



## ALLETE Reports Second Quarter Earnings

Duluth, Minn. — ALLETE, Inc. (NYSE: ALE) today reported earnings of 47 cents per share for the second quarter of 2002. Net income was \$38.8 million on quarterly operating revenue of \$376.7 million. Excluding exit charges related to the vehicle transport businesses, earnings were 50 cents per share for the quarter. In the second quarter of 2001, ALLETE reported \$42.5 million of net income on operating revenue of \$405.1 million, and earnings per share of 57 cents. Last year's results included the largest real estate transaction in company history.

"We remain bullish on our core businesses," said David Gartzke, ALLETE Chairman, President, and CEO. "We remain committed to our strategy that looks for ways to increase the value of our company."

Earnings from **Automotive Services** increased by \$8.7 million in the quarter compared with the second quarter of 2001. The 42 percent earnings increase came from mandated goodwill accounting changes, lower interest expense and increased auction efficiency. The receivables portfolio at Automotive Finance Corporation rose by 12 percent for the quarter compared with last year.

**Energy Services** earnings for the quarter were about the same as last year. While total kilowatt-hour sales were higher than in the second quarter of 2001, weak prices in the wholesale energy market contributed to flat earnings.

For the second quarter, ALLETE recorded a loss of \$5.7 million in **Investments and Corporate Charges**, compared with \$9.2 million in income during the same period last year. During the second quarter of 2001, the company realized an \$11.1 million gain on its largest real estate transaction ever. Difficult market conditions in the second quarter of 2002 contributed to less than acceptable returns from ALLETE's securities portfolio, which will be liquidated to eliminate future exposure to market uncertainties. Proceeds from this liquidation will be used to reduce the company's debt balance.

### Water Sale Update

The company remains engaged in discussions relating to the proposed sale of ALLETE Water Services. The Florida Governmental Utility Authority has informed us it may not be taking any action regarding its potential purchase of Florida Water Services assets until September. Meanwhile, ALLETE continues to examine other opportunities for the sale of Florida Water. ALLETE has hired an investment banker to facilitate the sale of Heater Utilities and Georgia Water Services. That sale process is now in progress. The company expects to close both transactions in late 2002 or early 2003.

### Earnings Guidance

ALLETE is revising its earnings-per-share estimate for 2002 to be in the \$2.00 to \$2.10 range excluding the 5 cents of year-to-date exit charges as well as any gain from the sale of Water Services assets. This estimate reflects year-to-date performance, the planned liquidation of the securities portfolio, operating losses incurred prior to the exit from the vehicle transport business, and lower wholesale power prices for the year. The company continues to expect that Automotive Services will grow earnings by 30 percent in 2002 over 2001.

ALLETE's corporate headquarters are located in Duluth, Minnesota. ALLETE's holdings include ADESA, the second largest wholesale vehicle auction network in North America; AFC, the leading provider of independent auto dealer inventory financing; Minnesota Power, a low-cost electric utility that serves some of the largest industrial customers in the United States; and Florida real estate investments. For more information about ALLETE, visit the company's Web site at [www.allete.com](http://www.allete.com).

The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

**ALLETE, Inc.**  
**Consolidated Statement of Income**  
**For the Periods Ended June 30, 2002 and 2001**  
Millions Except Per Share Amounts

	Quarter Ended		Year to Date	
	2002	2001	2002	2001
Operating Revenue				
Energy Services	\$154.1	\$147.5	\$297.0	\$306.5
Automotive Services	217.6	214.7	431.1	419.6
Investments	5.0	42.9	21.6	55.9
<b>Total Operating Revenue</b>	<b>376.7</b>	<b>405.1</b>	<b>749.7</b>	<b>782.0</b>
Operating Expenses				
Fuel and Purchased Power	59.2	56.8	108.6	119.2
Operations	244.5	262.2	495.8	505.0
Interest	16.2	18.8	32.1	38.1
<b>Total Operating Expenses</b>	<b>319.9</b>	<b>337.8</b>	<b>636.5</b>	<b>662.3</b>
Operating Income from Continuing Operations	56.8	67.3	113.2	119.7
Distributions on Redeemable Preferred Securities of ALLETE Capital I	1.5	1.5	3.0	3.0
Income Tax Expense	22.1	26.3	43.6	46.5
Income from Continuing Operations	33.2	39.5	66.6	70.2
Income from Discontinued Operations	5.6	3.0	7.4	5.2
<b>Net Income</b>	<b>\$ 38.8</b>	<b>\$ 42.5</b>	<b>\$ 74.0</b>	<b>\$ 75.4</b>
Average Shares of Common Stock				
Basic	81.0	73.7	80.7	72.7
Diluted	81.7	74.3	81.3	73.3
Earnings Per Share of Common Stock				
Basic – Continuing Operations	\$0.41	\$0.54	\$0.83	\$0.97
Discontinued Operations	0.07	0.04	0.09	0.07
	\$0.48	\$0.58	\$0.92	\$1.04
Diluted – Continuing Operations	\$0.40	\$0.53	\$0.82	\$0.96
Discontinued Operations	0.07	0.04	0.09	0.07
	\$0.47	\$0.57	\$0.91	\$1.03
Dividends Per Share of Common Stock	\$0.275	\$0.2675	\$0.55	\$0.535

