural Resources

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, ALLETE is hereby filing cautionary statements identifying important factors that could cause ALLETE's 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 Quarterly Report on Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "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 the control of ALLETE 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 the 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 that statement is made, and ALLETE undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which that statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of those factors, nor can it assess the impact of each of those factors on the businesses of ALLETE or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions - Unaudited

	MARCH 31, 2003	DECEMBER 31, 2002
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 193.7	$ 193.3
Trading Securities	1.2	1.8
Accounts Receivable (Less Allowance of $31.7 and $30.5)	464.0	383.8
Inventories	32.3	36.6
Prepayments and Other	15.8	14.1
Discontinued Operations	42.7	28.8
Total Current Assets	749.7	658.4
Property, Plant and Equipment	1,388.4	1,364.7
Investments	172.6	170.9
Goodwill	502.4	499.8
Other Intangible Assets	38.9	39.8
Other Assets	79.2	67.5
Discontinued Operations	342.5	346.1
TOTAL ASSETS	$ 3,273.7	$ 3,147.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts Payable	$ 330.1	$ 202.6
Accrued Taxes, Interest and Dividends	49.7	36.4
Notes Payable	15.9	74.5
Long-Term Debt Due Within One Year	283.0	283.7
Other	82.7	111.3
Discontinued Operations	27.2	29.7
Total Current Liabilities	788.6	738.2
Long-Term Debt	670.2	661.3
Accumulated Deferred Income Taxes	138.8	139.8
Other Liabilities	151.5	137.6
Discontinued Operations	170.6	162.9
Commitments and Contingencies		
Total Liabilities	1,919.7	1,839.8
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 86.1 and 85.6 Shares Outstanding	826.2	814.9
Unearned ESOP Shares	(48.1)	(49.0)
Accumulated Other Comprehensive Loss	(9.9)	(22.2)
Retained Earnings	510.8	488.7
Total Shareholders' Equity	1,279.0	1,232.4
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,273.7	$ 3,147.2

The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED MARCH 31, 2003	2002
OPERATING REVENUE		
Energy Services		
Utility	$138.0	$120.8
Nonregulated/Nonutility	41.1	22.1
Automotive Services	232.9	208.8
Investments	10.9	16.6
Total Operating Revenue	422.9	368.3
OPERATING EXPENSES		
Fuel and Purchased Power		
Utility	52.8	48.5
Nonregulated/Nonutility	14.6	0.9
Operations		
Utility	57.7	50.8
Nonregulated/Nonutility	28.4	22.4
Automotive and Investments	190.1	173.0
Interest	14.8	15.9
Total Operating Expenses	358.4	311.5
OPERATING INCOME FROM CONTINUING OPERATIONS	64.5	56.8
DISTRIBUTIONS ON REDEEMABLE PREFERRED SECURITIES OF ALLETE CAPITAL I	1.5	1.5
INCOME TAX EXPENSE	24.6	21.7
INCOME FROM CONTINUING OPERATIONS	38.4	33.6
INCOME FROM DISCONTINUED OPERATIONS – NET OF TAX	5.9	1.6
NET INCOME	$ 44.3	$ 35.2
AVERAGE SHARES OF COMMON STOCK		
Basic	82.2	80.4
Diluted	82.3	81.0
BASIC AND DILUTED		
EARNINGS PER SHARE OF COMMON STOCK		
Continuing Operations	$0.47	$0.42
Discontinued Operations	0.07	0.02
	$0.54	$0.44
DIVIDENDS PER SHARE OF COMMON STOCK	$0.2825	$0.275

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	QUARTER ENDED MARCH 31,	
	2003	**2002**
OPERATING ACTIVITIES		
Net Income	$ 44.3	$ 35.2
Depreciation and Amortization	20.9	19.9
Deferred Income Taxes	10.6	3.8
Gain on Sale of Plant	(16.0)	–
Changes in Operating Assets and Liabilities		
Trading Securities	0.6	(10.3)
Accounts Receivable	(79.0)	(56.1)
Inventories	4.4	1.3
Prepayments and Other Current Assets	(1.6)	(1.8)
Accounts Payable	123.5	134.0
Other Current Liabilities	(14.3)	(18.7)
Other – Net	(7.3)	3.2
Cash from Operating Activities	86.1	110.5
INVESTING ACTIVITIES		
Proceeds from Sale of Investments	–	1.9
Additions to Investments	(3.0)	(1.8)
Additions to Property, Plant and Equipment	(27.6)	(46.9)
Acquisitions – Net of Cash Acquired	–	(16.7)
Other – Net	(9.1)	(0.5)
Cash for Investing Activities	(39.7)	(64.0)
FINANCING ACTIVITIES		
Issuance of Common Stock	11.3	17.2
Issuance of Long-Term Debt	11.1	1.3
Changes in Notes Payable – Net	(58.1)	(42.9)
Reductions of Long-Term Debt	(2.9)	(2.8)
Dividends on Common Stock	(22.2)	(21.0)
Cash for Financing Activities	(60.8)	(48.2)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	13.0	(0.5)
CHANGE IN CASH AND CASH EQUIVALENTS	(1.4)	(2.2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD ***(a)***	203.0	234.2
CASH AND CASH EQUIVALENTS AT END OF PERIOD ***(a)***	$201.6	$232.0
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Period for		
Interest – Net of Capitalized	$21.7	$22.8
Income Taxes	$1.3	$3.2

(a) Included cash from Discontinued Operations.

