

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **JUNE 30, 2004**

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,
88,647,015 shares outstanding
as of July 31, 2004

INDEX

	Page
Definitions	2
Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995	3
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheet - June 30, 2004 and December 31, 2003	4
Consolidated Statement of Income - Quarter and Six Months Ended June 30, 2004 and 2003	5
Consolidated Statement of Cash Flows - Six Months Ended June 30, 2004 and 2003	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures about Market Risk	28
Item 4. Controls and Procedures	30
Part II. Other Information	
Item 1. Legal Proceedings	30
Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities	30
Item 4. Submission of Matters to a Vote of Security Holders	31
Item 5. Other Information	31
Item 6. Exhibits and Reports on Form 8-K	33
Signatures	35

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
2003 Form 10-K	ALLETE’s Annual Report on Form 10-K for the Year Ended December 31, 2003
Aqua America	Aqua America, Inc.
ADESA	ADESA, Inc.
ADESA Impact	Collectively, Automotive Recovery Services, Inc. and Impact Auto Auctions Ltd.
ADESA Importation	ADESA Importation Services, Inc.
AFC	Automotive Finance Corporation
ALLETE	ALLETE, Inc.
ALLETE Properties	ALLETE Properties, Inc.
APB	Accounting Principles 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 in the United States
GeolInsight	GeolInsight, Inc.
IPO	Initial Public Offering
MTBE	Methyl Tertiary-Butyl Ether
Minnesota Power	An operating division of ALLETE, Inc.
Minnkota Power	Minnkota Power Cooperative, Inc.
MPUC	Minnesota Public Utilities Commission
MW	Megawatt(s)
Note ____	Note ____ to the consolidated financial statements in this Form 10-Q
NRG Energy	NRG Energy, Inc.
NYSE	New York Stock Exchange
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
Taconite Harbor	Taconite Harbor Energy Center
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, 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 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 our control and may cause actual results or outcomes to differ materially from those contained in forward-looking statements:

- our ability to successfully implement our strategic objectives, including the completion and impact of the planned spin-off of our Automotive Services business;
- war and acts of terrorism;
- prevailing governmental policies and regulatory actions, including those of the United States Congress, Canadian federal government, state and provincial legislatures, the FERC, the MPUC, the FPSC, the PSCW, and various county regulators and city administrators, 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 vehicle-related laws, including vehicle brokerage and auction laws;
- unanticipated effects of restructuring initiatives in the electric and automotive industries;
- 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 sellers and buyers 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 acquisitions; and
- the outcome of legal and administrative proceedings (whether civil or criminal) and settlements that affect the business and profitability of ALLETE.

Additional disclosures regarding factors that could cause our results and performance to differ from results or performance anticipated by this report are discussed in Item 7. under the heading “Factors that May Affect Future Results” beginning on page 46 of our 2003 Form 10-K. 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. Readers are urged to carefully review and consider the various disclosures made by us in our 2003 Form 10-K and in our other reports filed with the SEC that attempt to advise interested parties of the factors that may affect our business.

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ALLETE
CONSOLIDATED BALANCE SHEET
Millions - Unaudited

	JUNE 30, 2004	DECEMBER 31, 2003
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 602.9	\$ 219.6
Restricted Cash	155.8	3.4
Accounts Receivable (Less Allowance of \$14.1 and \$26.4)	551.3	403.8
Inventories	40.7	37.9
Prepayments and Other	15.6	15.8
Discontinued Operations	9.6	14.9
Total Current Assets	1,375.9	695.4
Property, Plant and Equipment – Net	1,484.7	1,499.0
Investments	184.6	204.6
Goodwill	509.5	511.0
Other Intangible Assets	30.7	33.3
Other Assets	88.0	70.1
Discontinued Operations	8.2	87.9
TOTAL ASSETS	\$3,681.6	\$3,101.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 396.0	\$ 243.9
Accrued Taxes and Interest	43.5	35.2
Notes Payable	–	53.0
Long-Term Debt Due Within One Year	320.1	37.5
Other	98.8	107.1
Discontinued Operations	15.0	49.5
Total Current Liabilities	873.4	526.2
Long-Term Debt	790.9	747.7
Accumulated Deferred Income Taxes	182.2	160.7
Minority Interest	74.3	8.4
Other Liabilities	157.5	153.1
Discontinued Operations	2.7	45.0
Commitments and Contingencies		
Total Liabilities	2,081.0	1,641.1
SHAREHOLDERS' EQUITY		
Common Stock Without Par Value, 130.0 Shares Authorized		
88.6 and 87.3 Shares Outstanding	963.7	859.2
Unearned ESOP Shares	(43.8)	(45.4)
Accumulated Other Comprehensive Gain	8.4	14.5
Retained Earnings	672.3	631.9
Total Shareholders' Equity	1,600.6	1,460.2
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,681.6	\$3,101.3

The accompanying notes are an integral part of these statements.

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

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
OPERATING REVENUE				
Energy Services				
Regulated Utility	\$136.9	\$125.8	\$278.3	\$263.8
Nonregulated	47.0	32.7	87.9	73.8
Automotive Services	232.1	240.7	479.8	473.6
Investments	(0.7)	10.7	27.8	21.6
Total Operating Revenue	415.3	409.9	873.8	832.8
OPERATING EXPENSES				
Fuel and Purchased Power				
Regulated Utility	65.9	56.8	123.0	112.8
Nonregulated	11.3	8.1	23.1	19.5
Operations				
Regulated Utility	53.2	52.5	110.6	110.3
Nonregulated	33.7	24.5	62.2	52.8
Automotive and Investments	180.7	189.9	384.1	380.0
Interest	13.8	16.0	26.9	32.9
Total Operating Expenses	358.6	347.8	729.9	708.3
OPERATING INCOME FROM CONTINUING OPERATIONS	56.7	62.1	143.9	124.5
INCOME TAX EXPENSE	23.8	25.0	57.9	49.4
INCOME FROM CONTINUING OPERATIONS	32.9	37.1	86.0	75.1
INCOME FROM DISCONTINUED OPERATIONS – NET OF TAX	1.8	7.3	1.2	13.6
NET INCOME	\$ 34.7	\$ 44.4	\$ 87.2	\$ 88.7
AVERAGE SHARES OF COMMON STOCK				
Basic	85.1	82.6	84.7	82.4
Diluted	85.6	82.9	85.2	82.6
BASIC EARNINGS PER SHARE OF COMMON STOCK				
Continuing Operations	\$0.39	\$0.45	\$1.02	\$0.91
Discontinued Operations	0.02	0.09	0.01	0.17
	\$0.41	\$0.54	\$1.03	\$1.08
DILUTED EARNINGS PER SHARE OF COMMON STOCK				
Continuing Operations	\$0.38	\$0.45	\$1.01	\$0.91
Discontinued Operations	0.02	0.08	0.01	0.16
	\$0.40	\$0.53	\$1.02	\$1.07
DIVIDENDS PER SHARE OF COMMON STOCK	\$0.2825	\$0.2825	\$0.565	\$0.565

The accompanying notes are an integral part of these statements.

ALLETE
CONSOLIDATED STATEMENT OF CASH FLOWS
Millions - Unaudited

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
OPERATING ACTIVITIES		
Net Income	\$ 87.2	\$ 88.7
Depreciation and Amortization	43.0	42.9
Deferred Income Taxes	7.1	12.0
Gain on Sale of Plant	(15.5)	(17.0)
Changes in Operating Assets and Liabilities		
Accounts Receivable	(146.4)	(84.8)
Inventories	(1.8)	3.2
Prepayments and Other	(0.2)	(1.8)
Accounts Payable	118.7	54.6
Other Current Liabilities	(13.2)	(3.2)
Other Assets	(4.1)	2.4
Other Liabilities	3.6	8.5
Cash from Operating Activities	78.4	105.5
INVESTING ACTIVITIES		
Proceeds from Sale of Plant	75.4	–
Proceeds from Sale of Available-For-Sale Securities	1.6	6.4
Changes to Investments	16.3	(2.4)
Additions to Property, Plant and Equipment	(43.4)	(118.6)
Other	(1.5)	(15.0)
Cash from (for) Investing Activities	48.4	(129.6)
FINANCING ACTIVITIES		
Issuance of Common Stock	34.9	17.8
Issuance of Subsidiary Common Stock	136.0	–
Issuance of Long-Term Debt	405.6	65.9
Net Increase in Book Overdrafts	31.2	70.8
Payments for Debt Issuance Costs	(9.9)	–
Changes in Notes Payable – Net	(52.2)	(72.9)
Reductions of Long-Term Debt	(81.5)	(3.2)
Dividends on Common Stock	(46.8)	(45.6)
Transfer to Restricted Cash	(152.4)	–
Cash from Financing Activities	264.9	32.8
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(6.4)	30.8
CHANGE IN CASH AND CASH EQUIVALENTS	385.3	39.5
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	226.1	203.0
CASH AND CASH EQUIVALENTS AT END OF PERIOD (a)	\$611.4	\$242.5
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Period for		
Interest – Net of Capitalized	\$26.4	\$33.2
Income Taxes	\$59.6	\$22.6

(a) Included \$8.5 million of cash from Discontinued Operations at June 30, 2004 (\$9.7 million at June 30, 2003).

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 2003 Form 10-K. In our opinion, all adjustments necessary for a fair presentation 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 the results for the year.

NOTE 1. BUSINESS SEGMENTS

Millions

		Energy Services			
	Consolidated	Regulated Utility	Non- regulated	Automotive Services	Investments and Corporate Charges
For the Quarter Ended June 30, 2004					
Operating Revenue	\$415.3	\$136.9	\$47.0	\$232.1 (b)	\$ (0.7)
Operation and Other Expense	323.5	109.2	42.4	165.2	6.7
Depreciation and Amortization Expense	21.3	9.9	2.6	8.8	—
Interest Expense	13.8	4.6	0.6	4.7	3.9
Operating Income (Loss) from Continuing Operations	56.7	13.2	1.4	53.4	(11.3)
Income Tax Expense (Benefit)	23.8	5.0	0.3	21.1	(2.6)
Income (Loss) from Continuing Operations	32.9	8.2	1.1	32.3	(8.7)
Income (Loss) from Discontinued Operations – Net of Tax	1.8 (a)	—	—	(4.0)	—
Net Income (Loss)	\$ 34.7 (a)	\$ 8.2	\$ 1.1	\$ 28.3	\$ (8.7)
For the Quarter Ended June 30, 2003					
Operating Revenue	\$409.9	\$125.8	\$32.7	\$240.7 (b)	\$10.7
Operation and Other Expense	309.9	98.9	30.1	171.3	9.6
Depreciation and Amortization Expense	21.9	10.4	2.5	8.9	0.1
Interest Expense	16.0	5.0	0.7	3.7	6.6
Operating Income (Loss) from Continuing Operations	62.1	11.5	(0.6)	56.8	(5.6)
Income Tax Expense (Benefit)	25.0	4.6	(0.5)	22.7	(1.8)
Income (Loss) from Continuing Operations	37.1	6.9	(0.1)	34.1	(3.8)
Income (Loss) from Discontinued Operations – Net of Tax	7.3 (a)	—	—	(0.1)	—
Net Income (Loss)	\$ 44.4 (a)	\$ 6.9	\$ (0.1)	\$ 34.0	\$ (3.8)

(a) Included \$5.8 million of income from the Water Services businesses in 2004 (\$7.4 million in 2003).

(b) Included \$43.3 million of Canadian operating revenue in 2004 (\$47.6 million in 2003).

NOTE 1. BUSINESS SEGMENTS (Continued)

Millions

		Energy Services			
	Consolidated	Regulated Utility	Non- regulated	Automotive Services	Investments and Corporate Charges
For the Six Months Ended June 30, 2004					
Operating Revenue	\$873.8	\$278.3	\$87.9	\$479.8 (c)	\$27.8
Operation and Other Expense	660.0	213.8	80.2	344.7	21.3
Depreciation and Amortization Expense	43.0	19.8	5.1	18.1	—
Interest Expense	26.9	9.3	0.9	8.7	8.0
Operating Income (Loss) from Continuing Operations	143.9	35.4	1.7	108.3	(1.5)
Income Tax Expense	57.9	13.3	0.2	42.7	1.7
Income (Loss) from Continuing Operations	86.0	22.1	1.5	65.6	(3.2)
Income (Loss) from Discontinued Operations – Net of Tax	1.2 (a)	—	—	(4.0)	—
Net Income (Loss)	\$ 87.2 (a)	\$ 22.1	\$ 1.5	\$ 61.6	\$ (3.2)
Total Assets	\$3,681.6 (b)	\$1,212.4	\$244.6	\$2,076.8 (d)	\$130.0
Property, Plant and Equipment – Net	\$1,484.7	\$734.2	\$190.7	\$555.8	\$4.0
Accumulated Depreciation	\$870.5	\$709.2	\$47.4	\$113.9	—
Capital Expenditures	\$43.4 (b)	\$27.9	\$6.6	\$5.7	\$0.2
For the Six Months Ended June 30, 2003					
Operating Revenue	\$832.8	\$263.8	\$73.8	\$473.6 (c)	\$21.6
Operation and Other Expense	632.6	202.4	67.3	347.5	15.4
Depreciation and Amortization Expense	42.8	20.7	5.0	17.0	0.1
Interest Expense	32.9	10.2	1.1	8.1	13.5
Operating Income (Loss) from Continuing Operations	124.5	30.5	0.4	101.0	(7.4)
Income Tax Expense (Benefit)	49.4	12.2	(0.3)	40.2	(2.7)
Income (Loss) from Continuing Operations	75.1	18.3	0.7	60.8	(4.7)
Income from Discontinued Operations – Net of Tax	13.6 (a)	—	—	0.4	—
Net Income (Loss)	\$ 88.7 (a)	\$ 18.3	\$ 0.7	\$ 61.2	\$ (4.7)
Total Assets	\$3,409.2 (b)	\$922.8	\$214.5	\$1,718.5 (d)	\$163.3
Property, Plant and Equipment – Net	\$1,480.6	\$730.5	\$174.3	\$571.8	\$4.0
Accumulated Depreciation	\$819.7	\$686.6	\$40.1	\$93.0	—
Capital Expenditures	\$67.5 (b)	\$23.7	\$14.4	\$12.8	—

(a) Included \$5.2 million of income from the Water Services businesses in 2004 (\$13.2 million in 2003).

