Defining A Broader Horizon

Our new name represents strategic growth on a wider scale

A landmark year for ADESA
See page 6
ALLETE is a multi-services company with a long, successful track record – and a new name. With major acquisition expansion in 2000, Automotive Services has become the growth engine of our corporation. Our Water Services group is driven by resourcefulness and environmental sensitivity. ALLETE Investments open a door to innovation. Together, our companies form an elite alliance that includes Minnesota Power, a low-cost, efficient electric utility serving some of the biggest industrial loads in the United States. Evolving, growing, serving – we are defining our future.

ALLETE's Automotive Services customers are auto dealers, manufacturers, fleet/lease firms and finance companies. ADESA is the second-largest vehicle auction network with 54 locations across North America. Automotive Finance Corporation, the premier provider of independent auto dealer inventory financing, operates in more than 80 locations. Great Rigs, Inc., transports vehicles to and from auctions. PARI North America assists leasing agents and finance professionals in transporting, remarketing or liquidating off-lease vehicles. AutoVIN provides real-time information to the automotive industry.

WATER
ALLETE operates the largest investor owned water and wastewater utilities in Florida and North Carolina, as well as nonregulated businesses that serve water utility companies and other industrial businesses. Florida Water Services serves 152,000 water customers and 73,000 wastewater customers. There are 44,000 water customers and 5,000 wastewater customers at Heather Utilities in North Carolina. Non-regulated subsidiaries include Americas’ Water Services and Instrumentation Services, Inc.

INVESTMENTS
ALLETE Investments include a short-term securities portfolio and several investments in emerging technologies critical to the future of the utility industry. The company also has invested directly in companies developing distributed generation and fuel cell technology. ALLETE owns or controls companies that market land in four locations in Florida; Palm Coast and Sugarmill; and a yachting community: A golf course and a yachting community; Allete City; Serving the Good Life: ALLETE’s Water and Wastewater Utilities.

UNLIMITED FUTURE. SOLID TRACK RECORD.

ALLETE, 30 W. Superior St., Duluth, MN 55802
218-279-5000
Minnesota Power, 30 W. Superior St., Duluth, MN 55802
218-722-2641
ADESA, 301 W. 96th St, Indianapolis, IN 46240
317-815-1000
AFC, 310 E. 96th St., Suite 300, Indianapolis, IN 46240
407-598-4100
Heater Utilities, 202 Maxwell Ct, Cary, NC 27519
919-462-7254
ALLETE Properties, 262 E. Joel Boulevard, Lehigh, FL 33792
941-368-5449

FINANCIAL HIGHLIGHTS

Operating Revenue
Net Income
Diluted Earnings Per Share of Common Stock
Average Shares Outstanding
Dividends Per Share of Common Stock
Total Assets
Return on Common Equity

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Operating Revenue</td>
<td>$1,331.9</td>
<td>$1,131.8</td>
<td>$1,331.9</td>
<td>$1,131.8</td>
<td>$1,039.3</td>
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<tr>
<td>Net Income</td>
<td>$118.2</td>
<td>$104.2</td>
<td>$148.6</td>
<td>$68.0</td>
<td>$68.5</td>
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<tr>
<td>Diluted Earnings Per Share of Common Stock</td>
<td>$1.67</td>
<td>$1.49</td>
<td>$2.11</td>
<td>$0.97</td>
<td>$1.35</td>
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<td>Average Shares Outstanding</td>
<td>70.1</td>
<td>68.7</td>
<td>70.1</td>
<td>68.7</td>
<td>64.2</td>
</tr>
<tr>
<td>Dividends Per Share of Common Stock</td>
<td>$1.07</td>
<td>$1.07</td>
<td>$1.07</td>
<td>$1.01</td>
<td>$0.02</td>
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<tr>
<td>Total Assets</td>
<td>$12,914.0</td>
<td>$10,212.6</td>
<td>$14,814.0</td>
<td>$6,212.6</td>
<td>$2,208.9</td>
</tr>
<tr>
<td>Return on Common Equity</td>
<td>13.6%</td>
<td>12.9%</td>
<td>17.1%</td>
<td>8.3%</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

*In May 2000 ALLETE sold its investment in ACE Limited (ACE) common stock, which resulted in an after-tax gain of $3.4 million, or $0.44 per share. The ACE shares were received in December 1999 upon completion of ACE’s merger with Capital File Corporation (Capital File). During 1999 ALLETE recorded an after-tax net gain of $36.2 million, or $0.33 per share, after tax non-cash charge in connection with the valuation and exchange of its investment in Capital File for the ACE shares.