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited consolidated financial statements and notes should be read in conjunction with our 2002 Form 10-K. The financial information for prior periods has been reclassified to include our vehicle import business in discontinued operations. In our opinion all adjustments necessary for a fair statement of the results for the interim periods have been included. The results of operations for an interim period may not give a true indication of results for the year.

NOTE 1. BUSINESS SEGMENTS

Millions

	Consolidated	Energy Services	Automotive Services	Investments and Corporate Charges
For the Quarter Ended March 31, 2003				
Operating Revenue	$422.9	$179.1	$232.9 *(b)*	$10.9
Operation and Other Expense	322.7	140.7	176.2	5.8
Depreciation and Amortization Expense	20.9	12.8	8.1	–
Interest Expense	14.8	5.0	4.4	5.4
Operating Income (Loss) from Continuing Operations	64.5	20.6	44.2	(0.3)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.6	–	0.9
Income Tax Expense (Benefit)	24.6	7.8	17.5	(0.7)
Income (Loss) from Continuing Operations	38.4	$ 12.2	$ 26.7	$ (0.5)
Income from Discontinued Operations	5.9			
Net Income	$ 44.3			
Total Assets	$3,273.7 *(a)*	$1,123.2	$1,603.5 *(c)*	$161.8
Property, Plant and Equipment	$1,388.4	$898.3	$490.1	–
Accumulated Depreciation and Amortization	$868.7	$716.1	$150.4	$2.2
Capital Expenditures	$27.6 *(a)*	$13.7	$7.7	–
For the Quarter Ended March 31, 2002				
Operating Revenue	$368.3	$142.9	$208.8 *(b)*	$16.6
Operation and Other Expense	275.9	110.7	153.8	11.4
Depreciation and Amortization Expense	19.7	11.9	7.8	–
Interest Expense	15.9	4.7	5.7	5.5
Operating Income (Loss) from Continuing Operations	56.8	15.6	41.5	(0.3)
Distributions on Redeemable Preferred Securities of Subsidiary	1.5	0.6	–	0.9
Income Tax Expense (Benefit)	21.7	5.9	16.6	(0.8)
Income (Loss) from Continuing Operations	33.6	$ 9.1	$ 24.9	$ (0.4)
Income from Discontinued Operations	1.6			
Net Income	$ 35.2			
Total Assets	$3,377.5 *(a)*	$1,003.2	$1,632.5 *(c)*	$374.4
Property, Plant and Equipment	$1,342.8	$881.5	$457.1	$4.2
Accumulated Depreciation and Amortization	$834.9	$704.1	$128.6	$2.2
Capital Expenditures	$46.9 *(a)*	$20.6	$10.6	–

(a) Discontinued Operations represented $385.2 million of total assets in 2003 ($367.4 million in 2002); and $6.2 million of capital expenditures in 2003 ($15.7 million in 2002).
(b) Included $40.1 million of Canadian operating revenue in 2003 ($34.3 million in 2002).
(c) Included $198.0 million of Canadian assets in 2003 ($222.4 million in 2002).

NOTE 2. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivables. AFC, through a wholly-owned, consolidated subsidiary, sells certain finance receivables through a revolving private securitization structure. The securitization agreement allows for the revolving sale by the subsidiary to third parties of up to $500 million in undivided interests in eligible finance receivables. The securitization agreement expires in 2005.

AFC managed total receivables of $520.1 million at March 31, 2003 ($495.1 million at December 31, 2002); $207.3 million represent receivables which were included in accounts receivable on our consolidated balance sheet ($191.3 million at December 31, 2002) and $312.8 million represent receivables sold in undivided interests through the securitization agreement ($303.8 million at December 31, 2002) 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.

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. If we had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," we estimate that stock-based compensation expense would have increased $0.4 million after tax in the first quarter of 2003 ($0.4 million after tax in the first quarter of 2002), and basic and diluted earnings per share would have decreased $0.01 (a $0.01 per share decrease in the first quarter of 2002). These amounts were calculated using the Black-Scholes option pricing model. We estimate the full year impact to be approximately $1.7 million, or $0.02 per share, for 2003. Expense is recognized for performance share awards, and amounted to approximately $0.2 million after tax in 2003 ($0.8 million in 2002).

NOTE 3. NEW ACCOUNTING STANDARDS

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. We are considering terminating these leases and purchasing these properties directly from the lessor.

NOTE 4. DISCONTINUED OPERATIONS

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 rather than by us include our Water Services businesses in Florida, North Carolina and Georgia and our auto transport business. We exited our vehicle import business in the first quarter of 2003, and sold our auto transport business and exited our retail stores at the end of first quarter 2002. We continue to pursue the sale of our Water Services businesses which remain as discontinued operations.