(b) Discontinued Operations represented \$17.8 million of total assets in 2004 (\$390.1 million in 2003) and \$3.0 million of capital expenditures in 2004 (\$16.6 million in 2003).

(c) Included \$89.1 million of Canadian operating revenue in 2004 (\$87.7 million in 2003).

(d) Included \$241.3 million of Canadian assets in 2004 (\$214.6 million in 2003).

NOTE 2. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable. AFC sells the majority of U.S. dollar denominated finance receivables on a revolving basis to a wholly owned, bankruptcy remote, special purpose subsidiary that is consolidated for accounting purposes. AFC and the special purpose subsidiary amended its securitization agreement in June 2004 concurrent with the completion of ADESA's IPO. The agreement expires in January 2005 subject to annual renewal and allows for the revolving sale to a bank conduit facility of up to a maximum of \$500 million in undivided interests in eligible finance receivables subject to committed liquidity. The special purpose subsidiary had \$425 million of committed liquidity at June 30, 2004. Receivables sold are not reported on our consolidated financial statements. At June 30, 2004 AFC managed total finance receivables of \$599 million (\$533 million at December 31, 2003), of which \$522 million had been sold to the special purpose subsidiary (\$458 million at December 31, 2003). The special purpose subsidiary then in turn sold loans, with recourse to the special purpose subsidiary, of \$370 million to the bank conduit facility at June 30, 2004 (\$334 million at December 31, 2003) leaving \$229 million of finance receivables recorded on our consolidated balance sheet at June 30, 2004 (\$199 million at December 31, 2003). Proceeds from the revolving sale of receivables to the bank conduit facility were used to fund new loans to customers. AFC and the special purpose subsidiary must maintain certain financial covenants including, among others, limits on the amount of debt AFC can incur, minimum levels of tangible net worth, and termination events tied to the performance of the finance receivables portfolio. The securitization agreement also incorporates the financial covenants of ADESA's new credit facility. AFC has historically performed better than the covenant thresholds set forth in the securitization agreement, and we are not aware of any changing circumstances that would put AFC or us in noncompliance with the covenants therein.

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, we recognize expense for performance share awards granted and do not recognize expense for employee stock options granted. The after-tax expense recognized for performance share awards was approximately \$0.8 million for the first six months of 2004 (\$1.4 million for the first six months of 2003). The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation."

Effect of SFAS 123 Accounting for Stock-Based Compensation	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Millions Except Per Share Amounts				
Net Income				
As Reported	\$34.7	\$44.4	\$87.2	\$88.7
Less: Employee Stock Compensation Expense Determined Under SFAS 123 – Net of Tax	0.1	0.1	0.2	0.2
Pro Forma Net Income	\$34.6	\$44.3	\$87.0	\$88.5
Basic Earnings Per Share				
As Reported	\$0.41	\$0.54	\$1.03	\$1.08
Pro Forma	\$0.41	\$0.54	\$1.03	\$1.07
Diluted Earnings Per Share				
As Reported	\$0.40	\$0.53	\$1.02	\$1.07
Pro Forma	\$0.40	\$0.53	\$1.02	\$1.07

In the previous table, the expense for employee stock options granted determined under SFAS 123 was calculated using the Black-Scholes option pricing model and the following assumptions:

	2004	2003
Risk-Free Interest Rate	3.3%	3.1%
Expected Life – Years	5	5
Expected Volatility	28.1%	25.2%
Dividend Growth Rate	2%	2%

Restricted Cash. Our Automotive Services business had \$155.8 million of restricted cash at June 30, 2004 primarily consisting of funds held in escrow for the redemption of certain debt in August 2004. (See Note 7.)

NOTE 2. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Standards. In May 2004 the FASB issued FASB Staff Position (FSP) 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (Act), which provides accounting and disclosure guidance for employers that sponsor postretirement health care plans that provide prescription drug benefits. FSP 106-2 requires that the Accumulated Postretirement Benefit Obligation and Postretirement Benefit Cost reflect the impact of the Act upon adoption, which is required for the first interim period beginning after June 15, 2004. We provide postretirement health benefits that include prescription drug benefits, and expect our postretirement prescription drug benefits to qualify us for the federal subsidy to be provided for under the Act. We expect that the federal subsidy will reduce our postretirement benefit cost by approximately \$2 million pretax annually. We will adopt FSP 106-2 in the third quarter of 2004.

NOTE 3. SPIN-OFF AND IPO OF AUTOMOTIVE SERVICES

In October 2003 our Board of Directors approved a plan to spin off to ALLETE shareholders our Automotive Services business as a publicly traded company doing business as ADESA, Inc. In March 2004 our Board of Directors approved an IPO of less than 20 percent of all ADESA common stock outstanding. On June 21, 2004 ADESA issued 6.3 million shares of common stock through an IPO priced at \$24.00 per share. This represented 6.6 percent of ADESA's 94.9 million shares outstanding. As a result of the IPO, ALLETE recorded a \$73.1 million increase to Common Stock with no gain being recognized. We will account for the 6.6 percent public ownership of ADESA as a minority interest. We will continue to own and consolidate the remaining portion of ADESA until the completion of the spin-off. The spin-off is expected to take the form of a tax-free stock dividend to ALLETE's shareholders, who would receive a pro rata number of shares of ADESA common stock for each share of ALLETE common stock that they own. The spin-off is subject to the approval of the final plan by ALLETE's Board of Directors, favorable market conditions, receipt of tax opinions and other customary conditions. ALLETE's Board of Directors is expected to meet in late August 2004 to finalize details of the spin-off of Automotive Services, which is expected to be completed by the end of September 2004.

In accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we will report the Automotive Services business in discontinued operations after the spin-off. For the quarter and six months ended June 30, 2004, \$0.3 million of minority interest expense was included in Automotive and Investment Operations Expenses on our consolidated statement of income.

NOTE 4. DISCONTINUED OPERATIONS

During 2003, we sold, under condemnation or imminent threat of condemnation, substantially all of our water assets in Florida for a total sales price of approximately \$445 million. Earnings from Discontinued Operations for 2003 included a \$71.6 million, or \$0.86 per share, after-tax gain on the sale of substantially all our Water Services businesses (\$0.2 million first quarter; \$0.2 million second quarter; \$3.0 million, or \$0.04 per share, third quarter; \$68.2 million, or \$0.82 per share, fourth quarter). The gain was net of all selling, transaction and employee termination benefit expenses, as well as impairment losses on certain remaining assets.

In June 2004 we essentially concluded our strategy to exit our Water Services businesses when we completed the sales of our North Carolina water assets and the sale of the remaining 72 water and wastewater systems in Florida. Aqua America purchased our North Carolina water assets for \$48 million and the assumption of approximately \$28 million in debt, and also purchased 63 of our water and wastewater systems in Florida for \$14 million. Seminole County purchased the remaining 9 Florida systems for a total of \$4 million. The transactions related to the sale of our remaining water systems in Florida are subject to regulatory approval by the FPSC. The approval process may result in an adjustment to the final purchase price based on the FPSC's determination of plant investment for the systems. Earnings from Discontinued Operations for 2004 included a \$5.4 million, or \$0.06 per share, after-tax gain on the sale of North Carolina water assets and remaining water and wastewater systems in Florida (\$0.4 million of after-tax expenses first quarter and \$5.8 million, or \$0.06 per share, net gain second quarter).

The net cash proceeds from the sale of all water assets in 2003 and 2004, after transaction costs, retirement of most Florida Water debt and payment of income taxes, were approximately \$300 million. These net proceeds were used to retire debt at ALLETE. We expect to sell our water assets in Georgia in the second half of 2004.

NOTE 4. DISCONTINUED OPERATIONS (Continued)

In October 2003 the FPSC voted to initiate an investigation into the ratemaking considerations of the gain on sale of Florida Water's assets, and whether gains should be shared with the previous customers of Florida Water. In June 2004 Florida enacted legislation which provides that gains or losses resulting from the purchase or condemnation of a utility's assets, which results in the loss of customers and revenue served by such assets, are to be borne by the shareholders of the utility. This applies to all transactions prior to and after the effective date of the new law.

Summary of Discontinued Operations

Millions

Income Statement	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Operating Revenue	\$7.6	\$31.2	\$15.2	\$62.1
Pre-Tax Income (Loss) from Operations	\$0.2	\$11.5	\$(0.2)	\$19.4
Income Tax Expense	0.2	4.4	—	7.5
	—	7.1	(0.2)	11.9
Gain on Disposal	8.7 ^(a)	0.4	8.1 ^(a)	3.1 ^(b)
Income Tax Expense	6.9	0.2	6.7	1.4
	1.8	0.2	1.4	1.7
Income from Discontinued Operations	\$1.8	\$ 7.3	\$ 1.2	\$13.6
Balance Sheet Information				
	June 30,		December 31,	
	2004		2003	
Assets of Discontinued Operations				
Cash and Cash Equivalents	\$ 8.5		\$ 6.5	
Other Current Assets	1.1		8.4	
Property, Plant and Equipment	6.0		81.2	
Other Assets	2.2		6.7	
	\$17.8		\$102.8	
Liabilities of Discontinued Operations				
Current Liabilities	\$15.0		\$49.5	
Long-Term Debt	—		19.9	
Other Liabilities	2.7		25.1	
	\$17.7		\$94.5	

(a) Included \$6.6 million of accrued charges related to our vehicle import business. (See ADESA Importation Litigation.)

(b) Included a \$2.0 million recovery from a settlement related to the 2002 sale of our vehicle transport business.

ADESA Importation Litigation. In 2002 a former employee of ADESA Importation, our vehicle import business, which we exited in the first quarter of 2003, filed suit against ADESA and ADESA Importation alleging breach of contract and breach of other oral agreements related to ADESA Importation's purchase of International Vehicle Importers, Inc. in December 2000. ADESA Importation filed a counterclaim against the former employee including allegations of a number of improper acts by the employee including breach of contract, breach of fiduciary duty and fraud. Pursuant to Michigan law, the case was originally evaluated by a three attorney panel. During the mandatory case evaluation process, the three attorney panel awarded the former employee damages of \$153,000. At the same time, the panel awarded ADESA and ADESA Importation damages of \$225,000 for its counterclaims. The former employee rejected the panel's decision resulting in a jury trial. On June 1, 2004 a jury awarded damages of \$5.8 million to the former employee related to the allegation that ADESA breached oral agreements to provide funding to ADESA Importation. The jury also found in favor of ADESA and ADESA Importation on three of its counterclaims including breach of contract, breach of fiduciary duty and fraud and awarded ADESA and ADESA Importation \$69,000. ADESA and ADESA Importation believe that they have valid grounds for appeal in this matter and intend to appeal the jury award, seeking reversal of the verdict or a new trial. Post-trial motions were filed with the trial court in July 2004. In prior periods ADESA did not accrue an amount for this matter, based upon the finding of the three attorney panel during the case evaluation. As a result of the jury trial verdict, ADESA accrued \$6.6 million (\$4.0 million after taxes) for the jury award plus interest and legal fees in the second quarter of 2004 as a loss from discontinued operations.

NOTE 5. INVESTMENTS

At June 30, 2004 Investments included the real estate assets of ALLETE Properties, debt and equity securities consisting primarily of \$45.0 million of securities held for employee benefits (\$41.4 million at December 31, 2003) and \$34.5 million of economic development revenue bonds held by ADESA in conjunction with a capital lease of a vehicle auction facility in Georgia (\$34.5 million at December 31, 2003), and our emerging technology investments.

Investments	June 30, 2004	December 31, 2003
Millions		
Real Estate Assets	\$ 76.1	\$ 78.5
Debt and Equity Securities	81.6	88.6
Emerging Technology Investments	26.9	37.5
	\$184.6	\$204.6

We account for our emerging technology investments under the cost method, and review for impairment on a quarterly basis. During the second quarter of 2004 we recorded \$7.9 million (\$4.7 million after taxes) of impairment losses primarily related to direct investments in certain privately-held start-up companies whose future business prospects have diminished significantly. Recent developments at these companies indicate that future commercial viability is unlikely, as is new financing necessary to continue development.

Our total carrying value of \$26.9 million at June 30, 2004 included \$20.4 million for investments in three venture capital funds that have a current fund reported value of approximately \$10 million. The venture capital funds invest in many privately-held start-up companies, and generally value the investments at the most recent round of equity financing with failed investments written down to zero. Experience indicates that failures in the fund's portfolio emerge early while successful companies tend to take longer to materialize. In addition, the most recent round of equity financing may produce a low valuation as it would not reflect subsequent positive developments occurring at the various companies in which the funds have invested. Based on our evaluation of these three venture capital funds, we anticipate that the funds' future value will exceed our carrying value as successful companies emerge and become fully valued. We have the ability and intent to hold our investment in these venture capital funds for a reasonable period of time sufficient for the forecasted valuation to be realized. As such, we did not consider these venture capital fund investments to be other-than-temporarily impaired at June 30, 2004.

NOTE 6. GOODWILL AND OTHER INTANGIBLES

We conduct our annual goodwill impairment testing in the second quarter of each year and the 2004 test resulted in no impairment. No event or change has occurred that would indicate the carrying amount has been impaired since our annual test.

Goodwill

Millions	
Carrying Value, December 31, 2003	\$511.0
Acquired during Year	—
Change due to Foreign Currency Translation Adjustment	(1.5)
Carrying Value, June 30, 2004	\$509.5

Other Intangible Assets	June 30, 2004	December 31, 2003
Millions		
Customer Relationships	\$ 29.6	\$ 29.6
Computer Software	29.1	28.1
Other	5.5	5.7
Accumulated Amortization	(33.5)	(30.1)
	\$ 30.7	\$ 33.3

Other Intangible Assets are amortized using the straight-line method. Amortization periods are seven to twenty-five years for Customer Relationships, one to seven years for Computer Software and three to ten years for Other.