11 BUILDING THE GOOD LIFE
A golf course and a yachting community: turning ALLETE Properties into elite properties.

14 INVESTING IN TOMORROW
Fuel cells, microturbines and electrotechnology.

15 CONSERVATION: THE WATCHWORD

19 SECURITIES AND EXCHANGE COMMISSION FORM 10-K

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941-368-5449
A LETTER TO OUR SHAREHOLDERS

“By nearly every measure of financial performance, we had a very successful year.”

I am proud to write to you this year as the chief executive officer of ALLETE. Our new name reinforces our continuing transformation to a multi-service company with diverse strengths in basic necessities, such as cars, electricity, water and real estate. The innovative “magazine” format of this year’s annual report is but one example of the creative talents and resources of the employees in this company. Also, at year’s end, I liked the price of our stock more than I did last year. Our total shareholder return topped 54% for 2000. By nearly every measure of financial performance, we had a very successful year. But we have more to do.

We are on a path to create a larger, more valuable business for you. We understand that our credibility is based in large part on how we perform, not just what we say. That being said, you can expect us to pay attention to the solid underpinnings of performance: discipline in our investment decisions, cash flow management, profit margin improvement and wise growth. And what strengths we have to build upon. We are:

- Among the lowest cost power producers in the United States;
- The largest investor owned water and wastewater utility in two of the fastest growing states;
- The second largest automobile auction company in the industry;
- The largest provider of floorplan finance to the independent vehicle dealer; and
- Through our positions in real estate and investments we are able to provide cash resources to support our expansion.

2000 was a “prove it” year and we did. As you read through this report you will learn that we continued to grow cash flow from operations and grew our operating earnings per share by 12 percent. We also spent more than $300 million on new initiatives, including the addition of 28 auctions that doubled the size of ADRSA. In addition, we became North America’s third largest provider of “total loss” vehicle recovery services. You will also see how the accomplishments in our automotive finance, in real estate and in our water and energy services businesses have been some of the most significant in our history. With our rapid growth and strong market positions, we ARE the competition.

We have challenges ahead. It takes time to change the market perception of a company. Our stock currently tracks with utility sources. The market needs to see more proof before recognizing us as a multi-services company. We see this evolution as one of our most important goals. Because, as much as we love the name change and feel it reflects the company’s future, we know there is more to do in redefining ourselves so that others realize the full value in our combined businesses. Margin improvements and further growth in cash flow will be the name of the operating game in 2001. Acquisitions are only part of the long-term strategy. The rest of the story is integrating those acquisitions successfully.

No one can dispute the pervasive influence information technology has had in the way we all operate. Our challenge is to integrate the strengths of our powerful, well-positioned businesses with intelligent technology initiatives that support our customers. Read on to see what we are doing in information technology as well as some new emerging technologies in our businesses.

An important part of the fabric of ALLETE is the individual commitment of our employees. We measure ourselves by more than income statements, balance sheets and stock performance. We measure ourselves by what we give back to our communities. ALLETE’s employees contribute to their neighborhoods and lift those in need. Read about Carlyn Kowalsky, (see page 17) an employee at Florida Water Services. Our own Minnesota Power donated more than $1 million this past year to non-profit organizations. Employees at Automotive Finance Corporation gave of their time and money to the Care Center in Indianapolis helping inner city families. ADRSA Boston employees raised funds for Boston’s Children’s Hospital. These are only a few of many examples but are proof positive that our employees are committed to giving back.

The past year is only the beginning. We remain committed to continuous improvement and to significant growth. The financial strategy of the corporation is to strengthen our balance sheet and cash generating capabilities so we will be in a position to take action when growth opportunities become available. Staying the course for us means staying focused, disciplined and attuned to significantly increasing shareholder value.

Thank you for your investment in ALLIETE.

Sincerely,

Edward L. Russell, Chief Executive Officer

A LETTER TO OUR SHAREHOLDERS

Business growth trend leads to better balance

Revenue expanded in all four business segments in 2000, while net income increased in Automotive Services, Water Services and Investments.