The December 2002 asset purchase agreement Florida Water signed with the Florida Water Services Authority, a governmental authority formed under the laws of the state of Florida, was terminated in March 2003 after a Florida court ruling delayed the sale. As a result, our first quarter 2003 earnings from discontinued operations included an $11.8 million ($7.4 million after tax) expense associated with selling our Water Services businesses. This is included in Other Expense in the table below.

In March 2003, through a condemnation proceeding, Florida Water sold its Amelia Island water and wastewater assets to Nassau County in Florida for $17.5 million. The transaction resulted in an after-tax gain of $9.8 million which was included in our first quarter 2003 earnings from discontinued operations.

In April 2003 Florida Water met with leaders of local governments that have expressed an interest in purchasing the assets of Florida Water that serve their residents. The governmental entities at the meeting discussed acquiring directly from Florida Water approximately two-thirds of Florida Water's asset base. If Florida Water proceeds with this course of action, it would seek to sell the remaining one-third of its assets to other interested local governments, and the water systems not sold in this process it would seek to sell to a private buyer.

We are using an investment banking firm to facilitate the sale of our Water Services businesses in North Carolina and Georgia. Discussions with prospective buyers are in process. We expect to enter into agreements to sell these businesses in 2003.

	Quarter Ended March 31,	
Income Statement	**2003**	**2002**
Millions		
Operating Revenue	$30.9	$38.9
Pre-Tax Income from Operations (excluding Other Expense)	$ 7.3	$ 6.3
Other Expense	15.3	–
Pre-Tax Income (Loss) from Operations	(8.0)	6.3
Income Tax Expense (Benefit)	(2.8)	2.4
	(5.2)	3.9
Gain (Loss) on Disposal	18.0	(3.6)
Income Tax Expense (Benefit)	6.9	(1.3)
	11.1	(2.3)
Income from Discontinued Operations	$ 5.9	$ 1.6

Balance Sheet Information	**March 31, 2003**	**December 31, 2002**
Millions		
Assets of Discontinued Operations		
Cash and Cash Equivalents	$ 7.9	$ 9.7
Other Current Assets	34.8	19.1
Property, Plant and Equipment	315.1	311.5
Other Assets	27.4	34.6
	$385.2	$374.9
Liabilities of Discontinued Operations		
Current Liabilities	$ 27.2	$ 29.7
Long-Term Debt	123.8	125.8
Other Liabilities	46.8	37.1
	$197.8	$192.6

NOTE 5. INCOME TAX EXPENSE

	Quarter Ended March 31, 2003	2002
Millions		
Current Tax		
Federal	$16.7	$14.9
Foreign	1.9	2.8
State	3.8	1.7
	22.4	19.4
Deferred Tax		
Federal	2.2	1.9
Foreign	–	0.2
State	0.4	0.5
	2.6	2.6
Deferred Tax Credits	(0.4)	(0.3)
Income Taxes on Continuing Operations	24.6	21.7
Income Taxes on Discontinued Operations	4.1	1.1
Total Income Tax Expense	$28.7	$22.8

NOTE 6. COMPREHENSIVE INCOME

For the quarter ended March 31, 2003 total comprehensive income was $56.6 million ($33.2 million for the quarter ended March 31, 2002). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale, changes in the fair value of an interest rate swap, additional pension liability and foreign currency translation adjustments.

Accumulated Other Comprehensive Loss	**March 31, 2003**	**December 31, 2002**
Millions		
Unrealized Loss on Securities	$(3.7)	$ (2.8)
Interest Rate Swap	–	(0.2)
Foreign Currency Translation Loss	(2.7)	(15.7)
Additional Pension Liability	(3.5)	(3.5)
	$(9.9)	$(22.2)

NOTE 7. 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.

NOTE 8. 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, a North Dakota cooperative corporation whose Class A members are also members of Square Butte. Minnkota serves as the operator of the Unit and also purchases power from Square Butte.

Minnesota Power is entitled to approximately 71 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota has the option to reduce Minnesota Power's entitlement by 5 percent annually, to a minimum of 50 percent. Minnesota Power is obligated to pay its pro rata share of Square Butte's costs based on Minnesota Power's entitlement to Unit output. Minnesota Power's payment obligation is suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At March 31, 2003 Square Butte had total debt outstanding of $282.2 million. Total annual debt service for Square Butte is expected to be approximately $23.6 million in each of the years 2003 through 2007. Variable operating costs include the price of coal purchased from BNI Coal, Ltd., our subsidiary, under a long-term contract. Minnesota Power's payments to Square Butte are approved as purchased power expense for ratemaking purposes by both the MPUC and the FERC.

Leasing Agreements. In July 2001 ADESA entered into a lease agreement for the ADESA Golden Gate auction facility in Tracy, California, which opened in the third quarter of 2002. The lease is treated as an operating lease for financial reporting purposes. 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. 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. ADESA does not anticipate that it will incur losses as a result of this guarantee. We have guaranteed ADESA's obligations under this lease.

As a result of the FASB's January 2003 issuance of Interpretation No. 46, "Consolidation of Variable Interest Entities," we are reviewing these 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. We are considering terminating these leases and purchasing these properties directly from the lessor.

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 all 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).