NOTE 7. LONG-TERM DEBT

Long-Term Debt	June 30, 2004	December 31, 2003
Millions		
ALLETE (a)		
First Mortgage Bonds		
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% Series Due 2008	50.0	50.0
6% Pollution Control Series E Due 2022	111.0	111.0
Senior Notes, 7.80% Due 2008	125.0	125.0
Variable Demand Revenue Refunding Bonds		
Series 1997 A, B, C and D Due 2007 – 2020	39.0	39.0
Industrial Development Revenue Bonds 6.5% Due 2025	35.1	35.1
Other Long-Term Debt, 1.1% – 8.8% Due 2004 – 2025	76.2	75.2
	551.3	550.3
Less Due Within One Year	159.0	35.6
	392.3	514.7
Automotive Services (ADESA)		
Variable Term Loan A Facility Due 2009	175.0	–
Variable Term Loan B Facility Due 2010	100.0	–
Senior Notes		
7.70% Series A Due 2006	90.0	90.0
8.10% Series B Due 2010	35.0	35.0
Senior Subordinated Notes 7 5/8% Series Due 2012	125.0	–
Variable Notes		
Due 2006	–	45.0
Due 2020	–	28.4
Capital Lease Obligation	34.5	34.5
Other Long-Term Debt, 6% Due 2004 – 2005	0.2	2.0
	559.7	234.9
Less Due Within One Year	161.1	1.9
	398.6	233.0
Net Long-Term Debt	\$790.9	\$747.7

(a) Excluded Automotive Services.

In January 2004 ALLETE used internally generated funds to retire approximately \$3.5 million in principal amount of Industrial Development Revenue Bonds Series 1994-A, due January 1, 2004.

In June 2004 ALLETE called \$125 million in principal amount of 7.80% Senior Notes due 2008. Proceeds from the sale of our water assets and proceeds received from ADESA were used to repay this debt on July 26, 2004. As a result of the redemption, we recognized an expense of \$18.5 million in the third quarter of 2004 comprised of an early redemption premium and the write-off of unamortized debt issuance costs. We have accounted for this debt as due within one year in the table above.

In July 2004 ALLETE called, for redemption in August 2004, \$111 million in principal amount of Collateralized 6% Pollution Control Refunding Revenue Bonds Series E due 2022 and expects to refinance these bonds in August 2004 at a more favorable interest rate.

In June 2004 ADESA substantially completed the restructuring of debt in conjunction with its June IPO and planned spin-off from ALLETE. In June 2004 ADESA issued \$125 million of 7 5/8% Senior Subordinated Notes at par with a maturity date of June 15, 2012, borrowed \$275 million under a new \$525 million credit facility, and repaid \$75.1 million of previously existing debt and all intercompany debt outstanding to ALLETE. In July 2004 ADESA called for redemption all of its \$90 million in principal amount of 7.70% Senior Notes due 2006 and all of its \$35 million in principal amount of 8.10% Senior Notes due 2010. The redemptions are scheduled to occur on August 11, 2004, and ADESA expects to recognize expenses of approximately \$14 million in the third quarter comprised of an early redemption premium and the write-off of unamortized debt issuance costs. We have accounted for the \$125 million of debt to be redeemed by ADESA as due within one year in the table above.

NOTE 7. LONG-TERM DEBT (Continued)

ADESA's new credit facility contains customary affirmative and negative covenants, including restrictions on the ability to incur indebtedness, grant liens, pay dividends or make distributions to shareholders and make any prepayment or redemption with respect to the senior subordinated notes. The new credit facility also contains financial covenants including: a maximum total leverage ratio, a minimum interest coverage ratio and a minimum fixed charge coverage ratio. At June 30, 2004, ADESA was in compliance with the covenants contained in the new credit facility.

In June 2004 ADESA entered into two interest rate swap agreements with notional amounts of \$105 million and \$60 million to manage its exposure to interest rate movements on its variable rate debt. Both interest rate swap agreements contain amortizing provisions and mature in December 2006. ADESA has designated its interest rate swap agreements as cash flow hedges. The fair value of the interest rate swap agreements is estimated using pricing models widely used in financial markets and represents the estimated amount ADESA would receive or pay to terminate the agreement at the reporting date. At June 30, 2004 the fair value of the interest rate swap agreements is an unrealized loss of \$0.6 million and is recorded in accrued expenses and other liabilities on the consolidated balance sheet. In accordance with the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," changes in the fair value of the interest rate swap agreements designated as cash flow hedges are recorded in Accumulated Other Comprehensive Income. ADESA is exposed to credit loss in the event of nonperformance by the counterparties; however, nonperformance is not anticipated.

NOTE 8. SHORT-TERM BORROWINGS

In April 2004 ALLETE used internally generated funds and proceeds from the sale of water assets to repay the remaining \$53.0 million outstanding on a \$250 million credit agreement which would have expired in July 2004.

NOTE 9. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Components of Periodic Benefit Expense	Pension		Postretirement Health and Life	
	2004	2003	2004	2003
Millions				
For the Quarter Ended June 30,				
Service Cost	\$ 2.1	\$ 1.7	\$ 1.1	\$0.9
Interest Cost	5.2	4.9	1.8	1.7
Expected Return on Plan Assets	(6.9)	(7.2)	(1.1)	(1.0)
Amortization of Prior Service Costs	0.2	0.2	—	—
Amortization of Net Loss	0.4	—	0.3	—
Amortization of Transition Obligation	—	—	0.6	0.6
Periodic Benefit Expense (Benefit)	\$ 1.0	\$ (0.4)	\$ 2.7	\$ 2.2
For the Six Months Ended June 30,				
Service Cost	\$ 4.2	\$ 3.4	\$ 2.2	\$1.8
Interest Cost	10.4	9.8	3.6	3.4
Expected Return on Plan Assets	(13.8)	(14.4)	(2.2)	(2.0)
Amortization of Prior Service Costs	0.4	0.4	—	—
Amortization of Net Loss	0.8	—	0.5	—
Amortization of Transition Obligation	0.1	0.1	1.2	1.2
Periodic Benefit Expense (Benefit)	\$ 2.1	\$ (0.7)	\$ 5.3	\$ 4.4

NOTE 10. INCOME TAX EXPENSE

	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Millions				
Current Tax Expense				
Federal	\$16.2	\$15.3	\$38.3	\$31.9
Foreign	4.1	7.3	7.8	9.2
State	3.0	2.3	8.0	6.0
	23.3	24.9	54.1	47.1
Deferred Tax Expense				
Federal	0.5	0.2	4.1	2.4
State	0.2	0.1	0.5	0.5
	0.7	0.3	4.6	2.9
Deferred Tax Credits	(0.2)	(0.2)	(0.8)	(0.6)
Income Tax Expense on Continuing Operations	23.8	25.0	57.9	49.4
Income Tax Expense on Discontinued Operations	7.1	4.6	6.7	8.9
Total Income Tax Expense	\$30.9	\$29.6	\$64.6	\$58.3

NOTE 11. 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.

	Quarter Ended June 30,			Six Months Ended June 30,		
	Basic	Dilutive Securities	Diluted	Basic	Dilutive Securities	Diluted
Reconciliation of Basic and Diluted Earnings Per Share						
Millions						
2004						
Net Income from Continuing Operations	\$32.9	—	\$32.9	\$86.0	—	\$86.0
Common Shares	85.1	0.5	85.6	84.7	0.5	85.2
Per Share from Continuing Operations	\$0.39	—	\$0.38	\$1.02	—	\$1.01
2003						
Net Income from Continuing Operations	\$37.1	—	\$37.1	\$75.1	—	\$75.1
Common Shares	82.6	0.3	82.9	82.4	0.2	82.6
Per Share from Continuing Operations	\$0.45	—	\$0.45	\$0.91	—	\$0.91

NOTE 12. COMPREHENSIVE INCOME

For the quarter ended June 30, 2004 total comprehensive income was \$30.7 million (\$66.3 million for the quarter ended June 30, 2003). For the six months ended June 30, 2004 total comprehensive income was \$81.1 million (\$122.9 million for the six months ended June 30, 2003). Total comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale and interest rate swaps, additional pension liability and foreign currency translation adjustments.

	June 30, 2004	December 31, 2003
Accumulated Other Comprehensive Gain		
Millions		
Unrealized Gain on Securities	\$ 1.1	\$ 0.8
Interest Rate Swaps	(0.3)	—
Foreign Currency Translation Gain	17.4	23.5
Additional Pension Liability	(9.8)	(9.8)
	\$ 8.4	\$14.5

NOTE 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 percent of the Unit's output under the Agreement. After 2005 and upon compliance with a two-year advance notice requirement, Minnkota Power has the option to reduce Minnesota Power's entitlement by 5 percent annually, to a minimum of 50 percent. In December 2003 we received notice from Minnkota Power that they will reduce our output entitlement, effective January 1, 2006, by 5 percent to approximately 66 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 shall be suspended if Square Butte fails to deliver any power, whether produced or purchased, for a period of one year. Square Butte's fixed costs consist primarily of debt service. At June 30, 2004 Square Butte had total debt outstanding of \$287.7 million. Total annual debt service for Square Butte is expected to be approximately \$23 million in each of the years 2004 through 2008. Variable operating costs include the price of coal purchased from BNI Coal, our subsidiary, under a long-term contract. Minnesota Power's payments to Square Butte are approved as a purchased power expense for ratemaking purposes by both the MPUC and the FERC.

Leasing Agreements. We lease properties and equipment under operating lease agreements with terms expiring through 2019. The aggregate amount of minimum lease payments for all operating leases during 2004 is \$19.9 million (\$16.1 million in 2005; \$13.6 million in 2006; \$6.5 million in 2007; \$5.9 million in 2008; and \$49.5 million thereafter). Automotive Services' portion of these minimum lease payments is \$18.8 million in 2004 (\$15.2 million in 2005; \$12.7 million in 2006; \$5.9 million in 2007; \$5.6 million in 2008; and \$48.8 million thereafter).

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 a wholly owned subsidiary of 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 approximately \$21 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 130 MW (100 MW in 2003) of long-term capacity sales contracts for the Kendall County generation, with 50 MW expiring in April 2012 and 80 MW expiring 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." To date, the Kendall County facility has operated at a loss due to negative spark spreads (the differential between electric and natural gas prices) in the wholesale power market and our resulting inability to cover the fixed capacity charge on unsold capacity (currently 145 MW). We expect the facility to continue to generate losses until such time as spark spreads improve or we are able to enter into additional long-term capacity sales contracts. We are currently exploring options to minimize or eliminate these ongoing losses. We are utilizing Tenaska Power Services Company to provide operational and scheduling services for the Kendall County generating unit.

Coal and Shipping Contracts. We have three coal supply agreements with various expiration dates ranging from December 2006 to December 2009. We also have rail and shipping agreements for transportation of all of our coal with various expiration dates ranging from December 2005 to December 2011. Our minimum annual obligation under these coal and shipping agreements range from approximately \$28 million in 2004 to \$10 million in 2008.

Emerging Technology Investments. We have investments in emerging technologies through minority investments in venture capital funds and direct investments in privately-held start-up companies. We have committed to make additional investments in certain emerging technology holdings. The total future commitment was \$4.7 million at June 30, 2004 (\$4.8 million at December 31, 2003) and is expected to be invested at various times through 2007.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

Environmental Matters. Our businesses are subject to regulation by various U.S. and Canadian federal, state, provincial 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.

We review environmental matters on a quarterly basis. Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. These accruals are adjusted periodically as assessment and remediation efforts progress or as additional technical or legal information becomes available. Accruals for environmental liabilities are included in the balance sheet at undiscounted amounts and exclude claims for recoveries from insurance or other third parties. Costs related to environmental contamination treatment and cleanup are charged to expense unless recoverable in rates from customers.

SWL&P Manufactured Gas Plant. 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 from 1889 to 1904. The WDNR requested SWL&P to initiate an environmental investigation. The WDNR also issued SWL&P a Responsible Party letter in February 2002. The environmental investigation is underway. In February 2003 SWL&P submitted a Phase II environmental site investigation report to the WDNR. This report identified some MGP-like chemicals that were found in the soil near the former plant site. During March and April 2003 sediment samples were taken from nearby Superior Bay. The report on the results of this sampling was completed and sent to the WDNR during the first quarter of 2004. The next phase of the investigation will be to determine any impact to soil or ground water between the former MGP site and Superior Bay. A work plan for this additional investigation by SWL&P was filed in December 2003 with the WDNR. Permission from landowners is currently being obtained to perform the additional tests. Although it is not possible to quantify the potential clean-up cost until the investigation is completed and a work plan is developed, a \$0.5 million liability was recorded in December 2003 to address the known areas of contamination. We have recorded a corresponding dollar amount as a regulatory asset to offset this liability. The PSCW has approved SWL&P's deferral of these MGP environmental investigation and potential clean-up costs for future recovery in rates, subject to regulatory prudence review.

Minnesota Power Coal-Fired Generating Facilities. During 2002 Minnesota Power received and 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 have received no feedback from the EPA based on the information we submitted. There is, however, ongoing litigation involving the EPA and other electric utilities for alleged violations of these rules. It is expected that the outcome of some of the cases could provide the utility industry direction on this topic. We are unable to predict what actions, if any, may be required as a result of the EPA's request for information. As a result, we have not accrued any liability for this environmental matter.

Square Butte Generating Facility. 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 been reviewed pursuant to the New Source Review regulations potentially resulting in new air permit operating conditions. Minnkota Power has held several meetings with the EPA to discuss the alleged violations. Based on an EPA request, Minnkota Power performed a study related to the technological feasibility of installing various controls for the reduction of nitrogen oxides and sulfur dioxide emissions. Discussions with the EPA are ongoing and we are unable to predict the outcome or cost impacts. If Square Butte is required to make significant capital expenditures to comply with EPA requirements, we expect such capital expenditures to be debt financed. Our future cost of purchased power would include our pro rata share of this additional debt service.