2000 Assets by Business Segment

ALLETE Operations

OUR DIVERSIFIED BUSINESSES

Energy
- Minnesota Power
- Superior Water
- Light and Power
- MPX
- MPX Enterprises
- MIP-1
- Electric Odyssey
- MIP-Palston

Automotive
- ADRSA
- Automotive Finance Corporation
- Great Rigs
- PAR: North America
- AutoVIN

Water
- Florida Water Services
- Emerging Technologies
- Heater Utilities
- Americas’ Water Services
- Instrumentation Services

Investments
- Securities Portfolio
- Emerging Technologies
- Real Estate
- Laguna
- Euro

ALLETE AT A GLANCE


Net Income
$546.4 $406.6 $328.4

WATER

Operating Revenue
$112.9 $95.6

INVESTMENTS

Operating Revenue
$57.8 $55.5

ENERGY

Operating Revenue
$77.4

Operating Revenue
$95.6

AUTOMOTIVE

Operating Revenue
$29.6

* Excluding the $30.4 million gain associated with the ACE transaction, 2000 net income from Investments was $35.3 million. Excluding the $32.2 million non-cash charge associated with the Capital Re transaction, 1999 net income from Investments was $64.0 million.

This annual report contains “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Such statements should be read with the cautionary language and important factors included in the Annual Report and Form 10-K on page 22.
Transformation of the corporate image was highlighted by the installation of new signs at headquarters offices in Duluth, Minnesota. “An ALLETE company” was added to the Minnesota Power emblem, a fixture of the downtown Duluth skyline.

To change a corporate identity was a big step, but not to change it was a bigger risk. The corporation became ALLETE, and the energy company retained its strong brand.

On September 1, 2000, a brand new ticker symbol scrolled before traders on the New York Stock Exchange — ALE. It signified a new name, ALLETE, for a well-established corporation. And it symbolized the rebirth of a company formed 85 years earlier as the consolidation of several electric power companies serving northern Minnesota.

Executives of Minnesota Power, Inc. announced the new name and logo to the public August 8, culminating several months of preparing for a new corporate brand.

But the real transformation of the business started years earlier. A diversification effort launched with the purchase of a telephone company in the early 1980s and followed by investments in water utilities, real estate and automotive services had reached critical mass. As the millennium drew to a close, profits from the diversified orbits of the corporation began to outpace earnings from the traditional electric utility base.

The balance tipped even further during the summer of 2000. In the span of a few short weeks, Automotive Services engineered two major acquisitions that brought 22 additional auto auctions to what was already the fastest-growing network of vehicle remarketing outlets in North America — ADESA.

What’s in a name? For a publicly traded corporation — everything. A company’s name must define, describe and brand its purpose. The name Minnesota Power, Inc., though memorable and highly descriptive, no longer described the company accurately. It defined only a portion of the business. As the corporation grew further beyond its roots, the name Minnesota Power tended to mislead business partners, shareholders and potential investors.

Senior management realized it could no longer afford to let its corporate brand leave the wrong impression with the investment community. The corporation had already undergone dramatic change. To go forward without a new brand, it risked being unrecognized for its innovation, foresight and agility in a time of dramatic change.

Market insiders perceived MP&L as a utility company confined to one state. Loyal shareholders were shortchanged by the ubiquitous use of a symbol that stood for what was formerly known as Minnesota Power & Light.

Late summer was a busy time as the distinctive new logo was embroidered on clothing, placed on new stationery and branded on company advertising. A new web site — www.allete.com — was up and running on September 1. The subsequent unveiling of ALLETE was announced at an August 8 press conference in Duluth; within minutes news of the new brand was buzzing on wire services worldwide.

Eastern Minnesota Power will continue as the name of ALLETE’s Duluth-based electric operations. It’s a recognizable brand with a long history of accomplishment in northeastern Minnesota. Once again, this venerable name accurately describes the home base and core business of a dynamic and growing electric utility.

Shareholders of ALLETE will be asked to approve changing the company’s legal name at their annual meeting in Duluth, Minnesota May 8, 2001.
THE ONE TO WATCH

ADESA is still number two, but a year ago there were four major automotive auction companies. Now, just two stand alone at the top.

S

HERMIC SHIFTS TRANSFORMED THE auto auction world in 2000, and ADESA was a major mover and shaker. At the close of a landmark year, the auto remarketing arm of ALLETE Automotive Services had added 28 auctions, secured a preeminent position in Canada, grown its share of the “total loss” recovery auction niche and gained entrance to important vehicle markets in the United States.