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 March 31, 2003, $8.8 million was used to support actual obligations ($10.5 million at December 31, 2002). The credit support generally expires within one year from the date of issuance.

Kendall County Power Purchase Agreement. We have 275 MW of nonregulated generation (non rate-base generation sold at market-based rates to the wholesale market) through an 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 capacity and energy from a 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 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, with the balance to be sold in the spot market through short-term agreements. We currently have long-term forward capacity and energy sales contracts for 100 MW of Kendall County generation, with 50 MW expiring in April 2012 and the balance in September 2017. In the first quarter of 2003 we entered into an additional 30 MW long-term forward capacity and energy sale contract that begins January 1, 2004 and expires 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 $6.5 million at March 31, 2003 ($7.7 million at December 31, 2002) and is expected to be invested at various times through 2007.

Environmental Matters. 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; however, we are unable to predict the outcome of the issues discussed below.

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. The Phase II environmental site report was submitted to the WDNR in February 2003. This report identified some MGP-like chemicals that were found in the soil. Initial test results from sediment samples taken from nearby Superior Bay were inconsistent with MGP-like chemicals. Additional samples were obtained in March 2003 from Superior Bay near the site of the former MGP. The report on this sampling is expected to be completed by the end of May 2003. The Company is unable to predict the outcome of this matter at this time.

In May 2002 Minnesota Power received and subsequently responded to a third request from the EPA, under Section 114 of the federal Clean Air Act Amendments of 1990 (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 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.

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

ALLETE's core operations are focused on two business segments. **Energy Services** includes electric and gas services, coal mining and telecommunications. **Automotive Services** 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 automotive parts location and nationwide insurance claim audit services. **Investments and Corporate Charges** includes 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 Investments and Corporate Charges included our trading securities portfolio which was substantially liquidated during the third quarter of 2002. The liquidation process was completed in October 2002. **Discontinued Operations** includes our Water Services businesses, our auto transport business, our vehicle import business and our retail stores.

CONSOLIDATED OVERVIEW

Net income and earnings per share for the quarter ended March 31, 2003 increased 26 percent and 23 percent, respectively, from the same period in 2002. Net income and earnings per share from continuing operations were up 14 percent and 12 percent, respectively, in 2003, reflecting solid financial results from our core operations.

	Quarter Ended March 31,	
	2003	**2002**
Millions Except Per Share Amounts		
Operating Revenue		
Energy Services	$179.1	$142.9
Automotive Services	232.9	208.8
Investments	10.9	16.6
	$422.9	$368.3
Operating Expenses		
Energy Services	$158.5	$127.3
Automotive Services	188.7	167.3
Investments and Corporate Charges	11.2	16.9
	$358.4	$311.5
Net Income		
Energy Services	$12.2	$ 9.1
Automotive Services	26.7	24.9
Investments and Corporate Charges	(0.5)	(0.4)
Continuing Operations	38.4	33.6
Discontinued Operations	5.9	1.6
Net Income	$44.3	$35.2
Diluted Average Shares of Common Stock - Millions	82.3	81.0
Diluted Earnings Per Share of Common Stock		
Continuing Operations	$0.47	$0.42
Discontinued Operations	0.07	0.02
	$0.54	$0.44

Statistical Information	Quarter Ended March 31, 2003	2002
Energy Services		
Millions of Kilowatthours Sold		
Utility		
Retail		
Residential	312.9	285.7
Commercial	326.4	314.6
Industrial	1,718.5	1,649.8
Other	20.5	19.8
Resale	407.9	442.9
	2,786.2	2,712.8
Nonregulated	419.1	83.6
	3,205.3	2,796.4
Automotive Services		
Vehicles Sold		
Wholesale	462,000	461,000
Total Loss	49,000	45,000
	511,000	506,000
Conversion Rate - Wholesale Vehicles	62.4%	65.6%
Vehicles Financed	233,000	237,000

NET INCOME

The following net income discussion summarizes a comparison of the quarter ended March 31, 2003 to the quarter ended March 31, 2002.

Energy Services' net income was up $3.1 million, or 34 percent, in 2003 reflecting a 15 percent increase in kilowatthour sales and improved wholesale power prices. The increase in kilowatthour sales was primarily due to sales from our nonregulated generation that came online during the first half of 2002.

Automotive Services reported a $1.8 million, or 7 percent, increase in net income in 2003 in spite of difficult market conditions that resulted in flat sales volume at our auction facilities compared to last year. The increase in net income was attributable to a change in the mix of vehicles, lower interest expense, modest fee increases and efficiency gains at our auction facilities, and reduced bad debt expense at AFC, our floorplan financing business. The mix of vehicles shifted towards commercial accounts and away from dealer consignment. ADESA provides more reconditioning services for commercial vehicles. Interest expense was down due to lower debt balances, and bad debt expense at AFC was down reflecting the improved credit quality of the receivable portfolio. AFC contributed 32 percent of the net income for Automotive Services in 2003 (29 percent in 2002). *Non-GAAP Financial Measures.* We believe that EBITDA is a useful measure of evaluating our financial performance because of its focus on our results from operations. EBITDA is not a measure of financial performance under GAAP. However, EBITDA is a common alternative measure of operating performance used by investors, financial analysts and rating agencies.