NOTE 13. COMMITMENTS, GUARANTEES AND CONTINGENCIES (Continued)

ADESA Impact Taunton Facility. In December 2003 the Massachusetts Department of Environmental Protection (MDEP) identified ADESA as a potentially responsible party regarding contamination of several private drinking water wells in a residential development that abuts the Taunton, Massachusetts salvage auction facility. The wells had elevated levels of MTBE. MTBE is an oxygenating additive in gasoline to reduce harmful emissions. The EPA has identified MTBE as a possible carcinogen. ADESA engaged GeoInsight, an environmental services firm, to conduct tests of the soil and groundwater at the salvage vehicle auction site.

In December 2003 GeoInsight collected soil samples, conducted groundwater tests and provided oversight for the installation of monitoring wells in various locations on and adjacent to the property adjoining the residential community. The results of the soil and water tests indicated levels of MTBE exceeding MDEP standards. In January 2004 GeoInsight collected air samples from two residences that were identified as having elevated drinking water concentrations of MTBE. ADESA has determined that inhalation of, or contact exposure to, this air poses minimal risk to human health. In response to its empirical findings, ADESA proposed to the MDEP that we install water filtration units in the approximately 33 affected residences. Thirty-two units have been installed.

GeoInsight prepared an immediate response action (IRA) plan, which was required by the MDEP, to determine the extent of the environmental impact and define activities to prevent further environmental contamination. The IRA plan, which was filed in January 2004, describes the initial activities ADESA performed, and proposes additional measures that it will use to further assess the existence of any imminent hazard to human health. In addition, as required by the MDEP, ADESA has conducted an analysis to identify sensitive receptors that may have been affected, including area schools and municipal wells. GeoInsight does not believe that an imminent hazard condition exists at the Taunton site; however, the investigation and assessment of site conditions are ongoing.

ADESA submitted an IRA plan status report to the MDEP in March 2004. Additionally, ADESA is submitting bi-weekly status updates to the MDEP. A comprehensive ground water sampling event and residential sampling event were conducted in April 2004. ADESA's representatives met with the Taunton City Council to propose that ADESA extend municipal water services to the adjoining residential community at an approximate cost of \$1 million. In August 2004 ADESA expects to present a detailed engineering proposal to the Taunton City Council.

ADESA has an accrual of \$1.2 million at June 30, 2004 with respect to this matter, including the estimated costs (as of June 30, 2004) associated with the proposal to extend the municipal water service.

ADESA has filed a claim with our insurance carrier with respect to this matter. On March 30, 2004 our insurance carrier responded with a request for additional information regarding the claims.

In addition to the activity described above, ADESA has received correspondence from an attorney representing residents of the adjoining residential community suggesting that ADESA enter into discussions concerning property damage claims for diminution in value due to the MTBE release. Accordingly, there is a possibility that property damage litigation may be filed against ADESA. Potential losses in these matters are not considered probable by ADESA management or cannot be reasonably estimated. Accordingly, ADESA has not recorded an accrual for the respective costs of these matters.

Other. We are involved in litigation arising in the normal course of business. Also in the normal course of business, we are involved in tax, regulatory and other governmental audits, inspections, investigations and other proceedings that involve state and federal taxes, safety, compliance with regulations, rate base and cost of service issues, among other things. While the resolution of such matters could have a material effect on earnings and cash flows in the year of resolution, none of these matters are expected to change materially our present liquidity position, nor have a material adverse effect on our financial condition.

See Note 4 for a discussion on the ADESA Importation litigation.

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

ALLETE's operations are comprised of three business segments. **Energy Services** includes electric and gas services, coal mining and telecommunications. **Automotive Services**, with operations across the United States, Canada and Mexico, includes wholesale vehicle auctions and related vehicle redistribution services as well as dealer financing. Auctions and related services include wholesale used vehicle and salvage vehicle auctions. **Investments and Corporate Charges** includes our Florida real estate operations, investments in emerging technologies, and general corporate charges and interest not specifically related to any one business segment. General corporate charges include employee salaries and benefits as well as legal and other outside service fees. **Discontinued Operations** includes our Water Services businesses, and our vehicle transport and import businesses.

Through a June 2004 IPO our Automotive Services business, doing business as ADESA, Inc. (NYSE: KAR), issued 6.3 million shares of common stock at an IPO price of \$24.00 per share. This represented 6.6 percent of total ADESA common stock outstanding. ALLETE will continue to own the remaining 93.4 percent of ADESA until the planned spin-off, which is expected to be completed by the end of September 2004. In connection with the IPO, ADESA filed a registration statement on Form S-1 with the SEC and also became subject to the reporting requirements under the Securities Exchange Act of 1934. These documents are available through the SEC's website at www.sec.gov.

CONSOLIDATED OVERVIEW

	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Millions Except Per Share Amounts				
Operating Revenue				
Energy Services	\$183.9	\$158.5	\$366.2	\$337.6
Automotive Services	232.1	240.7	479.8	473.6
Investments	(0.7)	10.7	27.8	21.6
	\$415.3	\$409.9	\$873.8	\$832.8
Operating Expenses				
Energy Services	\$169.3	\$147.6	\$329.1	\$306.7
Automotive Services	178.7	183.9	371.5	372.6
Investments and Corporate Charges	10.6	16.3	29.3	29.0
	\$358.6	\$347.8	\$729.9	\$708.3
Net Income (Loss)				
Energy Services	\$ 9.3	\$ 6.8	\$23.6	\$19.0
Automotive Services	32.3	34.1	65.6	60.8
Investments and Corporate Charges	(8.7)	(3.8)	(3.2)	(4.7)
Continuing Operations	32.9	37.1	86.0	75.1
Discontinued Operations	1.8	7.3	1.2	13.6
	\$34.7	\$44.4	\$87.2	\$88.7
Diluted Average Shares of Common Stock – Millions	85.6	82.9	85.2	82.6
Diluted Earnings Per Share of Common Stock				
Continuing Operations	\$0.38	\$0.45	\$1.01	\$0.91
Discontinued Operations	0.02	0.08	0.01	0.16
	\$0.40	\$0.53	\$1.02	\$1.07

Net income for the quarter and six months ended June 30, 2004 decreased 22 percent and 2 percent, respectively, from the same periods in 2003 and diluted earnings per share for the quarter and six months ended June 30, 2004 decreased 25 percent and 5 percent, respectively, from the same periods in 2003.

For the quarter ended June 30, 2004 net income and diluted earnings per share from continuing operations decreased 11 percent and 16 percent, respectively, from the same period in 2003. For the six months ended June 30, 2004 net income and diluted earnings per share from continuing operations

increased 15 percent and 11 percent, respectively, from the same period in 2003. In 2004 net income reflected a \$4.7 million after-tax impairment on our emerging technology portfolio in the quarter and six months ended June 30, separation expenses related to the spin-off of ADESA totaling \$1.4 million after tax in the quarter (\$3.1 million in the six months ended June 30) and additional corporate overhead expenses at ADESA of \$1.7 million after tax in the quarter (\$2.6 million in the six months ended).

Non-GAAP Measure of Liquidity. We believe earnings before interest, taxes, depreciation and amortization expense (EBITDA) provides meaningful additional information that helps us monitor and evaluate our ongoing results and trends. EBITDA should not be considered in isolation nor as a substitute for measures of liquidity prepared in accordance with GAAP which include:

Consolidated Cash Flow

Six Months Ended June 30,	2004	2003
Millions		
Cash from Operating Activities	\$78.4	\$105.5
Cash from (for) Investing Activities	\$48.4	\$(129.6)
Cash from Financing Activities	\$264.9	\$32.8

We believe EBITDA is a widely accepted measure of liquidity considered by investors, financial analysts and rating agencies. EBITDA is not an alternative to cash flows as a measure of liquidity and may not be comparable with EBITDA as defined by other companies.

EBITDA	Consolidated	Energy Services		Automotive Services	Investments and Corporate Charges
		Regulated Utility	Non-regulated		
For the Quarter Ended June 30, 2004					
Net Income	\$34.7				
Less: Income from Discontinued Operations	1.8				
Income (Loss) from Continuing Operations	32.9	\$ 8.2	\$1.1	\$32.3	\$(8.7)
Add Back: Income Tax Expense (Benefit)	23.8	5.0	0.3	21.1	(2.6)
Interest Expense	13.8	4.6	0.6	4.7	3.9
Depreciation and Amortization Expense	21.3	9.9	2.6	8.8	—
EBITDA	\$91.8	\$27.7	\$4.6	\$66.9	\$(7.4)
For the Quarter Ended June 30, 2003					
Net Income	\$ 44.4				
Less: Income from Discontinued Operations	7.3				
Income (Loss) from Continuing Operations	37.1	\$ 6.9	\$(0.1)	\$34.1	\$(3.8)
Add Back: Income Tax Expense (Benefit)	25.0	4.6	(0.5)	22.7	(1.8)
Interest Expense	16.0	5.0	0.7	3.7	6.6
Depreciation and Amortization Expense	21.9	10.4	2.5	8.9	0.1
EBITDA	\$100.0	\$26.9	\$ 2.6	\$69.4	\$ 1.1
Six Months Ended June 30, 2004					
Net Income	\$ 87.2				
Less: Income from Discontinued Operations	1.2				
Income (Loss) from Continuing Operations	86.0	\$22.1	\$1.5	\$ 65.6	\$(3.2)
Add Back: Income Tax Expense	57.9	13.3	0.2	42.7	1.7
Interest Expense	26.9	9.3	0.9	8.7	8.0
Depreciation and Amortization Expense	43.0	19.8	5.1	18.1	—
EBITDA	\$213.8	\$64.5	\$7.7	\$135.1	\$ 6.5
Six Months Ended June 30, 2003					
Net Income	\$ 88.7				
Less: Income from Discontinued Operations	13.6				
Income (Loss) from Continuing Operations	75.1	\$18.3	\$ 0.7	\$ 60.8	\$(4.7)
Add Back: Income Tax Expense (Benefit)	49.4	12.2	(0.3)	40.2	(2.7)
Interest Expense	32.9	10.2	1.1	8.1	13.5
Depreciation and Amortization Expense	42.8	20.7	5.0	17.0	0.1
EBITDA	\$200.2	\$61.4	\$ 6.5	\$126.1	\$ 6.2

Statistical Information	Quarter Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Energy Services				
Millions of Kilowatthours Sold				
Regulated Utility				
Retail and Municipals				
Residential	228.8	223.9	539.1	536.8
Commercial	294.3	289.6	626.2	616.0
Industrial	1,770.0	1,655.1	3,536.8	3,373.6
Municipals	189.0	204.5	402.8	405.1
Other	17.8	18.3	38.0	38.8
	2,499.9	2,391.4	5,142.9	4,970.3
Other Power Suppliers	168.4	300.8	385.6	508.1
	2,668.3	2,692.2	5,528.5	5,478.4
Nonregulated	414.6	281.1	848.6	700.2
	3,082.9	2,973.3	6,377.1	6,178.6
Automotive Services				
Vehicles Sold				
Used	445,000	471,000	926,000	933,000
Salvage	50,000	49,000	108,000	98,000
	495,000	520,000	1,034,000	1,031,000
Conversion Rate * – Used Vehicles	61.7%	61.1%	65.0%	61.8%
Loan Transactions	273,000	241,000	536,000	474,000

* Conversion rate is the percentage of vehicles sold from those that were offered at auction.

NET INCOME

The following net income discussion summarizes a comparison of the six months ended June 30, 2004 to the six months ended June 30, 2003.

Energy Services' net income in 2004 was up \$4.6 million. At Minnesota Power, higher retail electric sales contributed to the increase. In addition, despite a decline in kilowatthour sales to other power suppliers, power marketing margins improved in 2004 due to the expiration of an unprofitable purchase power arrangement in 2003.

Automotive Services reported a \$4.8 million increase in net income primarily due to improved margins and a 13 percent increase in loan transactions at AFC. These increases were partially offset by additional corporate charges and separation expenses incurred as ADESA prepares to be a stand-alone publicly traded company.

Investments and Corporate Charges' net loss was \$1.5 million lower in 2004 reflecting strong demand for our real estate in Florida and reduced interest expense. These positive developments were partially offset by an increase in general corporate charges primarily resulting from \$1.5 million of separation expenses associated with the planned spin-off of Automotive Services and \$4.7 million of impairment losses related to our emerging technology portfolio. Net income from ALLETE Properties, our real estate operations, was up \$3.8 million in 2004 (\$13.2 million in 2004; \$9.4 million in 2003) primarily due to an increase in the number as well as the profitability of real estate sales closing during the first six months of 2004. The timing of real estate sales varies from quarter to quarter.

Discontinued Operations included the financial results of the Water Services businesses, and the vehicle transport and import businesses. We will report our Automotive Services' business in discontinued operations after the planned spin-off which is expected in September 2004. Overall, net income from discontinued operations decreased \$12.4 million, primarily because the first six months of 2003 included \$12.8 million from the operations of our Water Services businesses, the majority of which were sold in the fourth quarter of 2003. The first six months of 2004 included a \$5.4 million gain on the sale of water assets (\$0.4 million for the first six months of 2003). Net income from other discontinued operations included \$4.0 million of charges in 2004 in connection with a lawsuit related to the vehicle import business and a \$1.3 million recovery in 2003 from the settlement of a lawsuit associated with the vehicle transport business.

COMPARISON OF THE QUARTERS ENDED JUNE 30, 2004 AND 2003

Energy Services

Regulated utility operations include retail and wholesale rate regulated activities under the jurisdiction of state and federal regulatory authorities. Nonregulated operations consist of nonregulated generation (non-rate base generation sold at market-based rates to the wholesale market), coal mining and telecommunication 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 a wholly owned subsidiary of NRG Energy at a facility near Chicago, Illinois.