ADESA’s acquisition of International Vehicle Importers, Inc. (IVI) further enhanced the auction company’s Canadian-American presence. ADESA subsidiary ADESA Importation Services, Inc, acquired all of IVI’s assets and those of its affiliated companies. IVI is the second largest registered, independent commercial importer of vehicles in the United States. It provides a full range of services, including marshalling, transportation, brokerage, titling and tax processing. This new ADESA company also specializes in the conversion of metric odometers and speedometers to a miles-based system.

ADESA Canada completed its purchase of the remaining 53 percent of Impact Auto Auctions, Canada’s largest provider of “total loss” vehicle recovery services. In early 2001, ADESA purchased the assets of Auto Placement Center, Inc., which owns eight salvage auctions in New England, and the stock of ComSearch, Inc., which locates auto parts on the Internet and provides insurance adjustment audits.

What it means for ADESA and ALLETE

The auctions acquired by ADESA in 2000 sold more than 650,000 vehicles and brought in more than $200 million in revenue in the 12 months before their acquisition. By nearly doubling in size, ADESA not only increases its sales potential by hundreds of thousands of vehicles per year, it expands its footprint into markets previously untouched by the company’s vaunted “spirit of service.” Other ALLETE automotive services should also see significant growth as Automotive Finance Corporation gains access to new dealer finance opportunities. Great Rigs adds more auction locations to its transport network and PAR North America is able to expand the scale of its remarketing services.

ADESA’s automotive segment should contribute a higher proportion of revenue and earnings to the corporation. The

More than 1.3 million vehicles were sold at ADESA auctions in 2000, a 27 percent increase over the number sold in 1999. With the auction network roughly doubling in size during 2000, sales should continue to climb.

Hallett said in a news release. “Strategically, the Phoenix, San Francisco and Seattle auctions complement our ADESA facilities in San Diego, Los Angeles, Sacramento, Vancouver and Calgary. The three Florida locations boost our presence in that state.”

During 2000, ADESA also acquired two auctions in Arkansas and another in Ocala, Florida, bringing its full North American auction network to 54 facilities. Manheim, a subsidiary of Cox Enterprises, has approximately 90 automotive auctions.

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ADESA’s automotive segment should contribute a higher proportion of revenue and earnings to the corporation. The
2001 and beyond: The used vehicle outlook

The wholesale auto industry is expected to continue its volume growth. According to National Auto Dealers’ Association data, the percentage of used vehicles retailed by franchised dealers that were sourced at auction grew from 6 percent in 1982 to about 33 percent in 1999. Much of that growth is attributable to the strong expansion of consumer leasing of automobiles. The effects of high off-lease volume should continue to be felt in 2001 and beyond, in large part due to record new-car sales years in 1999 and 2000.

Consumers now lease approximately one in four of all new vehicles in the United States, a total volume that exceeded 4 million units in 2000.

Although many are predicting a cooling of the economy and a slowdown in new vehicle sales, most experts predict that used vehicle auctions will continue to thrive. In an economic downturn, used vehicles become more attractive because of their lower price. Auto auction business can improve during a slowing economy because dealers may utilize auction services more frequently to manage tighter inventories and cash flow.

No matter how the national economy may influence the automotive business, one thing is certain. Even though the vehicle auction industry has changed forever, one key component has remained the same: ADESA is still the one to watch.

AFC boosts receivables to more than $400 million

795,000 vehicles financed at more than 80 offices

Major consolidation in the used vehicle auction world does not threaten the upward mobility of Automotive Finance Corporation, the largest exclusive provider of dealer floorplan financing to independent auto dealers. AFC, a subsidiary of ALLETE, increased the value of the receivables it manages by 27 percent in 2000, to $430 million. AFC ended with a full record year, financing 795,000 vehicles compared to 695,000 in 1999.

AFC has built strong relationships with the independent auto dealer. This solid base provides AFC with additional opportunities to help its customers succeed in offering new products.

These products include dealer tools for consumer loans, inventory management, finance module and lead generation to increase automotive sales.

AFC has made and will continue to seek out investment opportunities, add additional building blocks to the variety of services it wants to make available to its customers.

AFC launched its new computer application, COSMOS (an acronym for computer operating system managing our success) in October 2000. COSMOS, an Oracle based system, follows the loan from origination to payoff and allows AFC to better manage its business, while expediting dealer services through its branch network to over 15,000 registered dealers.

AFC took initial steps to move 15 loan production offices (LPOs) from the ADT Automotive Auctions that were acquired by Manheim. These moves were completed by January 31, 2001. AFC’s branch network consists of more than 80 offices in North America. Of these locations, 23 are operated independent of auctions. Our outstanding LPOs are just as profitable as our offices located in auctions and afford more buying opportunities for our dealer base.