Automotive Services EBITDA	Quarter Ended March 31, 2003	2002
Millions		
Net Income	$26.7	$24.9
Add Back:		
Income Tax Expense	17.5	16.6
Interest Expense	4.4	5.7
Depreciation and Amortization Expense	8.1	7.8
EBITDA	$56.7	$55.0

Investments and Corporate Charges reflected slightly lower financial results in 2003. While larger real estate sales were reported in 2003, financial results for 2002 included gains on the sale of certain emerging technology investments and income from the trading securities portfolio which was substantially liquidated during the third quarter of 2002.

Discontinued Operations' net income was up $4.3 million in 2003. Net income from our Water Services businesses in 2003 reflected a $9.8 million after-tax gain on the condemnation of its Amelia Island water and wastewater assets in Nassau County, Florida, which was offset by $7.4 million of after-tax expense associated with the sale of our water assets and a $2.2 million after-tax accrual for retention and severance incentives. Despite a 4.7 percent increase in total customers, water consumption was down 5 percent in 2003 because in 2002 drier weather conditions increased consumption. Net income from other discontinued operations in 2003 included $1.3 million from the settlement of a lawsuit associated with our auto transport business, while net income in 2002 included $2.3 million of exit charges associated with the auto transport business and the retail stores.

COMPARISON OF THE QUARTERS ENDED MARCH 31, 2003 AND 2002

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 generation (non-rate base generation sold at market-based rates to the wholesale market), coal mining and telecommunications activities. Nonregulated generation consists primarily of the Taconite Harbor Energy Center 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 $36.2 million, or 25 percent, in 2003 reflecting increases at both utility and nonregulated/nonutility operations. *Utility* operating revenue was up $17.2 million, or 14 percent, mainly due to higher wholesale prices and fuel clause recoveries, increased utility kilowatthour sales and additional power marketing activities at Split Rock Energy. Fuel clause recoveries increased due to higher purchased power costs. Utility kilowatthour sales were up 3 percent compared to the first quarter of last year reflecting increased retail sales to taconite customers. Equity income from Split Rock Energy was up in 2003 due to increased power marketing opportunities and higher wholesale energy prices. *Nonregulated/nonutility* revenue increased $19.0 million, or 86 percent, in 2003 primarily due to sales from about 500 MW of nonregulated generation that came online during the first half of 2002.

Revenue from electric sales to taconite customers accounted for 10 percent of consolidated operating revenue in both 2003 and 2002. Electric sales to paper and pulp mills accounted for 3 percent of consolidated operating revenue in 2003 (4 percent in 2002).

Operating expenses in total were up $31.2 million, or 25 percent, in 2003. The increase was primarily attributable to increased purchased power expense. *Utility* operating expenses were up $11.5 million, or 11 percent, in 2003 primarily due to increased purchased power and generating station maintenance expense. Higher purchased power costs resulted from both increased wholesale prices and quantities purchased. Planned maintenance outages at Company generating stations necessitated higher quantities of purchased power this year. *Nonregulated/nonutility* operating expenses increased $19.7 million, or 84 percent, over the prior year mainly due to fuel and purchased power expenses for nonregulated generation that came online during the first half of 2002. Purchased power expense in 2003 included three months of demand charges related to the Kendall County power purchase agreement which began in May 2002.

Automotive Services

Operating revenue was up $24.1 million, or 12 percent, in 2003. Revenue from our wholesale auction facilities was higher in 2003 primarily due to a sales mix shift on flat volume and modest fee increases implemented at some of our auction facilities. The increased volume in commercial accounts, which resulted in additional reconditioning services, offset a decline in dealer consignment sales. Inclement weather in early 2003 also impacted volumes. Inventories at our auction facilities are high. Though more vehicles were run through our auctions than last year, dealers are buying fewer vehicles and are keeping lower than usual inventory on their lots. The dealers may be keeping lower inventory on their lots due to a combination of factors including manufacturers' incentives on new vehicles, and uncertainty due to the economy and the aftermath of the war in Iraq.

Revenue from our total loss auction facilities was up in 2003 reflecting a 9 percent increase in vehicles sold and expansion into new markets, including combination sites at some of our wholesale auction facilities. Same store total loss vehicle sales, however, were down in 2003 due to inclement weather which caused sales to be canceled or moved to lower volume days.

Revenue from AFC was higher in 2003 primarily because improved credit quality of the receivable portfolio lowered bad debt expense. AFC financed approximately 2 percent fewer vehicles in 2003 and managed total receivables of $520 million at March 31, 2003 ($500 million at March 31, 2002).

Operating expenses were up $21.4 million, or 13 percent, in 2003 primarily due to additional expenses incurred for reconditioning services provided as a result of a sales mix shift towards commercial accounts, and additional costs incurred because of inclement weather. Operating expenses were also impacted by lower conversion rates which increased direct costs associated with processing vehicles multiple times.

Investments and Corporate Charges

Operating revenue was down $5.7 million, or 34 percent, in 2003 because revenue in 2002 included $3.3 million of gains on the sale of certain emerging technology investments and income from the trading securities portfolio which was substantially liquidated during the third quarter of 2002. Revenue from our real estate operations was down slightly compared to 2002.