Operating revenue in total was up \$25.4 million, or 16 percent, in 2004 reflecting increases at both our regulated utility and nonregulated operations. Regulated utility revenue was up \$11.1 million, or 9 percent, in 2004 primarily due to higher fuel clause recoveries resulting from increased purchase power costs (see operating expenses below), and increased retail electric sales. Much of the increase in retail electric sales was attributable to large power customers due to higher production levels in 2004. Overall, regulated utility kilowatthour sales were similar to last year (down 1 percent) as increased sales to retail customers reduced the energy available for sale to other power suppliers. An outage at one of the Company's generating units (see Outlook – Energy Services) also contributed to less energy being available for sale to other power suppliers. Nonregulated revenue was up \$14.3 million, or 44 percent, in 2004 reflecting a \$7.8 million increase in revenue from the Company's telecommunications business due to more equipment sales and a \$4.7 million increase in revenue from nonregulated generation operations. Nonregulated kilowatthour sales were up 47 percent in 2004.

Revenue from electric sales to taconite customers accounted for 11 percent of consolidated operating revenue in 2004 (10 percent in 2003). Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in both 2004 and 2003.

Operating expenses in total were up \$21.7 million, or 15 percent, in 2004. Regulated utility operating expenses were up \$9.4 million, or 8 percent, reflecting increased purchased power expense necessitated by an outage at one of the Company's generating units (see Outlook – Energy Services), and higher pension and benefit expenses partially offset by the absence of a power marketing demand payment associated with a purchased power agreement that expired in 2003. Nonregulated operating expenses were up \$12.3 million, or 37 percent, reflecting increased fuel and purchased power expenses, and higher cost of goods sold associated with increased sales at the Company's telecommunications business.

Automotive Services

Operating revenue was down \$8.6 million, or 4 percent, in 2004. Revenue from auctions and related services was down \$10.1 million, or 5 percent, primarily due to decreased vehicle sales volume. The number of vehicles sold at the Company's vehicle auction facilities decreased 5 percent from last year. The used vehicle market shift from institutional vehicles to dealer vehicles continued during the second quarter of 2004 reflecting an anticipated decline in off-lease vehicles as well as a decline in vehicles repossessed by ADESA's customers available for redistribution. The decrease in institutional vehicles available for redistribution was partially offset by an increase in dealer vehicles sold, a trend that is expected to continue for the remainder of 2004. Dealer financing revenue was up \$1.5 million, or 6 percent, in 2004 reflecting a 13 percent increase in the number of loan transactions. The increase in loan transactions was a result of an increase in the number of active dealers combined with an increase in floorplan utilization by the existing dealer base.

Operating expenses were down \$5.2 million, or 3 percent, in 2004 primarily due to lower expenses as a result of processing fewer vehicles at our wholesale used vehicle auctions. The used vehicle market shift from institutional vehicles to dealer vehicles also contributed to decreased cost of services because dealer vehicles cost less to process since fewer ancillary services are utilized for these vehicles as compared to institutional vehicles. This decrease was partially offset by additional corporate charges of \$2.8 million and separation expenses of \$1.4 million incurred as Automotive Services prepared to be a stand-alone publicly traded company. In addition, interest expense was higher due to the new debt issued in June 2004.

Investments and Corporate Charges

Operating revenue was down \$11.4 million in 2004 primarily due to \$7.9 million (\$4.7 million after tax) of impairment losses recorded in 2004 related to our emerging technology portfolio and a \$7.4 million decrease in revenue from ALLETE Properties as a result of fewer land sales. In 2004 one large real estate sale contributed \$2.0 million to revenue, while in 2003 four large real estate sales contributed \$7.9 million to revenue. Revenue in 2003 included \$3.5 million of losses related to the sale of shares the Company held directly in publicly-traded emerging technology investments.

Operating expenses were down \$5.7 million, or 35 percent, in 2004 primarily due to lower interest expense and fewer real estate sales. Operating expenses at ALLETE Properties were down \$2.4 million in 2004 because of fewer land sales. Interest expense not specifically related to any one business segment decreased \$2.7 million (\$3.9 million in 2004; \$6.6 million in 2003) due to the redemption of quarterly income preferred securities and various long-term debt issues in 2003 with both the proceeds from the sale of our Water Services businesses and internally generated cash.

COMPARISON OF THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

Energy Services

Operating revenue in total was up \$28.6 million, or 8 percent, in 2004. Regulated utility revenue was up \$14.5 million, or 6 percent, in 2004 primarily due to higher fuel clause recoveries resulting from increased purchase power costs (see operating expenses below), and increased retail electric sales. Much of the increase in retail electric sales was attributable to large power customers due to higher production levels in 2004. Overall, regulated utility kilowatthour sales were similar to last year (up 1 percent) as increased sales to retail customers reduced the energy available for sale to other power suppliers. An outage at one of the Company's generating units (see Outlook – Energy Services) also contributed to less energy being available for sale to other power suppliers. Equity in net income from Split Rock Energy was \$5.1 million lower in 2004 as a result of Minnesota Power withdrawing from Split Rock Energy. Nonregulated revenue was up \$14.1 million, or 19 percent, in 2004 reflecting an \$8.6 million increase in revenue from the Company's telecommunications business due to more equipment sales and a \$5.1 million increase in revenue from nonregulated generation operations. Nonregulated kilowatthour sales were up 21 percent in 2004.

Revenue from electric sales to taconite customers accounted for 10 percent of consolidated operating revenue in both 2004 and 2003. Electric sales to paper and pulp mills accounted for 4 percent of consolidated operating revenue in both 2004 and 2003.

Operating expenses in total were up \$22.4 million, or 7 percent in 2004. Regulated utility operating expenses were up \$9.6 million, or 4 percent, reflecting increased purchased power expense necessitated by an outage at one of the Company's generating units (see Outlook – Energy Services), and higher pension and benefit expenses partially offset by the absence of a power marketing demand payment associated with a purchased power agreement that expired in 2003. Nonregulated utility operating expenses were up \$12.8 million, or 17 percent, reflecting increased fuel and purchased power expense, and higher cost of goods sold associated with increased sales at the Company's telecommunications business.

Automotive Services

Operating revenue was up \$6.2 million, or 1 percent, in 2004. Revenue from auctions and related services was up \$1.6 million, or less than 1 percent, in 2004 primarily due to a favorable Canadian exchange rate. The number of vehicles sold at the Company's vehicle auction facilities in total were similar to last year reflecting fewer institutional vehicles and vehicles repossessed by ADESA's customers available for redistribution offset by an increase in dealer vehicles sold. The increase in dealer vehicle demand contributed to an increase in the number of vehicles sold as a percentage of the number of vehicles entered or offered for sale at used vehicle auctions. The conversion percentage was 65.0 percent in 2004 (61.8 percent in 2003). Dealer financing revenue was up \$4.6 million, or 9 percent, in 2004 reflecting a 13 percent increase in the number of loan transactions. The increase in loan transactions was a result of an increase in the number of active dealers combined with an increase in floorplan utilization by the existing dealer base.

Operating expenses were down \$1.1 million, or less than 1 percent, in 2004 primarily due to the impact of the used vehicle market shift towards more dealer vehicles and higher average used vehicle conversion rates. The used vehicle market shift from institutional vehicles to dealer vehicles decreased cost of services in 2004 because dealer vehicles cost less to process since fewer ancillary services are utilized for these vehicles as compared to institutional vehicles. This decrease was partially offset by additional corporate charges of \$4.3 million and separation expenses of \$2.6 million incurred as Automotive Services prepared to be a stand-alone publicly traded company. In addition, interest expense was higher due to the new debt issued in June 2004. Expenses in 2004 also reflected the negative impact of higher Canadian exchange rates in 2004.

Investments and Corporate Charges

Operating revenue was up \$6.2 million, or 29 percent, in 2004 primarily due to a \$9.3 million increase in revenue from ALLETE Properties as a result of more land sales. In 2004 11 large real estate sales contributed \$22.0 million to revenue, while in 2003 eight large real estate sales contributed \$14.5 million to revenue. This increase was partially offset by \$7.9 million (\$4.7 million after tax) of impairment losses recorded in 2004 related to our emerging technology portfolio. Revenue in 2003 included \$3.5 million of losses related to the sale of shares the Company held directly in publicly-traded emerging technology investments.

Operating expenses were up slightly in 2004 as more real estate sales and increased general corporate charges were offset by lower interest expense. Operating expenses at ALLETE Properties were up \$2.9 million in 2004 because of more land sales. Corporate charges increased \$3.0 million (\$9.0 million in 2004; \$6.0 million in 2003) reflecting higher compensation and benefit costs, and \$1.7 million of costs associated with the planned spin-off of Automotive Services. Interest expense not specifically related to any one business segment decreased \$5.5 million (\$8.0 million in 2004; \$13.5 million in 2003) due to the redemption of quarterly income preferred securities and various long-term debt issues in 2003 with both the proceeds from the sale of our Water Services businesses and internally generated cash.

CRITICAL ACCOUNTING POLICIES

Certain accounting measurements under applicable GAAP 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, valuation of investments and provisions for environmental remediation. These policies are reviewed with the Audit Committee of our Board of Directors on a regular basis and summarized in our 2003 Form 10-K.

OUTLOOK

Spin-Off of Automotive Services. In June 2004 ADESA issued 6.3 million shares of common stock through an IPO priced at \$24.00 per share. This represented 6.6 percent of ADESA's 94.9 million shares outstanding. ALLETE will account for the 6.6 percent public ownership of ADESA as a minority interest and continue to own and consolidate the remaining portion of ADESA until the completion of the spin-off of ADESA from ALLETE. Also in June 2004, ADESA substantially completed the restructuring of debt in conjunction with its June IPO and planned spin-off from ALLETE. (See Note 7.) ALLETE's Board of Directors is expected to meet in late August 2004 to finalize details of the spin-off of Automotive Services, which is expected to be completed by the end of September 2004. The spin-off is expected to take the form of a tax-free stock dividend to ALLETE's shareholders, who would receive a pro rata number of shares of ADESA common stock for each share of ALLETE common stock that they own. The spin-off is subject to the approval of the final plan by ALLETE's Board of Directors, favorable market conditions, receipt of tax opinions and other customary conditions.

2004 Earnings Guidance. After the spin-off of Automotive Services is completed, ALLETE will be comprised of what is now classified as (1) Energy Services, and (2) Investments and Corporate Charges. In 2003 net income from these operations totaled \$28.3 million. ALLETE estimates that 2004 net income from these remaining businesses will increase 15 percent over 2003. The earnings guidance does not include approximately \$15 million after tax of Automotive Services spin-off related expenses for advisor fees and debt retirement premiums that are being incurred this year. This guidance does reflect the impact of cash received from ADESA after the IPO which was invested and used for debt reduction.

Energy Services. In February 2004 we experienced a generator failure at our 534-MW Boswell Energy Center Unit 4 (Unit 4). Unit 4 came back into service in June. As a result of the failure, we replaced significant components of the generator at a capital cost of approximately \$6 million. The majority of the replacement cost was covered by insurance, subject to a deductible of \$1 million. We entered into power purchase agreements to replace the power lost during the Unit 4 outage. The cost of this additional power is being recovered through the regulated utility fuel adjustment clause in Minnesota. While Unit 4 was down, some work originally planned for 2005 and 2006 was done during the outage to minimize future outages. This outage did not have a material impact on our results of operations. Wisconsin Public Power, Inc. owns 20 percent of Unit 4.

Minnesota Power does not expect to file a request to increase rates for its retail utility operations during 2005. We will, however, continue to monitor the costs of serving our retail customers and evaluate the need for a rate filing in the future.

SWL&P's application with the PSCW for authority to increase retail utility rates 6.1 percent for its Wisconsin electric utility operations was filed in June 2004. The request covers increases in the cost of doing business. New rates, if approved, are expected to go into effect in early 2005.

We will file an integrated resource plan with the MPUC in the third quarter of 2004 detailing our retail energy demand projections and our energy sourcing options to meet the projected demand. The projections will include the future energy needs of our existing customers, including contemplated expansions. We expect to see modest growth in our retail and regulated wholesale loads over the next 15 years with potential for more robust growth depending on several key expansion opportunities being pursued by customers in the steel, paper and pipeline industries we serve.

Investments and Corporate Charges. ALLETE Properties, our Florida real estate operations, owns approximately 17,000 acres of land near Fort Myers, Palm Coast and Ormond Beach, Florida, as well as Winter Haven Citi Centre, a retail shopping center in Winter Haven, Florida. We add value to the land through entitlements and infrastructure improvements, and then sell it at current market prices. Historically, proceeds from land sales have been three to four times our carrying value. Rental income at the retail shopping center in Winter Haven provides a recurring stream of revenue. At June 30, 2004 our basis in land held by ALLETE Properties was \$47.1 million. ALLETE Properties occasionally provides seller financing, and outstanding finance receivables were \$10.8 million at June 30, 2004 with maturities ranging up to ten years. Outstanding finance receivables accrue interest at market-based rates. At June 30, 2004 ALLETE Properties also had \$18.2 million of other assets which consisted primarily of Winter Haven Citi Centre. We may selectively acquire additional land if it meets our strategy of adding value through entitlement and infrastructure improvements.

Sale of Remaining Water Assets. In June 2004 we essentially concluded our strategy to exit our Water Services businesses when we completed the sales of our North Carolina water assets and the sale of the remaining 72 water and wastewater systems in Florida. The net cash proceeds from the sale of all water assets in 2003 and 2004, after transaction costs, retirement of most Florida Water debt and payment of income taxes, were approximately \$300 million. These net proceeds were used to strengthen our balance sheet and retire debt. We continue to expect to sell our water assets in Georgia in the second half of 2004.

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 by expanding facilities, services and operations (see Capital Requirements), and externally through acquisitions.

Consolidated cash and cash equivalents was \$602.9 million at June 30, 2004, an increase of \$383.3 million since December 31, 2003. Of total consolidated cash and cash equivalents at June 30, 2004, \$275.0 million was at Automotive Services with the balance of \$327.9 million held by ALLETE and its other subsidiaries. Our Automotive Services business had \$155.8 million of restricted cash at June 30, 2004 primarily consisting of funds held in escrow for the redemption of certain debt in August 2004. (See Note 7.)