AFC, a 1999 AFC acquisition, provides inventory verification (“lot checks”) for AFC as well as other customers.Using advanced technology, AutoVIN provides vehicle condition reporting and vehicle inspections as well as lease turns-ins at the customer’s home. Data is collected on handheld computers and delivered to customers instantaneously via the Internet. AutoVIN expanded its facility inspection services in 2000 to include dealers selling other products, such as motorcycles and lawn equipment.

While “lot checks” are still the core of AutoVIN’s business, their growth potential is dramatically increased by providing inspection services for other products. The integration of these new components strengthens a value-added menu of services to dealers across AFC’s customer base.

Meeting the challenges of a market-based system

Changing electric industry landscape

AFC Rental Sales Manager Wayne Yecum with Stacey Johnson, branch assistant, at AFC Indianapolis.

To keep pace in an ever-changing electric utility environment, Minnesota Power is creating dynamic partnerships, expanding its generation base and tackling difficult transmission constraints.

“The electricity market today can be very rewarding and it can be very punishing,” says Bob Edwards, President and CEO of Minnesota Power. The electric utility segment of ALLETE is working to reward investors and satisfy customers while avoiding the pitfalls of a volatile marketplace.

Minnesota Power is also investing considerable manpower and resources in exploring the uses of emerging technologies in the future energy marketplace. From fuel cells to microturbines (see page 14), Minnesota Power is pursuing leading edge solutions. Minnesota Power is moving on several fronts to improve its relationships with longstanding customers while anticipating further rapid change.

A great example of forging opportunities while hedging risk is evidenced by the creation of Split Rock Energy.

Split Rock is a unique alliance between Minnesota Power and Great River Energy, a member-owned electric cooperative based in Elk River that is Minnesota’s second-largest generator of electricity.

The alliance is intended to provide the lowest-cost energy to its partners, better manage risk and efficiently dispatch generated and purchased power. MPEX, Minnesota Power’s power marketing division, is the exclusive marketer and trader of power for Split Rock Energy. Split Rock helps protect alliance members from large price increases that could result from generating unit failures during periods of extreme price volatility.

The Mid Continent Area Power Pool accepted Split Rock as a transmission-using member, allowing Split Rock to assume regional responsibility for the electric loads of both Minnesota Power and Great River Energy.

Minnesota Power and Great River Energy have been able to consolidate their purchased-power billing and data management functions. Alliance members are saving on insurance to protect against generation outages in the volatile summer power pool season. New risk management strategies developed for Split Rock by Minnesota Power are expected to offer additional protection against market volatility.

To further boost its power capacity, Minnesota Power built a new 240-megawatt peaking plant from a new-fangled generating plant now under construction at Lakefield in southwest Minnesota. The new megawatt peaking plant, known as the Lakerfield Junction Project, will be owned by Great River Energy and is expected to be completed in May 2001. The six combustion turbines will be fueled by natural gas.

Minnesota Power operates three of the generating units for the summers of 2001 and 2002 and of one unit during the winter months of 2001 and 2002. The new plant will give MPEX more peaking capacity to be managed for the Split Rock alliance members.

Closer to its home base, Minnesota Power signed an agreement with long-time customer, Alpine Corp., to build a 24-megawatt turbine generator at the

Minnesota Power a founding member of Enporion

Minnesota Power was a founding equity member of Enporion, Inc., an internet-based equipment exchange for the energy industry. The partnership is focused on the economical purchase of supplies — from office equipment to natural gas.

Enporion conducted its first transaction in October of 2000. In November, Minnesota Power accepted online requests for proposals to manage vegetation along 10 transmission lines. The auction resulted in the company saving 23 percent over traditional methods of obtaining the service, according to Claudia Scott Welty, ALLETE’s Vice President of Information Technology. Welty is on the interim board of directors of Enporion, whose founding members include Allegheny Energy, Inc., AEP, Ameren Corp., CMS Energy, KeySpan Corp. and UI Corp..
Potlatch facility in Cloquet, Minnesota, Power will own the turbine generator and have access to its excess power in times of high demand. Potlatch will operate and maintain the facility.

Through cogeneration, steam used for Potlatch’s industrial processes will also be used to produce electricity. A blend of natural gas and wood wastes from the plant will fuel the generator, which is expected to be online in the summer of 2004.