Operating expenses were down $5.7 million, or 34 percent, in 2003 reflecting lower incentive compensation expenses and lower expenses related to our real estate operations because the cost of property sold in 2003 was lower than in 2002.

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. Accounting measurements that we believe are most critical to our reported results of operations and financial condition include: uncollectible receivables and allowance for doubtful accounts, impairment of goodwill and long-lived assets, pension and postretirement health and life actuarial assumptions, and valuation of investments. These policies are summarized in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

OUTLOOK

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. With solid first quarter 2003 financial results, our total year expectations have not changed.

We are continuing to pursue the sale of our Water Services businesses in Florida, North Carolina and Georgia. The March 2003 sale of Florida Water's Amelia Island water and wastewater assets to Nassau County in Florida through a condemnation proceeding resulted in an after-tax gain of $9.8 million which was included in our first quarter 2003 earnings from discontinued operations. In April 2003 Florida Water met with leaders of local governments that have expressed an interest in purchasing the assets of Florida Water that serve their residents. The governmental entities at the meeting discussed acquiring directly from Florida Water approximately two-thirds of Florida Water's asset base. If Florida Water proceeds with this course of action, it would seek to sell the remaining one-third of its assets to other interested local governments, and the water systems not sold in this process it would seek to sell to a private buyer. We are using an investment banking firm to facilitate the sale of Water Services businesses in North Carolina and Georgia. Discussions with prospective buyers are in process. We expect to enter into agreements to sell these businesses in 2003. The proceeds from selling our Water Services businesses will give us the ability to reduce debt, which will further strengthen our balance sheet.

Our Board of Directors and management remain committed to unlocking the value of ALLETE. We continue to review, both internally and with outside advisors, the benefits and risks of separating our Energy and Automotive Services businesses into independent companies. When we ultimately reach a decision as to whether we will separate our businesses, we will inform the market at that time through a filing with the SEC. We are unable to predict the timing of that decision.

Energy Services. While our power marketing activities benefited from higher than expected wholesale power prices during the first quarter of 2003, it is uncertain whether higher prices will continue for the remainder of the year. We are still anticipating 2003 net income from Energy Services to decrease slightly from 2002 levels. Global economic conditions continue to affect our largest industrial retail customers and are likely to continue over the next few years, as consolidation in the steel and taconite industries continues, and while paper and pulp companies search for even more efficiency and cost-cutting measures to compete with global producers.

Automotive Services. We continue to anticipate earnings from Automotive Services to increase by about 15 percent in 2003 with vehicles sold through our wholesale and total loss auction facilities combined increasing by 4 percent to 7 percent in 2003, and the number of vehicles financed through AFC increasing by about 11 percent in 2003. However, it will be more difficult to achieve these growth targets if economic conditions do not improve. Automotive Services is focusing on growth in the volume of vehicles sold and financed, increased ancillary services, and operating and technological efficiencies. Selective fee increases have been implemented and more will be considered. The opening of total loss auction facilities in Medford (Long Island), New York, and Manville, New Jersey, during the first quarter of 2003 will also contribute to 2003 earnings as will the planned opening of total loss auction facilities in California this summer, and new wholesale auction facilities in Medford, New York; Atlanta, Georgia; and Edmonton, Alberta, which are under construction and slated to open later this year. The new facility in Medford is a greenfield (a newly constructed facility in a new market), while the new facilities in Atlanta and Edmonton will replace aging facilities.

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 the first three months of 2003 cash flow from operating activities reflected strong operating results and continued focus on working capital management. Cash flow from operations was higher in 2002 due to the timing of the collection of certain finance receivables outstanding at December 31, 2001. Cash flow from operations was also affected by a number of factors representative of normal operations.

Working Capital. As of March 31, 2003 our working capital needs included $283 million of long-term debt that is due later in 2003. We are currently reviewing several options for repaying this debt, including repayment with possible proceeds from the sale of our Water Services businesses, or refinancing with new issue debt securities. (See Securities.) Additional working capital, if and when needed, generally is provided by the sale of commercial paper. During the second half of 2002 we liquidated our trading securities portfolio and used the proceeds to reduce our short-term debt. Approximately 4.3 million original issue shares of our common stock are available for issuance through *Invest Direct*, our direct stock purchase and dividend reinvestment plan.

A substantial amount of ADESA's working capital is generated internally from payments for services provided. 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.

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.

Significant changes in accounts receivable and accounts payable balances at March 31, 2003 compared to December 31, 2002 were due to increased sales and financing activity at Automotive Services. Typically auction volumes are down during December because of the holidays. As a result, ADESA and AFC had higher receivables and higher payables at March 31, 2003.

AFC Receivables. AFC, through a wholly-owned, consolidated subsidiary, sells certain finance receivables through a revolving private securitization structure. The securitization agreement allows for the revolving sale by the subsidiary to third parties of up to $500 million in undivided interests in eligible finance receivables. The securitization agreement expires in 2005.