In June 2004 ADESA completed an initial public offering of 6.3 million shares at \$24.00 per share which netted proceeds of \$136.0 million after transaction costs. ADESA also completed the restructuring of its debt in conjunction with the IPO and planned spin-off from ALLETE, and in June 2004 issued \$125 million of senior notes and borrowed \$275 million under a new \$525 million credit facility. With these funds, ADESA repaid \$75.1 million of previously existing debt and all intercompany debt outstanding to ALLETE. In July 2004 ADESA also announced the August 2004 redemption of \$125 million in outstanding long-term debt. See Note 3 for additional detail on the IPO and Note 7 for additional detail on debt issued, repaid and slated for redemption.

In the first half of 2004, ALLETE repaid \$56.3 million in outstanding debt using internally generated funds and proceeds from the sale of our Water Services assets. In July 2004 ALLETE repaid \$125 million in senior long-term notes with proceeds received from ADESA and the sale of our Water Services assets. Also in July 2004, ALLETE announced the August 2004 redemption of \$111.0 million in long-term debt that is expected to be refinanced in August 2004 at a more favorable interest rate. See Notes 7 and 8 for additional detail on debt repaid and slated for redemption.

During the first six months of 2004 and 2003, cash flow from operating activities was affected by a number of factors representative of normal operations.

Working Capital. Additional working capital, if and when needed, generally is provided by the sale of commercial paper. Approximately 3.4 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 had historically funded short term swings in working capital through lines of credit from ALLETE. In June 2004 ADESA secured a revolving line of credit and expects this credit facility to sufficiently meet its working capital needs and the needs of its subsidiaries for the foreseeable future. During the sales process, ADESA does not generally take title to or ownership of the vehicles consigned for auction but instead facilitates the transfer of vehicle ownership directly from sellers to buyers.

AFC offers floorplan financing for dealers to purchase vehicles mostly at auctions and takes a security interest in each financed 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.

Significant changes in accounts receivable and accounts payable balances at June 30, 2004 compared to December 31, 2003 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 June 30, 2004.

AFC Receivables. AFC sells the majority of U.S. dollar denominated finance receivables on a revolving basis to a wholly owned, bankruptcy remote, special purpose subsidiary that is consolidated for accounting purposes. AFC and the special purpose subsidiary amended its securitization agreement in June 2004 concurrent with the completion of ADESA's IPO. The agreement expires in January 2005 subject to annual renewal and allows for the revolving sale to a bank conduit facility of up to a maximum of \$500 million in undivided interests in eligible finance receivables subject to committed liquidity. AFC's receivables are discussed in Note 2.

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.

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).

In May 2004 Standard & Poor's affirmed ALLETE's BBB+ corporate credit rating and removed the rating from *CreditWatch* with developing implications. Also in May 2004, Moody's affirmed ALLETE's senior secured debt at a Baa1 rating, Issuer Rating and senior unsecured debt at Baa2, and Prime-2 short term rating for commercial paper. Both agencies indicated that the spin-off of ADESA would not impact these ratings.

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.

Capital Requirements

Consolidated capital expenditures for the six months ended June 30, 2004 totaled \$43.4 million (\$67.5 million in 2003). Expenditures for the six months ended June 30, 2004 included \$34.5 million for Energy Services, \$5.7 million for Automotive Services and \$0.2 million for Investments and Corporate Charges. Expenditures for the six months ended June 30, 2004 also included \$3.0 million to maintain our remaining Water Services businesses while they were in the process of being sold. Internally generated funds were the primary source of funding for these expenditures.

ENVIRONMENTAL MATTERS AND OTHER

Our businesses are subject to regulation by various U.S. and Canadian, federal, state, provincial 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 in Note 13.

NEW ACCOUNTING STANDARDS

New accounting standards are discussed in Note 2.

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

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 June 30, 2004 our available-for-sale securities portfolio consisted of securities in a grantor trust established to fund certain employee benefits. Our available-for-sale securities portfolio had a fair value of \$21.1 million at June 30, 2004 (\$20.2 million at December 31, 2003) and a total unrealized after-tax gain of \$1.1 million at June 30, 2004 (\$0.8 million at December 31, 2003).

As part of our emerging technology portfolio, we have several minority investments in venture capital funds and direct investments in 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 \$26.9 million at June 30, 2004 (\$37.5 million at December 31, 2003). Our policy is to quarterly 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. During the second quarter of 2004 we recorded \$7.9 million (\$4.7 million after taxes) of impairment losses primarily related to direct investments in certain privately-held start-up companies whose future business prospects have diminished significantly. Recent developments at these companies indicate that future commercial viability is unlikely, as is new financing necessary to continue development.

The total carrying value at June 30, 2004 included \$20.4 million for investments in three venture capital funds that have a current fund reported value of approximately \$10 million. The venture capital funds invest in many privately-held start-up companies, and generally value the investments at the most recent round of equity financing with failed investments written down to zero. Experience indicates that failures in the fund's portfolio emerge early while successful companies tend to take longer to materialize. In addition, the most recent round of equity financing may produce a low valuation as it would not reflect subsequent positive developments occurring at the various companies in which the funds have invested. Based on our evaluation of these three venture capital funds, we anticipate that the funds' future value will exceed our carrying value as successful companies emerge and become fully valued. We have the ability and intent to hold our investment in these venture capital funds for a reasonable period of time sufficient for the forecasted valuation to be realized. As such, we did not consider these venture capital fund investments to be other-than-temporarily impaired at June 30, 2004.

FOREIGN CURRENCY

Our foreign currency exposure is limited to the conversion of the operating results of our Automotive Services' Canadian subsidiaries and, to a lesser extent, Mexican subsidiaries. We have not entered into any foreign exchange contracts to hedge the conversion of Automotive Services' Canadian or Mexican operating results into United States dollars. Mexican operations are not material.

INTEREST RATES

In June 2004 ADESA entered into two interest rate swap agreements with notional amounts of \$105 million and \$60 million to manage its exposure to interest rate movements on its variable rate debt. Both interest rate swap agreements contain amortizing provisions and mature in December 2006. ADESA has designated its interest rate swap agreements as cash flow hedges. The fair value of the interest rate swap agreements is estimated using pricing models widely used in financial markets and represents the estimated amount ADESA would receive or pay to terminate the agreement at the reporting date. At June 30, 2004 the fair value of the interest rate swap agreements is an unrealized loss of \$0.6 million and is recorded in accrued expenses and other liabilities on the consolidated balance sheet. In accordance with the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," changes in the fair value of the interest rate swap agreements designated as cash flow hedges are recorded in Accumulated Other Comprehensive Income. ADESA is exposed to credit loss in the event of nonperformance by the counterparties; however, nonperformance is not anticipated.

COMMODITY PRICE RISK

Our regulated utility operations in Minnesota and Wisconsin incur costs for fuel (primarily coal), power and natural gas purchased for resale in our regulated service territories, and related transportation. Our regulated utilities' exposure to price risk for these commodities is significantly mitigated by the current ratemaking process and regulatory environment which generally allows a fuel clause surcharge if costs are in excess of those in our last rate filing. Conversely, costs below those in our last rate filing result in a rate credit. We prudently manage our customers' exposure to price risk by entering into contracts of various durations and terms for the purchase of coal and power (in Minnesota), power and natural gas (in Wisconsin), and related transportation costs.

POWER MARKETING

Our power marketing activities consist of (i) purchasing energy in the wholesale market for resale in our regulated service territories when retail energy requirements exceed generation output, and (ii) selling excess available regulated utility generation and purchased power, as well as selling nonregulated generation.

From time-to-time, our regulated utility operations may have excess generation that is temporarily not required by retail and municipal customers in our regulated service territory. We actively sell this generation to the wholesale market to optimize the value of our generating facilities. This generation is generally sold in the spot market or under short-term contracts at market prices.

We have approximately 500 MW of nonregulated generation available for sale to the wholesale markets. This primarily consists of about 200 MW at our Taconite Harbor facility in northern Minnesota and 275 MW obtained through a 15-year power purchase agreement with a wholly owned subsidiary of NRG Energy at the Kendall County facility near Chicago, Illinois.

The majority of Taconite Harbor's capability of approximately 200 MW has been sold through various short-term and long-term capacity and energy contracts. Short term, we have approximately 180 MW of capacity and energy sales contracts and a 15 MW forward energy sales contract, all of which expire on April 30, 2005. Long term, we have entered into two capacity and energy sales contracts totaling 175 MW (201 MW including a 15 percent reserve) which are effective May 1, 2005 and expire on April 30, 2010. Both contracts contain fixed monthly capacity charges and fixed minimum energy charges. One contract provides for an annual escalator to the energy charge based on increases in our cost of coal, subject to a small minimum annual escalation. The other contract provides that the energy charge will be the greater of a fixed minimum charge or an amount based on the variable production cost of a combined cycle natural gas unit. Our exposure in the event of a full or partial outage at our Taconite Harbor facility is significantly limited under both contracts. When the buyer is notified at least two months prior to an outage, there is no exposure. Outages with less than two months notice are subject to an annual duration limitation typical of this type of contract.

Under the Kendall County agreement, which expires in September 2017, 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. Our strategy is to sell a significant portion of this generation through long-term contracts of various durations. The balance will be sold in the daily spot market or through short-term contracts. We currently have long-term capacity sales contracts for 130 MW, with 50 MW expiring in April 2012 and the balance expiring in September 2017. To date, the Kendall County facility has operated at a loss due to negative spark spreads (the differential between electric and natural gas prices) in the wholesale power market and our resulting inability to cover the fixed capacity charge on the unsold capacity (currently 145 MW). We expect the facility to continue to generate losses until such time as spark spreads improve or we are able to enter into additional long-term capacity sales contracts. We are currently exploring options to minimize or eliminate these ongoing losses.

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, as of the end of the period covered by this Form 10-Q. 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. There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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.

In late 2003 the staff of the SEC initiated an informal inquiry relating to our internal audit function, internal financial reporting and the loan loss methodology at AFC. We have fully and voluntarily cooperated with the informal inquiry, and the SEC staff has not asserted that we have acted improperly or illegally. Although we cannot predict the length, scope or results of the informal inquiry, based upon extensive review by the Audit Committee of our Board of Directors with the assistance of independent counsel and our independent auditors, we believe that we have acted appropriately and that this inquiry will not result in action that has a material adverse impact on us or our reported results of operations. The results of the review by our Audit Committee and independent counsel were submitted to the SEC in late February 2004. We have had no further communication with the SEC on this matter.

See Note 4 for a discussion on the ADESA Importation litigation.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

ALLETE Common Stock Repurchases As of June 30, 2004	Total Number of Shares Purchased (a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
For the Quarter Ended March 31, 2004				
January	—	—	—	—
February	6,333	\$31.75	—	—
March	15,247	\$34.14	—	—
	21,580	\$33.44	—	—
For the Quarter Ended June 30, 2004				
April	4,751	\$34.99	—	—
May	—	—	—	—
June	5,220	\$35.81	—	—
	9,971	\$35.42	—	—
Six Months Ended June 30, 2004	31,551	\$34.06	—	—

(a) Repurchased pursuant to the stock-for-stock exercise of employee options granted under the ALLETE Executive Long-Term Incentive Compensation Plan.

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

- (a) We held our Annual Meeting of Shareholders on May 11, 2004.
- (b) Included in (c) below.
- (c) The election of directors and the ratification of the appointment of independent auditors were voted on at the Annual Meeting of Shareholders.

The results were as follows:

	Votes For	Votes Withheld or Against	Abstentions	Broker Nonvotes
Directors				
Wynn V. Bussmann	73,129,135	1,603,112	—	—
David G. Gartzke	73,389,211	1,343,036	—	—
Dennis O. Green	73,061,647	1,670,600	—	—
Peter J. Johnson	73,200,980	1,531,267	—	—
George L. Mayer	73,189,932	1,542,315	—	—
Roger D. Peirce	73,598,134	1,134,113	—	—
Jack I. Rajala	73,462,836	1,269,411	—	—
Nick Smith	73,745,576	986,671	—	—
Bruce W. Stender	73,225,683	1,506,564	—	—
Donald C. Wegmiller	73,385,366	1,346,881	—	—
Deborah L. Weinstein	73,665,887	1,066,360	—	—
Independent Auditors				
PricewaterhouseCoopers LLP	72,408,856	1,893,568	429,823	—

- (d) Not applicable.

ITEM 5. OTHER INFORMATION

Reference is made to our 2003 Form 10-K for background information on the following updates. Unless otherwise indicated, cited references are to our 2003 Form 10-K.

Ref. Page 12 – First Full Paragraph

In October 2003 the FPSC voted to initiate an investigation into the ratemaking considerations of the gain on sale of Florida Water's assets, and whether gains should be shared with the previous customers of Florida Water. In June 2004 Florida enacted legislation which provides that gains or losses resulting from the purchase or condemnation of a utility's assets, which results in the loss of customers and revenue served by such assets, are to be borne by the shareholders of the utility. This applies to all transactions prior to and after the effective date of the new law.

Ref. Page 17 – Fifth Paragraph

Minnesota Power does not expect to file a request to increase rates for its retail utility operations during 2005. We will, however, continue to monitor the costs of serving our retail customers and evaluate the need for a rate filing in the future.

Ref. Page 17 – Following the Sixth Paragraph

On May 21, 2004 the MPUC approved Minnesota Power's 2004 capital structure petition. Minnesota Power requested a common equity ratio of 58.44 percent with a contingency window of plus or minus 15 percent (49.67 percent to 67.21 percent). The Company's total consolidated capitalization was requested at \$3.0 billion with a contingency cap of \$300 million. The Company requested approval of a total consolidated capitalization of \$1.5 billion with a contingency cap of \$150 million once the spin-off of Automotive Services is completed.