Minnesota Power also purchased Blanding Paper Co’s steam and electric generating facilities at the Blanding paper mill in Grand Rapids, Minnesota, and added new boiler equipment to serve Blanding’s future steam needs. Minnesota Power is now operating the refurbished generating equipment as well as procuring natural gas for the Blanding facility. Minnesota Power continues to furnish retail electric power to the plant.

As demand increases and the siting of new base load generating plants becomes more difficult, Minnesota Power values its agreements with industrial customers who provide access to their generation for mutual backup in the event of a generator outage. Other innovative arrangements with customers promote load reductions during periods of high electric use.

Minnesota Power is considering options for developing a natural gas-fired generating plant near Superior, Wisconsin.

Minnesota Power subsidiary Rainy River Energy signed a 15-year agreement in 1999 to purchase 275 megawatts of electric power from a natural gas-fueled generating plant near Superior, Wisconsin. This line, endorsed by the Wisconsin Reliability Assessment Organization and the former Wisconsin governor, among others, has undergone an extensive application process, public review and hearings.

The proposal has sparked lively debate among many interest groups in Minnesota and Wisconsin. Depending upon siting and regulatory processing, the line could be in service in 2004 at an estimated cost of $125-$175 million. The Wausau-Duluth line will strengthen the regional network of power lines and help reduce the electric system’s vulnerability to disturbances.

Now that wholesale power markets are deregulated in most regions, electric prices can rapidly escalate from the traditional rates of $20-$30 per megawatt-hour to well over $5,000 per megawatt-hour. California’s legislature was among the first to deregulate retail electric rates. The law required California’s investor-owned utilities to sell their power plants and buy wholesale power, but capped the prices they could charge customers. When energy prices began to spiral upward last year, utilities were unable to raise their rates and were threatened with bankruptcy. Power shortages early in 2001 led to rolling blackouts in California and emergency orders from the federal government.

Minnesota’s retail rates are among the lowest in the country. Minnesota Power is making deliberate, practical and strategic moves to ensure a reliable and economical marketplace for electric power in the communities it serves.

### Electric Odyssey opens two new stores, ships two million catalogs

**T**he Electric Odyssey opened new stores in the Southdale and Ridgedale shopping malls in suburban Minneapolis, shipped two million catalogs and expanded its online Cyberstore in 2000. ALLETE’s innovative retail concept now combines three “bricks and mortar” stores, a nationwide catalog operation and an online store located at www.electricodyssey.com.

The Electric Odyssey offers a wide array of gifts, health devices, distinctive products for the home and other electric wonders.

### Turning raw land into housing units — and Copperhead

Israelson, whose home base is Prior Lake, MN, spent the weeks before Christmas 2000 directing a small army of landscapeers, golf course designers and landscapers, turf professionals and workmen putting the finishing touches on Copperhead Golf Club, located on a hilly wooded parcel in Lehigh, Florida.

Developer Warren Israelson, Golf Course Superintendent Hugo Smith and course designer Gordy Lewis putting finishing touches on Copperhead Golf Course in Lehigh, FL.

Stout, whose upscale residential development projects in Florida date back more than 20 years, purchased Cape Harbour from ALLETE Properties’ subsidiary Cape Coral Holdings, Inc., at the beginning of 2000. What Stout bought from ALLETE represented the largest single-asset real estate deal in the city of Cape Coral’s history. Cape Harbour is situated on deep-water canals off the Caloosahatchee River, which drains into the Gulf of Mexico.

“It’s been a childhood dream of mine to develop a marina community like this. Essentially from scratch,” Stout was quoted as saying shortly after his purchase. “There aren’t any other communities like this one, everything else has already been developed on the Gulf Coast side. This is the last of its kind. It’s incredible.”

When completed, Stout’s project will include more than 300 luxury homes as well as a 76-slip marina to accommodate boats up to 70 feet in length. He’s also constructing a clubhouse with swimming pool and tennis courts as well as architecting some limited commercial development.

Stout and his team have already completed numerous site improvements that embellish separate gated communities surrounding the marina. Harbor Preserve, where Stout plans to build a 16,000-square-foot house of his own, will feature a 35-acre nature preserve, oversized waterfront lots and two- or three-story Mediterranean home packages that will begin at about $1 million.