AFC managed total receivables of $520.1 million at March 31, 2003 ($495.1 million at December 31, 2002); $207.3 million represent receivables which were included in accounts receivable on our consolidated balance sheet ($191.3 million at December 31, 2002) and $312.8 million represent receivables sold in undivided interests through the securitization agreement ($303.8 million at December 31, 2002) 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.

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 March 31, 2003, $8.8 million was used to support actual obligations ($10.5 million at December 31, 2002). The credit support generally expires within one year from the date of issuance.

Sale of Water Plant Assets. In March 2003, through a condemnation proceeding, Florida Water sold its Amelia Island water and wastewater assets to Nassau County in Florida for $17.5 million. The transaction resulted in an after-tax gain of $9.8 million which was included in our first quarter 2003 earnings from discontinued operations. The system serves 5,000 customers. For an additional fee, Florida Water will continue to operate the system for Nassau County for a period of 120 days or for such additional period of time as may be agreed by the parties. The proceeds, which were received in April 2003, will be used to reduce debt and for general corporate purposes.

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.

Capital Requirements

Consolidated capital expenditures for the quarter ended March 31, 2003 totaled $27.6 million ($46.9 million in 2002). Expenditures for 2003 included $13.7 million for Energy Services and $7.7 million for Automotive Services. Expenditures for 2003 also included $6.2 million to maintain our Water Services businesses while they are in the process of being sold. An existing long-term line of credit and internally generated funds were the primary sources of funding for these expenditures.

NEW ACCOUNTING STANDARDS

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. We are considering terminating these leases and purchasing these properties directly from the lessor.

Readers are cautioned that forward-looking statements including those contained above, should be read in conjunction with our disclosures under the heading: "SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995" located on page 3 of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SECURITIES INVESTMENTS

Our securities investments include certain securities held for an indefinite period of time which are accounted for as available-for-sale securities. 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. At March 31, 2003 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 $17.4 million at March 31, 2003 ($20.9 million at December 31, 2002) and a total unrealized after-tax loss of $3.7 million at March 31, 2003 ($2.8 million at December 31, 2002). Our publicly-traded Emerging Technology portfolio accounted for $3.5 million of the total unrealized after-tax loss at March 31, 2003. We believe the decline in market value is temporary and we have the ability and intent to hold these investments until the market recovers. The FASB's Emerging Issues Task Force has begun discussing the accounting for impairment of certain investments under open Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Any final rules could impact our accounting for available-for-sale securities and some, or all, unrealized losses may need to be charged to income. The timing and requirements of any final rules are uncertain at this time.

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 using the cost method and included in Investments on our consolidated balance sheet. The total carrying value of these investments was $39.6 million at March 31, 2003 ($38.7 million at December 31, 2002). 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.

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.

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 capacity and energy from a 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 our 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 long-term forward capacity and energy sales contracts for 100 MW of Kendall County generation, with 50 MW expiring in April 2012 and the balance in September 2017. In the first quarter of 2003 we entered into an additional 30 MW long-term forward capacity and energy sale contract that begins January 1, 2004 and expires 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."

The services of Split Rock Energy are used to fulfill purchase requirements for retail load and to market excess generation. We own 50 percent 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.

ITEM 4. 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 II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Material legal and regulatory proceedings are included in the discussion of Other Information in Item 5. and are incorporated by reference herein.

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

On May 13, 2003 shareholders of ALLETE will vote on the election of ten directors, ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for 2003, and reservation of an additional 500,000 shares of ALLETE common stock to be issued under the ALLETE and Affiliated Companies Employee Stock Purchase Plan. Voting results will be provided in our Form 10-Q for the quarter ended June 30, 2003.

ITEM 5. OTHER INFORMATION

Reference is made to our 2002 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2002 Form 10-K.

Ref. Page 19. – Last Paragraph
Ref. Page 40. – Third Full Paragraph
Ref. Page 68. – Second Paragraph
Ref. Form 8-K dated March 7, 2003 and filed March 10, 2003
Ref. Form 8-K dated and filed March 14, 2003

In March 2003, through a condemnation proceeding, Florida Water sold its Amelia Island water and wastewater assets to Nassau County in Florida for $17.5 million. The transaction resulted in an after-tax gain of $9.8 million which was included in our first quarter 2003 earnings from discontinued operations. The system serves 5,000 customers. For an additional fee, Florida Water will continue to operate the system for Nassau County for a period of 120 days or for such additional period of time as may be agreed by the parties. The proceeds, which were received in April 2003, will be used to reduce debt and for general corporate purposes.

In April 2003 Florida Water met with leaders of local governments that have expressed an interest in purchasing the assets of Florida Water that serve their residents. The governmental entities at the meeting discussed acquiring directly from Florida Water approximately two-thirds of Florida Water's asset base. If Florida Water proceeds with this course of action, it would seek to sell the remaining one-third of its assets to other interested local governments, and the water systems not sold in this process it would seek to sell to a private buyer.

Ref. Page 22. – Table – Minimum Revenue and Demand Under Contract

As of May 1, 2003 the minimum annual revenue Minnesota Power would collect under contracts with its large power customers is estimated to be $102.9 million in 2003, $65.3 million in 2004, $59.8 million in 2005, $45.2 million in 2006 and $34.4 million in 2007.