Ref. Page 17 – Ninth Paragraph

On June 3, 2004 SWL&P filed an application with the PSCW for authority to increase retail utility rates 6.1 percent. This average increase is comprised of a 4.0 percent increase in electric rates, a 7.0 percent increase in gas rates and a 12.1 percent increase in water rates. The proposed increases are due to increased operating costs, primarily pension, insurance, gross receipts tax and parent company service costs. SWL&P is requesting a 12.25 percent return on common equity. Hearings are anticipated to be held in late 2004 with new rates expected to go into effect in early 2005.

Ref. Page 18 – First Paragraph

Ref. Form 10-Q for the quarter ended March 31, 2004, Page 26 – Fourth Paragraph

On June 7, 2004 Save Our Unique Lands (SOUL) and the North American Water Office (NAWO) filed a complaint against Minnesota Power at the MPUC. The complaint alleges that Minnesota Power does not intend to own the Duluth to Wausau transmission line, that the American Transmission Company (ATC) is not a jurisdictional utility under Minnesota law and lacks the power of eminent domain and the ability to conduct business, and that the technical aspects of the line have changed significantly since the Minnesota Environmental Quality Board (MEQB) approved Minnesota Power's request to be exempt from the requirements of the Minnesota Power Plant Siting Act for the construction of the 12 miles of line in Minnesota. For those reasons, SOUL and NAWO requested that the MPUC overturn the MEQB decision, assert jurisdiction over the project, require ATC to obtain a Certificate of Need to build the line, and direct the Office of Attorney General to initiate proceedings against Minnesota Power and ATC for unauthorized transmission construction in Minnesota. On July 15, 2004 Minnesota Power filed a reply to the MPUC's request for comments on the complaint. Minnesota Power stated that the MEQB exemption was still effective and that the complaint had no merit. The Minnesota Department of Commerce supported Minnesota Power's position in their comments.

Ref. Page 26 – Second through Fifth Paragraphs

Ref. Form 10-Q for the quarter ended March 31, 2004, Page 26 – Sixth Paragraph

In August 2004 ADESA expects to present a detailed engineering proposal to the Taunton City Council.

ADESA has an accrual of \$1.2 million at June 30, 2004 with respect to this matter, including the estimated costs (as of June 30, 2004) associated with the proposal to extend the municipal water service.

In addition, ADESA has received correspondence from an attorney representing residents of the adjoining residential community suggesting that ADESA enter into discussions concerning property damage claims for diminution in value due to the MTBE release. Accordingly, there is a possibility that property damage litigation may be filed against ADESA. Potential losses in these matters are not considered probable by ADESA management or cannot be reasonably estimated. Accordingly, ADESA has not recorded an accrual for the respective costs of these matters.

Ref. Page 28 – Executive Officers of the Registrant

Ref. Page 54 – Fourth Paragraph

Effective July 20, 2004 Donald W. Stellmaker was appointed treasurer of ALLETE by our Board of Directors. Stellmaker, 47, joined ALLETE in 1980. His previous positions included manager and director of corporate financial planning and budgeting at ALLETE.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

- 3 Bylaws of ALLETE, Inc., as amended effective July 20, 2004.
- *4 Indenture, dated June 21, 2004, between ADESA, Inc. and LaSalle Bank National Association, as trustee (filed as Exhibit 4.2 to ADESA, Inc.'s June 30, 2004 Form 10-Q, File No. 1-32198).
- +10(a) July 2004 amendment to the ALLETE Executive Annual Incentive Plan.
- +10(b) July 2004 amendment to the Minnesota Power and Affiliated Companies Executive Investment Plan I.
- +10(c) July 2004 amendment to the Minnesota Power and Affiliated Companies Executive Investment Plan II.
- +10(d) July 2004 amendment to the ALLETE Executive Long-Term Incentive Compensation Plan.
- +10(e) July 2004 amendment to the ALLETE Director Stock Plan.
- *+10(f) ADESA, Inc. 2004 Equity and Incentive Plan (filed as Exhibit 10.14 to ADESA's June 11, 2004 S-1/A, File No. 333-113499).
- *+10(g) ADESA, Inc. Director Compensation Plan (filed as Exhibit 10.15 to ADESA's June 11, 2004 S-1/A, File No. 333-113499).
- *+10(h) ADESA, Inc. Director Compensation Deferral Plan (filed as Exhibit 10.16 to ADESA's June 11, 2004 S-1/A, File No. 333-113499).
- *+10(i) ADESA, Inc. Employee Stock Purchase Plan (filed as Exhibit 10.17 to ADESA's June 11, 2004 S-1/A, File No. 333-113499).
- *+10(j) ADESA, Inc. (formerly ADESA Corporation) Supplemental Executive Retirement Plan and First through Fifth Amendments (filed as Exhibits 10.18 through 10.23 to ADESA's June 30, 2004 Form 10-Q, File No. 1-32198).
- *10(k) Credit Agreement, dated June 21, 2004, among ADESA, Inc., as Borrower, the Guarantors party thereto, as Subsidiary Guarantors, the Lenders party thereto and UBS Securities LLC and Merrill Lynch & Co., as Joint Lead Arrangers and Co-Bookmanagers, Bank One, N.A., General Electric Capital Corporation, Keybank National Association, SunTrust Bank and U.S. Bank National Association as Co-Documentation Agents, Merrill Lynch & Co., as Syndication Agent, UBS AG, Stamford Branch, as Issuing Bank, Administrative Agent and Collateral Agent, and UBS Loan Finance LLC, as Swingline Lender (filed as Exhibit 10.5 to ADESA, Inc.'s June 30, 2004 Form 10-Q, File No. 1-32198).
- *10(l) Second Amended and Restated Receivable Purchase Agreement, dated June 15, 2004, among AFC Funding Corporation, as Seller, Automotive Finance Corporation, as Servicer, Fairway Finance Company, LLC and such other entities from time to time as may become Purchasers thereunder, Harris Nesbitt Corp., as the Initial Agent and as Purchaser Agent for Fairway Finance Company, LLC and XL Capital Assurance Inc., as Insurer (filed as Exhibit 10.6 to ADESA, Inc.'s June 30, 2004 Form 10-Q, File No. 1-32198).
- *10(m) Amendment No. 1 to Amended and Restated Purchase and Sale Agreement, dated June 15, 2004, between AFC Funding Corporation and Automotive Finance Corporation (filed as Exhibit 10.7 to ADESA, Inc.'s June 30, 2004 Form 10-Q, File No. 1-32198).
- *10(n) Master Separation Agreement, dated June 4, 2004, between ALLETE, Inc. and ADESA, Inc. (filed as Exhibit 10.1 to ADESA, Inc.'s June 30, 2004 Form 10-Q, File No. 1-32198).

- 31(a) Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31(b) Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Section 1350 Certification of Periodic Report by the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

We are a party to other long-term debt instruments that, pursuant to Regulation S-K, Item 601(b)(4)(iii), are not filed as exhibits since the total amount of debt authorized under each such omitted instrument does not exceed 10 percent of our total consolidated assets. These instruments include the following:

- \$38,995,000 City of Cohasset, Minnesota, Variable Rate Demand Revenue Refunding Bonds (Minnesota Power & Light Company Project) Series 1997A, Series 1997B, Series 1997C and Series 1997D.
- \$35,105,000 Collier County Industrial Development Authority, 6.50% Industrial Development Refunding Revenue Bonds (Florida Water Services Corporation, formerly Southern States Utilities, Inc., Project) Series 1996.

We will furnish copies of these instruments to the SEC upon its request.

* *Incorporated herein by reference as indicated.*

+ *Management contract or compensatory plan or arrangement.*

(b) Reports on Form 8-K.

Report on Form 8-K filed June 1, 2004 with respect to Item 5. Other Events and Regulation FD Disclosure.

Report on Form 8-K filed June 16, 2004 with respect to Item 5. Other Events and Regulation FD Disclosure.

Report on Form 8-K filed June 22, 2004 with respect to Item 5. Other Events and Regulation FD Disclosure.

Report on Form 8-K filed July 1, 2004 with respect to Item 5. Other Events and Regulation FD Disclosure.

SIGNATURES

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

ALLETE, Inc.

August 6, 2004

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

August 6, 2004

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

EXHIBIT INDEX

Exhibit Number	
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BYLAWS OF

ALLETE, INC.

As Amended Effective July 20, 2004

BYLAWS OF
ALLETE, INC.

Section 1. The annual meeting of the shareholders of this Corporation for the election of Directors and the transaction of such other corporate business as may properly come before such meeting shall be held at a time and place anywhere within or without the State of Minnesota as may be designated by the Board of Directors on the second Tuesday of May in each year after the year 1923, unless such day is a legal holiday, in which case such meeting shall be held on the next day thereafter which is not a legal holiday or a Sunday.

Section 2. Special meetings of the shareholders of this Corporation may be called for any purpose or purposes at any time by the Chairman of the Board, by the President, by the Board of Directors or any two or more members thereof, the Executive Committee, or, in the manner hereinafter provided, by one or more shareholders as permitted under Minnesota law. The place of such special meetings shall be at the registered office of this Corporation in Duluth, Minnesota, or at such other place in Duluth as the Directors may determine.

Upon request in writing, by registered mail or delivered in person to the Chairman of the Board, the President, a Vice-President or Secretary, by any person or persons entitled to call a meeting of shareholders, it shall be the duty of such officer forthwith to cause notice to be given to the shareholders entitled to vote of a meeting to be held at such time as such officer may fix, not less than ninety (90) days after the receipt of such request. If such notice shall not be given within sixty (60) days after delivery or the date of mailing of such request, the person or persons requesting the meeting may fix the time of meeting and give notice in the manner hereinafter provided.

Notice of special meetings shall state the time, place and purpose thereof.

Section 3. Notice of every meeting of shareholders shall be mailed by the Secretary or the officer or other person performing the Secretary's duties, not more than sixty (60) days and not less than ten (10) days before the meeting, to each shareholder of record entitled to vote, at his or her post office address as shown by this Corporation's records; provided, however, that if a shareholder waives notice thereof before, at, or after the meeting, notice of the meeting to such shareholder is unnecessary. It shall not be necessary to publish notice of any meeting of shareholders.

No business may be transacted at an annual meeting of shareholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (c) otherwise properly brought before the annual meeting by any shareholder of the Corporation (i) who is a shareholder of record on the date of the giving of the notice provided for in this Section 3 and on the record date for the determination of shareholders entitled to notice of and to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section 3.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, such shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a shareholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of shareholders; provided, however, that in the event that the annual meeting is called for a date that is not within twenty-five (25) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs.

To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of such shareholder, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (iv) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (v) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

No business shall be conducted at the annual meeting of shareholders except business brought before the annual meeting in

accordance with the procedures set forth in this Section 3; provided, however, that, once business has been properly brought before the annual meeting in accordance with such procedures, nothing in this Section 3 shall be deemed to preclude discussion by any shareholder of any such business. If the Chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

Section 4. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business. In the absence of a quorum, any meeting may be adjourned from time to time.

Section 5. Meetings of the shareholders shall be presided over by the Chairman of the Board, if there be a Chairman of the Board present, otherwise by the President, or, if the President is not present, by a Vice-President, or if neither the President nor a Vice-President is present, by a Chairman to be elected at the meeting. The Secretary of this Corporation shall act as Secretary of such meetings, if present.

Section 6. Subject to the provisions of Article III of the Articles of Incorporation as amended, each shareholder entitled to vote shall be entitled to one vote for each share of voting stock held by the shareholder and may vote and otherwise act in person or by proxy at each meeting of shareholders.

Section 7. Any unissued stock of this Corporation, not or hereafter authorized, may be issued and disposed of by the Board of Directors at any time and from time to time, to such persons, firms,

corporations or associations, upon such terms and for such consideration as the Board of Directors may, in its discretion, determine, except as may be limited by law or by the Articles of Incorporation of this Corporation. Shares of the Corporation's stock may be certificated or uncertificated, as provided under Minnesota law. Certificates of stock shall be of such form and device as the Board of Directors may elect, and shall be signed by the Chairman of the Board or the President or a Vice-President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of this Corporation, but when a certificate is signed by a Transfer Agent or Registrar the signature of any such corporate officer and the corporate seal, if any, upon such certificate may be facsimiles, engraved or printed.

Section 8. The stock of this Corporation shall be transferable or assignable on the books of this Corporation by the holders in person or by attorney, and in the case of stock represented by a certificate on surrender of the certificates therefor. The Board of Directors may appoint one or more transfer agents and registrars of the stock. The Board of Directors may fix a time not exceeding sixty (60) days and not less than ten (10) days preceding the date of any meeting of shareholders as the record date for the determination of the shareholders entitled to notice of and to vote at such meeting, and in such case only shareholders of record on the date so fixed or their legal representatives shall be entitled to notice of and to vote at such meeting, notwithstanding any transfer of any shares on the books of the Corporation after any record date so fixed. The Board of Directors may close the books of the Corporation against transfer of shares during the whole or any part of such period.

Section 9. Subject to the provisions of Article III of the Articles of Incorporation of this Corporation, (1) the management of this Corporation shall be vested in a Board of Directors, the number of which

shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by affirmative vote of the majority of the Disinterested Directors, as defined in Article VII of the Articles of Incorporation, but the number of Directors shall be no less than nine (9) and no greater than fifteen (15), but no decrease shall have the effect of shortening the term of any incumbent Director. Directors shall be elected annually by the shareholders by ballot by a majority of all the outstanding stock entitled to vote, to hold office until their successors are elected and qualify; (2) subject to any rights then existing by applicable law with respect to cumulative voting, the shareholders at any meeting by a majority vote of all the outstanding stock entitled to vote, at an election of Directors, may remove any Director and fill the vacancy; (3) subject to the rights of the holders of any class or series of the then outstanding shares of voting capital stock of this Corporation, newly created directorships resulting from an increase in the authorized number of Directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by the shareholders or by the affirmative vote of a majority of the Disinterested Directors then in office, although less than a quorum. Directors so elected shall hold office for a term expiring at the time of the next annual election of Directors by the shareholders and until their successors are duly elected and qualify.