### Building the good life

At ALLETE Properties in desirable Florida locations, developers build their vision of the good life

### Turning raw land into housing units — and Copperhead

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TODAY: Future Technology

MP Telecom grows network, expands services

As its new fiber optic network connected most of Minnesota and portions of neighboring Wisconsin, MP Telecom set out to provide customers with the high-tech flexibility demanded of this digital age.

The telecommunications subsidiary of ALLETE began installing advanced Internet Protocol (IP) and Asynchronous Transfer Mode (ATM) services on its fiber optic network, which now extends to southern Minnesota. ATM is a technology that carries voice, video and data over a single network connection.

MP Telecom was designated a Cisco Powered Network, and the new ATM services will feature switches, transport platforms, routers and access servers made by Cisco Systems, public schools, libraries and numerous other educational organizations.

Our customers will benefit from several new services, including high speed wide-area network connections, voice over the corporate IP network, unified messaging (combined phone-mail, e-mail and fax), computer video applications, and, in the future, multimedia applications.

MP Telecom signed a contract to provide advanced ATM services across northern Minnesota through a consortium known as the Northeast Wide Area Network, or NEWAN. The consortium will be using MP Telecom’s ATM network to serve universities, colleges, public schools, libraries and numerous other educational organizations.

It means that kindergarten students in one community can hear a teacher’s voice and see her on video hundreds of miles away. It allows libraries and colleges to receive advanced voice, video and data applications over a single “pipe,” in an efficient and cost-effective way.

This new service, riding on top of MP Telecom’s new fiber network of 1,500 route miles, will benefit many businesses and organizations in the region.

MP Telecom completed its linking of 11 regional markets in 2000, and is completing fiber routes that include the St. Paul metro area, Twin Cities suburbs, Rochester and Winona and across the Minnesota border to Eau Claire, Wisconsin.

In December of 2000, MP Telecom initiated a plan to overlay its fiber network with Dense Wave Division Multiplex, a technology that will increase bandwidth and provide a new set of advanced “wavelength services” to its carrier customers.

MP Telecom, in partnership with New Edge Networks, now offers Digital Subscriber Line (DSL) Internet access to business customers in Duluth. DSL allows Internet access over copper telephone lines at speeds up to 35 times faster than traditional modems.

Immersed membranes mean cleaner water

Open a hatch and look down into Florida Water’s new Zenon plant on Marco Island, FL. The view resembles spaghetti in the rinse cycle of a washing machine. In reality, it’s a high-tech way of purifying drinking water.

Installed about a year ago at one of the two filtration plants on Marco Island, the new system uses ZeeWeed® immersed membranes to treat drinking water. It’s a proprietary process developed by a Canadian firm, Zenon, which produces high quality water by drawing raw water through immersed ultra-filtration membrane modules. The hollow-fiber membranes, which are suspended from large cassettes, form an absolute barrier to particulars, ensuring the removal of a large percentage of impurities.

The new system provides an extra level of filtration to the drinking water in this tropical isle off the southwest coast of Florida, and adds 1.67 million gallons a day to the treatment capacity of the facility, according to Frank Kane, Florida Water’s lead operator at the plant. Florida Water serves a population of 13,000 people that swells to about 36,000 during the height of the tourist season on Marco Island. Florida Water Services also treats the island’s wastewater.

Raw water that flows to the Zenon plant is piped from freshwater lakes more than 10 miles away. The filtration membranes operate under a slight vacuum created within the hollow fibers by a diffusing pump. The treated water is drawn through the membranes, enter the hollow filters and is pumped out to the distribution system.

Air introduced at the bottom of the membrane modules creates turbulence, which scrubs and cleans the outside of the filters. This aeration also oxides iron and organic compounds, resulting in better treated water quality.

Florida Water’s Area Supervisor Mike Switzer said lime softening and sand filters are still used to purify water before it’s piped into the Zenon equipment. But Florida Water environmental personnel recognize that as stricter drinking water standards are imposed, sand filter filtration will be phased out.

Cassettes of membranes can be immersed in existing concrete tanks, thereby saving future construction costs. The same technology can also be applied to wastewater treatment. A Zenon plant that filters wastewater is now reaching 255,000 water and wastewater customers, Florida Water is demonstrating that, through technology, good science can translate into good business.

Our deployment of top-line technology is nothing new. A second Florida Water filtration plant on Marco Island utilizes a modern reverse-osmosis system to transform brackish water into pure drinking water. This five million gallon per day facility is the largest continuously operating desalination plant treating the highest-salinity water in the United States.
fuel cells, solar energy and high-tech battery technology may seem like great investments for an electric utility’s future.