Ref. Page 23. – Table – Contract Status for Minnesota Power Large Power Customers

On May 1, 2003 Eveleth Mines LLC filed for bankruptcy protection under Chapter 11. Due to insufficient taconite pellet orders, Eveleth Mines LLC is expected to cease pellet production in mid-May 2003 and the plant will be placed on standby status allowing production to resume later in 2003 if orders are received.

In March 2003 International Steel Group, Inc. (ISG) signed a purchase agreement 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. In April 2003 the purchase was approved by the U.S. Bankruptcy Court. Bethlehem Steel Corp.'s 62.3 percent share of Hibbing Taconite Co. is included in the sale agreement.

In April 2003 U.S. Steel Corp. (USS) offered $1.05 billion to buy National Steel Corporation (National) after reaching a tentative labor agreement with the United Steelworkers of America, covering both USS and prospective National employees. The offer includes National Steel Pellet Company in Keewatin, Minnesota. The transaction was approved by the U.S. Bankruptcy Court, and is contingent on the labor agreement being ratified. Closing of the sale transaction is anticipated to occur in May 2003. USS plans on canceling the proposed sale of its Minntac taconite operation and other raw material related operations to the Apollo Group upon successful completion of the National acquisition.

In January 2003 Blandin Paper Company shut down two of its four production lines representing approximately 30 percent of its production capabilities. A new contract through April 2007 was signed in March 2003. A petition for approval was filed with the MPUC in April 2003.

With the start-up of Missota Paper Company at the former Potlatch Corporation (Potlatch)-Brainerd site, discussions are underway with Potlatch regarding a new contract for the Grand Rapids facility and a resolution of Potlatch's 3.9 MW obligation through December 2008 at Brainerd.

On May 1, 2003 the MPUC approved a contract amendment with Stora Enso North America retroactive to April 1, 2003. The agreement includes a contract extension through April 2009.

Ref. Page 27. – Eighth Full Paragraph

The Phase II environmental site report was submitted to the WDNR in February 2003. This report identified some Manufactured Gas Plant (MGP)-like chemicals that were found in the soil. Initial test results from sediment samples taken from nearby Superior Bay were inconsistent with MGP-like chemicals. Additional samples were obtained in March 2003 from Superior Bay near the site of the former MGP. The report on this sampling is expected to be completed by the end of May 2003. The Company is unable to predict the outcome of this matter at this time.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

99(a) Section 1350 Certification of Periodic Report dated May 9, 2003, signed by David G. Gartzke.

99(b) Section 1350 Certification of Periodic Report dated May 9, 2003, signed by James K. Vizanko.

(b) Reports on Form 8-K.

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

Report on Form 8-K filed March 10, 2003 with respect to Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

Report on Form 8-K filed March 14, 2003 with respect to Item 5. Other Events and Regulation FD Disclosure.

Report on Form 8-K filed April 25, 2003 with respect to Item 7. Financial Statements, Pro Forma Financial Information and Exhibits, and Item 9. Regulation FD Disclosure (Item 12. Results of Operations and Financial Condition).

SIGNATURES

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

ALLETE, Inc.

May 9, 2003

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

May 9, 2003

/s/ Mark A. Schober
Mark A. Schober
Vice President and Controller

CERTIFICATIONS

I, David G. Gartzke, Chairman, President and Chief Executive Officer of ALLETE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ALLETE;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 we 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 quarterly 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 quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly 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 quarterly report whether or not 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: May 9, 2003

/s/ David G. Gartzke

David G. Gartzke
Chairman, President and Chief Executive Officer

I, James K. Vizanko, Vice President, Chief Financial Officer and Treasurer of ALLETE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ALLETE;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 we 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 quarterly 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 quarterly report (the "Evaluation Date"); and

   c. presented in this quarterly 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 quarterly report whether or not 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: May 9, 2003

/s/ James K. Vizanko

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

EXHIBIT INDEX

Exhibit Number	
99(a)	Section 1350 Certification of Periodic Report dated May 9, 2003, signed by David G. Gartzke.
99(b)	Section 1350 Certification of Periodic Report dated May 9, 2003, signed by James K. Vizanko.

Exhibit 99(a)

SECTION 1350 CERTIFICATION OF PERIODIC REPORT

I, David G. Gartzke, Chairman, President and Chief Executive Officer of ALLETE, Inc. (ALLETE), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended March 31, 2003 (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 ALLETE.

Dated: May 9, 2003

/s/ David G. Gartzke

David G. Gartzke
Chairman, President and
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to ALLETE and will be retained by ALLETE and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99(b)

SECTION 1350 CERTIFICATION OF PERIODIC REPORT

I, James K. Vizanko, Vice President, Chief Financial Officer and Treasurer of ALLETE, Inc. (ALLETE), certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended March 31, 2003 (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 ALLETE.

Dated: May 9, 2003

/s/ James K. Vizanko

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

A signed original of this written statement required by Section 906 has been provided to ALLETE and will be retained by ALLETE and furnished to the Securities and Exchange Commission or its staff upon request.