The Board of Directors, as soon as may be after the election in each year, shall elect from their number a Chairman of the Board and shall elect one of their number President of the Corporation, one of whom shall be designated the Chief Executive Officer of the Corporation, and shall also elect one or more Vice-President, a Secretary and Treasurer and shall from time to time appoint such other officers as they may deem proper. The same person may hold more than one office, except those of

President and Vice-President. The Board of Directors also may designate, from time to time, former Directors of this Corporation as Directors Emeritus, in recognition of their long and faithful service to this Corporation. Directors Emeritus shall have no duties or responsibilities in connection with the management of the Corporation.

The officers of the Corporation shall have such powers and duties, except as modified by the Board of Directors, as generally pertain to their offices respectively, as well as such powers and duties as from time to time may be conferred upon them by the Board of Directors.

The Board of Directors may, by unanimous affirmative action of the entire Board, designate two or more of their number to constitute an Executive Committee which, to the extent determined by unanimous affirmative action of the entire Board, shall have and exercise the authority of the Board in the management of the business of the Corporation, except the power to fill vacancies in the Board and the power to change the membership of or fill vacancies in said Committee. Any such Executive Committee shall act only in the interval between meetings of the Board, and shall be subject at all times to control and direction of the Board. By unanimous vote, the Board shall have the power at any time to change the membership of such Committee and to fill vacancies in it. The Executive Committee may make such rules for the conduct of its business and may appoint such Chairman and committees and assistants as it may deem necessary. A majority of the members of said Committee shall constitute a quorum.

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Corporation, except as may be otherwise provided in the Articles of Incorporation with respect to the right of holders of preferred stock of the Corporation to

nominate and elect a specified number of directors in certain circumstances. Nominations of persons for election to the Board of Directors may be made at any annual meeting of shareholders, or at any special meeting of shareholders called for the purpose of electing directors, (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (b) by any shareholder of the Corporation (i) who is a shareholder of record on the date of the giving of the notice provided for in this Section 9 and on the record date for the determination of shareholders entitled to notice of and to vote at such meeting and (ii) who complies with the notice procedures set forth in this Section 9.

In addition to any other applicable requirements, for a nomination to be made by a shareholder, such shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation.

To be timely, a shareholder's notice to the Secretary must be delivered to or mailed and received at the principal executive offices of the Corporation (a) in the case of an annual meeting, not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of shareholders; provided, however, that in the event that the annual meeting is called for a date that is not within twenty-five (25) days before or after such anniversary date, notice by the shareholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the date on which such notice of the date of the annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs; and (b) in the case of a special meeting of shareholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting was

mailed or public disclosure of the date of the special meeting was made, whichever first occurs.

To be in proper written form, a shareholder's notice to the Secretary must set forth (a) as to each person whom the shareholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder, (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder, (iv) a representation that such shareholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (v) any other information relating to such shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written

consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 9. If the Chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, the Chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

Section 10. Meetings of the Board of Directors shall be held at the times fixed by resolution of the Board, or upon call of the Chairman of the Board, the President, or a Vice-President, or any two Directors. The Secretary or officer performing his or her duties shall give two days' notice of all meetings of Directors, provided that a meeting may be held without notice immediately after the annual election, and notice need not be given of regular meetings held at times fixed by resolution of the Board. Meetings may be held at any time without notice if all of the Directors are present, or if those not present waive notice, either before or after the meeting. Notice by mailing to the usual business or residence address of the Director not less than the time above specified before the meeting shall be sufficient. A majority of the Board shall constitute a quorum. Less than such a quorum shall have power to adjourn any meeting from time to time without notice.

Section 11. Any and all officers of this Corporation may be required at any time to give bonds for the faithful discharge of their duties in such sum, or sums, and with such sureties, as the Board of Directors may determine.

Section 12. The term of office of all officers shall be until the next election of Directors and until their respective successors are chosen and qualify, but any officer may be removed from office at any time by the Board of Directors, unless otherwise agreed by agreement in writing duly authorized by the Board of Directors; and no agreement for the employment of any officer for a longer period than one year shall be so authorized.

Section 13. The officers of this Corporation shall have such powers and duties as generally pertain to their offices, respectively, as well as such powers and duties as from time to time shall be conferred upon them by the Board of Directors or the Executive Committee.

In case any officer of the Corporation who shall have signed any bonds or certificates of stock heretofore or hereafter issued by the Corporation, or attested the seal thereon, or whose facsimile signature appears on any bond coupon or stock certificates shall cease to be such officer of the Corporation before the bonds or stock certificates so signed or sealed shall have been authenticated, delivered or issued, such bonds or stock certificates nevertheless may be authenticated, delivered or issued with the same force and effect as though the person or persons who had signed same or attested the seal thereon, or whose facsimile signature appears thereon, had not ceased to be such officer of the Corporation.

The Corporation shall reimburse or indemnify each present and future Director and officer of the Corporation (and his or her heirs, executors and administrators) for or against all expenses reasonably incurred by such Director or officer in connection with or arising out of any action, suit or proceeding in which such Director or officer may be involved by reason of being or having been a Director or officer of the Corporation. Such indemnification for reasonable expenses is to be to the

fullest extent permitted by the Minnesota Business Corporation Act, Minnesota Statutes Chapter 302A. By affirmative vote of the Board of Directors or with written approval of the Chairman and Chief Executive Officer, such indemnification may be extended to include agents and employees who are not Directors or officers of the Corporation, but who would otherwise be indemnified for acts and omissions under Chapter 302A of the Minnesota Business Corporation Act, if such agent or employee were an officer of the Corporation.

Reasonable expenses may include reimbursement of attorneys' fees and disbursements, including those incurred by a person in connection with an appearance as a witness.

Upon written request to the Corporation and approval by the Chairman and Chief Executive Officer, an agent or employee for whom indemnification has been extended, or an officer or Director may receive an advance for reasonable expenses if such agent, employee, officer or Director is made or threatened to be made a party to a proceeding involving a matter for which indemnification is believed to be available under Minnesota Statutes Chapter 302A.

The foregoing rights shall not be exclusive of other rights to which any Director or officer may otherwise be entitled and shall be available whether or not the Director or officer continues to be a Director or officer at the time of incurring such expenses and liabilities.

Section 14. A Director of this Corporation shall not be disqualified by his or her office from dealing or contracting with this Corporation, either as vendor, purchaser or otherwise, nor shall any transaction or contract of this Corporation be void or voidable by reason of the fact that any Director, or any firm of which any Director is a member, or any

corporation of which any Director is a shareholder or director, is in any way interested in such transaction or contract, provided that such transaction or contract is or shall be authorized, ratified or approved either (1) by vote of a majority of a quorum of the Board of Directors or of the Executive Committee, without counting in such majority of quorum any Director so interested, or being a member of a firm so interested, or shareholder or a director of a corporation so interested, or (2) by vote at a shareholders' meeting of the holders of a majority of all the outstanding shares of the stock of this Corporation entitled to vote, or by a writing or writings signed by a majority of such holders, nor shall any Director be liable to account to this Corporation for any profit realized by the Director from or through any transaction or contract of this Corporation, authorized, ratified or approved as aforesaid, by reason of the fact that the Director, or any firm of which the Director is a member, or any corporation of which the Director is a shareholder or director, was interested in such transaction or contract; provided however, that this Corporation shall not lend any of its assets to any of its officers or Directors, nor to any of its shareholders on the security of its own shares. Nothing herein contained shall create any liability in the events above described or prevent the authorization, ratification or approval of such contracts or transactions in any other manner provided by law.

Section 15. The Board of Directors is authorized to select such depository or depositories as they shall deem proper for the funds of this Corporation. All checks and drafts against such deposited funds shall be signed by persons to be specified by the Chairman of the Board, by the President or a Vice-President of the Corporation with the concurrence of its Treasurer.

Section 16. The Board of Directors shall have power to authorize the payment of compensation to the Directors for services to this

Corporation, including fees for attendance at meetings of the Board of Directors, and to determine the amount of such compensation and fees.

Section 17. The corporate seal of this Corporation shall be in such form as the Board of Directors shall prescribe.

Section 18. The shareholders may alter or amend these Bylaws by a majority vote of all the outstanding stock of this Corporation entitled to vote at any meeting duly held as above provided, the notice of which includes notice of the proposed alteration or amendment. The Board of Directors may also alter or amend these Bylaws at any time by affirmative vote of a majority of the Board of Directors given at a duly convened meeting of the Board of Directors, the notice of which includes notice of the proposed alteration or amendment, subject to the power of the shareholders to change or repeal such Bylaws; provided that the Board of Directors shall not make or alter any Bylaws fixing their number, qualifications, classifications, or term of office, or changing the number of shares required to constitute a quorum for a shareholders' meeting.

The undersigned, Secretary of ALLETE, Inc., does hereby certify that the foregoing is a correct and complete copy of the Bylaws of ALLETE, Inc. effective as of July 20, 2004.

/s/ Deborah A. Amberg

Secretary

**AMENDMENT TO THE
ALLETE EXECUTIVE ANNUAL INCENTIVE PLAN**

The ALLETE Executive Annual Incentive Plan effective January 1, 1996, is amended as follows:

1. Effective July 20, 2004, Section 2.3. is amended to add the following at the end of the Section:

Notwithstanding the above, a Change in Control of the Company shall not occur as a result of the distribution by the Company to its shareholders of all of its shares of common stock of ADESA, Inc., representing its residual interest in ADESA, Inc., following ADESA, Inc.'s Initial Public Offering.

ALLETE, Inc.

By: /s/ Donald J. Shippar
Donald J. Shippar
President and Chief Executive Officer

Attest: /s/ Deborah A. Amberg
Deborah A. Amberg
Vice President
General Counsel & Secretary

**AMENDMENT TO THE AMENDED AND RESTATED
MINNESOTA POWER AND AFFILIATED COMPANIES EXECUTIVE
INVESTMENT PLAN I**

The Amended and Restated Minnesota Power and Affiliated Companies Executive

Investment Plan I effective January 1, 1988, is amended as follows:

1. Effective July 20, 2004, Section 2.1(f) is amended to add the following at the end of the Section:

Notwithstanding the above, a Change in Control of the Company shall not occur as a result of the distribution by the Company to its shareholders of all of its shares of common stock of ADESA, Inc., representing its residual interest in ADESA, Inc., following ADESA, Inc.'s Initial Public Offering.

ALLETE, Inc.

By: /s/ Donald J. Shippar
Donald J. Shippar
President and Chief Executive Officer

Attest: /s/ Deborah A. Amberg
Deborah A. Amberg
Vice President
General Counsel & Secretary

**AMENDMENT TO THE AMENDED AND RESTATED
MINNESOTA POWER AND AFFILIATED COMPANIES EXECUTIVE
INVESTMENT PLAN II**

The Amended and Restated Minnesota Power and Affiliated Companies Executive

Investment Plan II effective January 1, 1988, is amended as follows:

1. Effective July 20, 2004, Section 2.1(f) is amended to add the following at the end of the Section:

Notwithstanding the above, a Change in Control of the Company shall not occur as a result of the distribution by the Company to its shareholders of all of its shares of common stock of ADESA, Inc., representing its residual interest in ADESA, Inc., following ADESA, Inc.'s Initial Public Offering.

ALLETE, Inc.

By: /s/ Donald J. Shippar
Donald J. Shippar
President and Chief Executive Officer

Attest: /s/ Deborah A. Amberg
Deborah A. Amberg
Vice President
General Counsel & Secretary

**AMENDMENT TO THE
ALLETE EXECUTIVE LONG-TERM INCENTIVE COMPENSATION PLAN**

The ALLETE Executive Long-Term Incentive Compensation Plan effective January 1, 1996, is amended as follows:

1. Effective July 20, 2004, Section 2.4. is amended to add the following at the end of the Section:

Notwithstanding the above, a Change in Control of the Company shall not occur as a result of the distribution by the Company to its shareholders of all of its shares of common stock of ADESA, Inc., representing its residual interest in ADESA, Inc., following ADESA, Inc.'s Initial Public Offering.

ALLETE, Inc.

By: /s/ Donald J. Shippar
Donald J. Shippar
President and Chief Executive Officer

Attest: /s/ Deborah A. Amberg
Deborah A. Amberg
Vice President
General Counsel & Secretary

**AMENDMENT TO THE
ALLETE DIRECTOR STOCK PLAN**

The ALLETE Director Stock Plan (the "Plan") dated May 9, 1995 is amended as follows:

A new section X. F. "Tax Withholding" is added as follows:

The Company is authorized to withhold from the Annual Retainer including from the Stock Payment, amounts of withholding and other taxes due in connection with such payment by the Company and to take such other action as the Company may deem advisable to enable the Company and each Director or Participant to satisfy obligations relating to the payment of any Annual Retainer.

ALLETE, Inc.

By: /s/ Donald J. Shippar
Donald J. Shippar
President and Chief Executive Officer

Attest: /s/ Deborah A. Amberg
Deborah A. Amberg
Vice President
General Counsel & Secretary

**RULE 13a-14(a)/15d-14(a) CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald J. Shippar, President and Chief Executive Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2004 of ALLETE;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2004

/s/ Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

**RULE 13a-14(a)/15d-14(a) CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James K. Vizanko, Senior Vice President and Chief Financial Officer of ALLETE, Inc. (ALLETE), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2004 of ALLETE;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2004

/s/ James K. Vizanko

James K. Vizanko
Senior Vice President and Chief Financial Officer

**SECTION 1350 CERTIFICATION OF PERIODIC REPORT
BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned officers of ALLETE, Inc. (ALLETE), does hereby certify that:

1. The Quarterly Report on Form 10-Q of ALLETE for the quarterly period ended June 30, 2004 (Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ALLETE.

Date: August 5, 2004

/s/ Donald J. Shippar

Donald J. Shippar
President and Chief Executive Officer

Date: August 5, 2004

/s/ James K. Vizanko

James K. Vizanko
Senior Vice President and Chief Financial Officer

This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability pursuant to that section. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that ALLETE specifically incorporates it by reference.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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.