For Minnesota Power, ALLETE’s electric business in Florida, the future is now.

Since 1985, Minnesota Power has invested more than $38 million in start-up funds. When it became a charter member of the International Technology Consortium in emerging technologies in 1985, Minnesota Power increased its financial commitment and set up a project team for closer evaluation.

These investments keep Minnesota Power on the leading edge of technology and they hold the promise of bringing significant financial returns.

The Company made its initial investment in emerging technologies in 1985, when it became a charter member of the Utech Venture Capital Corp, managed by Arcte Corp. Subsequent investments by Minnesota Power expanded into other funds.

These investments matched entrepreneurial capital with scientists and inventors developing electrotechnologies, renewable energy systems, micro generations, information systems, energy management, and power quality devices.

The following high-tech companies in which the funds have invested recently completed initial public offerings of stock in 2000.

**ALLETE closes out its reinsurance investment**

In May of 2000 ALLETE recorded a $30.4 million after-tax gain on the sale of its 47.7 million shares of ACE Limited, a reinsurance company listed on the New York Stock Exchange. ALLETE received the ACE shares and $25.1 million in cash in December 1999 when Capital Re Corporation merged with ACE. The merger resulted in a $36.2 million after-tax non-cash charge recorded by ALLETE in 1999. Prior to the merger, ALLETE owned 7.3 million shares, or 20 percent, of Capital Re.

**EYES ON THE FUTURE**

**TECH INVESTMENTS: venturing into our energy future**

Capstone Turbine Corp. (Nasdaq: CPST) a micro-turbine manufacturer specializing in environmentally friendly distributed power generation systems.

Ceratax Corp. (Nasdaq: CHTX), a designer and manufacturer of products that transmit, switch, and manage communication traffic as optical power.

Hydrogenics (Nasdaq: HYSG), a designer and systems integrator of fuel cell and related technology.

Evergreen Solar Inc. (Nasdaq: ESLR), a manufacturer of polycrystalline solar cells grown continuously to finished size.


Proton’s generators produce hydrogen from electricity and water in a very efficient process using proprietary technology.

Proton is manufacturing and delivering its hydrogen generators to customers for commercial use. Proton’s generators, fuel cell systems, currently in development, will combine Proton’s hydrogen generation technology with a fuel cell for electric generation.

Proton issued 7 million shares of stock in a September 29, 2000, initial public offering and has 32 million total shares outstanding.

Metallic Power, Inc., is developing zinc-air fuel cells, which will be used in place of batteries or small combustion engines. A prototype device employed its zinc-air fuel cell technology to operate a variety of power tools.

Upcoming tests will address applications such as providing backup power for telecommunications or residences, auxiliary power for long-haul trucks and mobile power for electric vehicles.

We have also invested in Larex, Inc., which produces and markets specialty natural compounds from trees to serve the health sciences and consumer markets using a patented process.

For Minnesota Power, ALLETE’s electric business in Florida, the future is now.

**CAPITAL RE MERGES WITH ACE LIMITED**

ALLETE closes out its reinsurance investment...
We're Preserving Water From The Ground Up.

vation techniques. The site of the 2,300-square-foot house was chosen with the idea of maximum solar gain, because it’s located in Duluth, Minnesota — one of the nation’s coldest cities. One goal was to heat and cool the Millennium Star for less than $300 per year.

By late January of its first heating season, the bill was under $140. In a typical Duluth house of a similar size, the annual heating bill would range up to $1,000 annually.

The Millennium Star project evolved from a state of Minnesota mandate requiring investor-owned utilities to spend a portion of their retail electric revenue on Conservation Improvement Programs (or CIPs). Minnesota Power planners believe the demonstration house is the first project of its kind approved for CIP funding by the Minnesota Department of Public Service. They are also stunned by the intense public reaction to the project.

Minneapolis Power’s Dean Talbott quizzes kids on solar power. Upper right: Phoebe Pearson, 9, of Homecroft School in Duluth focuses her brainpower on saving energy.

By year’s end, an estimated 10,000 people had toured the Millennium Star. “What really surprised us is the number of schools that wanted to set up visits,” says Dean Talbott, a Minneapolis Power customer service representative who has spearheaded the Millennium Star project. “We hadn’t really planned on making the house available to them, but school officials began contacting us last spring asking about field trips.”

Many other groups and individuals flocked to the super-efficient house constructed in Duluth, Minnesota.
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