**ALLETE, Inc.**  
**Consolidated Balance Sheet**  
Millions

	Jun. 30, 2002	Dec. 31, 2001		Jun. 30, 2002	Dec. 31, 2001
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Current Assets	\$ 958.1	\$ 909.9	Current Liabilities	\$ 753.9	\$ 704.5
Property, Plant and Equipment	1,368.6	1,323.3	Long-Term Debt	935.2	933.8
Investments	129.2	141.0	Other Liabilities	266.9	270.5
Goodwill	501.0	494.4	Discontinued Operations	160.7	154.9
Other	114.7	103.6	Mandatorily Redeemable Preferred Securities of ALLETE Capital I	75.0	75.0
Discontinued Operations	330.3	310.3	Shareholders' Equity	1,210.2	1,143.8
<b>Total Assets</b>	<b>\$3,401.9</b>	<b>\$3,282.5</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>\$3,401.9</b>	<b>\$3,282.5</b>

	Quarter Ended		Year to Date	
	June 30, 2002	2001	June 30, 2002	2001
<b>ALLETE, Inc.</b>				
<b>Net Income</b>				
Millions				
Energy Services	\$ 9.7	\$ 9.8	\$18.8	\$22.2
Automotive Services *	29.2	20.5	53.9	38.6
Investments and Corporate Charges	(5.7)	9.2	(6.1)	9.4
Income from Continuing Operations	33.2	39.5	66.6	70.2
Income from Discontinued Operations **	5.6	3.0	7.4	5.2
<b>Net Income</b>	<b>\$38.8</b>	<b>\$42.5</b>	<b>\$74.0</b>	<b>\$75.4</b>
<b>Diluted Earnings Per Share</b>				
Continuing Operations	\$0.40	\$0.53	\$0.82	\$0.96
Discontinued Operations **	0.07	0.04	0.09	0.07
	\$0.47	\$0.57	\$0.91	\$1.03

\* Included a \$0.8 million, or \$0.01 per share, charge related to the exit from ALLETE's Canadian auto transport business.

\*\* Discontinued operations included the operating results of ALLETE's Water Services businesses, the Great Rigs auto transport company and the Electric Odyssey retail business. For the six months ended June 30, 2002, ALLETE included \$3.1 million, or \$0.04 per share, in charges to complete the exit from the auto transport company and the retail business. A total of \$2.3 million, or \$0.02 per share, was reported during the first quarter of 2002.

## Statistical Data

### Corporate

#### Common Stock

High	\$31.10	\$26.13	\$31.10	\$26.13
Low	\$27.09	\$22.04	\$24.25	\$20.19
Close	\$27.10	\$22.50	\$27.10	\$22.50
Book Value	\$14.21	\$13.40	\$14.21	\$13.40

### Energy Services

#### Millions of Kilowatthours Sold

#### Regulated

#### Retail

Residential	232.8	217.6	518.6	511.7
Commercial	295.1	288.3	609.6	606.9
Industrial	1,755.2	1,714.9	3,405.0	3,322.0
Other	17.8	17.8	37.6	37.2
Resale	400.8	404.5	843.7	1,074.4

	2,701.7	2,643.1	5,414.5	5,552.2
Merchant	197.1	—	242.8	—
	2,898.8	2,643.1	5,657.3	5,552.2

### Automotive Services

#### Vehicles Sold

Wholesale	464,000	468,000	915,000	924,000
Total Loss	47,000	34,000	94,000	69,000
	501,000	492,000	1,009,000	993,000

Conversion Rate - Wholesale Vehicles 59.7% 58.5% 62.6% 61.0%

Vehicles Financed 241,000 232,000 478,000 463,000

EBITDAL (Millions)\* \$68.0 \$60.2 \$128.7 \$117.7

\* Earnings Before Interest, Taxes, Depreciation, Amortization and Lease Expense