



## **ALLETE Reports Second Quarter Results; reaffirms guidance for 2005 earnings growth**

### **Kendall County charge impacts quarterly earnings**

For the second quarter 2005, ALLETE, Inc. (NYSE: ALE) today reported a loss of \$1.45 per share from continuing operations that included a previously-announced charge of \$1.84 per share related to the assignment of the Kendall County, Ill. power purchase agreement.

Excluding the Kendall County charge, ALLETE's earnings from continuing operations were 39 cents per share compared with eight cents per share in the second quarter of 2004. The company's earnings in the second quarter of 2004 were adversely affected by an impairment charge.

"We're pleased that our core energy and real estate businesses continue to perform at a high level," said Donald J. Shippar, CEO of ALLETE. The company reaffirmed its guidance of 45 to 50 percent earnings growth in 2005 from continuing operations, excluding the Kendall transaction and any earnings from investments it may make in growth initiatives.

"Two significant events occurred during the quarter," Shippar said. "First, the Kendall County transaction was a key strategic accomplishment for our company. Second, site preparation began at our Town Center at Palm Coast project, which we expect will contribute substantial earnings over the next few years."

Quarterly net income from continuing operations at the company's Regulated Utility segment climbed five percent to \$7.8 million compared to the second quarter of 2004, due to continued strong electricity sales to retail customers and other power suppliers.

Real Estate income from continuing operations was \$2.8 million in the second quarter of 2005, compared with \$2.1 million in the same period a year ago. During the quarter, ALLETE Properties recorded its first sales from Town Center at Palm Coast, a major development project now taking shape in the fast-growing northeast Florida community.

Results from Nonregulated Energy Operations reflected the Kendall County charge, which was announced by ALLETE in April of this year. The elimination of operating losses incurred at the Kendall County facility was partially offset by increased expenses at the Taconite Harbor generating facility and less income at other Nonregulated Energy Operations businesses.

In ALLETE's Other business segment, the second quarter produced income from continuing operations of \$300,000 compared to a loss of \$7.2 million a year ago. This quarter the company benefited from lower interest expense due to reduced debt balances and debt refinancing. In the second quarter of 2004, the company recorded a \$3.2 million after-tax impairment in its emerging technology investment portfolio.

ALLETE, headquartered in Duluth, Minn., provides energy services in the upper Midwest and has significant real estate holdings in Florida. More information about the company is available 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, 2005 and 2004**  
Millions Except Per Share Amounts

	Quarter Ended		Year to Date	
	2005	2004	2005	2004
<b>Operating Revenue</b>	\$186.8	\$186.2	\$393.7	\$395.2
<b>Operating Expenses</b>				
Fuel and Purchased Power	70.3	77.2	139.4	146.1
Operating and Maintenance	81.6	77.2	164.7	160.8
Kendall County Charge	77.9	—	77.9	—
Depreciation	12.7	12.5	25.3	24.9
<b>Total Operating Expenses</b>	<b>242.5</b>	<b>166.9</b>	<b>407.3</b>	<b>331.8</b>
<b>Operating Income (Loss) from Continuing Operations</b>	<b>(55.7)</b>	<b>19.3</b>	<b>(13.6)</b>	<b>63.4</b>
<b>Other Income (Expense)</b>				
Interest Expense	(6.7)	(9.1)	(13.5)	(18.2)
Other	1.5	(3.5)	(2.7)	(3.1)
<b>Total Other Expense</b>	<b>(5.2)</b>	<b>(12.6)</b>	<b>(16.2)</b>	<b>(21.3)</b>
<b>Income (Loss) from Continuing Operations Before Minority Interest and Income Taxes</b>	<b>(60.9)</b>	<b>6.7</b>	<b>(29.8)</b>	<b>42.1</b>
<b>Minority Interest</b>	<b>0.2</b>	<b>0.5</b>	<b>1.4</b>	<b>1.9</b>
<b>Income (Loss) from Continuing Operations Before Income Taxes</b>	<b>(61.1)</b>	<b>6.2</b>	<b>(31.2)</b>	<b>40.2</b>
<b>Income Tax Expense (Benefit)</b>	<b>(21.5)</b>	<b>3.8</b>	<b>(9.6)</b>	<b>16.4</b>
<b>Income (Loss) from Continuing Operations Before Change in Accounting Principle</b>	<b>(39.6)</b>	<b>2.4</b>	<b>(21.6)</b>	<b>23.8</b>
<b>Income (Loss) from Discontinued Operations – Net of Tax</b>	<b>(0.7)</b>	<b>34.3</b>	<b>(1.3)</b>	<b>65.6</b>
<b>Change in Accounting Principle – Net of Tax</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(7.8)</b>
<b>Net Income (Loss)</b>	<b>\$ (40.3)</b>	<b>\$ 36.7</b>	<b>\$ (22.9)</b>	<b>\$ 81.6</b>
<b>Average Shares of Common Stock</b>				
Basic	27.2	28.4	27.2	28.2
Diluted	27.2	28.5	27.2	28.4
<b>Basic Earnings (Loss) Per Share of Common Stock</b>				
Continuing Operations	\$(1.45)	\$0.08	\$(0.79)	\$0.85
Discontinued Operations	(0.03)	1.21	(0.05)	2.32
Change in Accounting Principle	—	—	—	(0.28)
	<b>\$(1.48)</b>	<b>\$1.29</b>	<b>\$(0.84)</b>	<b>\$2.89</b>
<b>Diluted Earnings (Loss) Per Share of Common Stock</b>				
Continuing Operations	\$(1.45)	\$0.08	\$(0.79)	\$0.84
Discontinued Operations	(0.03)	1.21	(0.05)	2.31
Change in Accounting Principle	—	—	—	(0.27)
	<b>\$(1.48)</b>	<b>\$1.29</b>	<b>\$(0.84)</b>	<b>\$2.88</b>
<b>Dividends Per Share of Common Stock</b>	<b>\$0.3150</b>	<b>\$0.8475</b>	<b>\$0.6150</b>	<b>\$1.6950</b>

**Consolidated Balance Sheet**

	Millions			
	Jun. 30, 2005	Dec. 31, 2004	Jun. 30, 2005	Dec. 31, 2004
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>	
Cash and Cash Equivalents	\$ 79.1	\$ 44.9	Current Liabilities	\$ 85.7
Restricted Cash	—	30.3	Long-Term Debt	389.3
Short-Term Investments	63.0	149.2	Other Liabilities	295.5
Other Current Assets	152.9	141.7	Discontinued Operations	6.5
Property, Plant and Equipment	883.0	883.1	Shareholders' Equity	576.4
Investments	123.3	124.5		630.5
Discontinued Operations	4.0	4.9		
Other	48.1	52.8		
<b>Total Assets</b>	<b>\$1,353.4</b>	<b>\$1,431.4</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,353.4</b>
				<b>\$1,431.4</b>

ALLETE, Inc.	Quarter Ended June 30,		Year to Date June 30,	
	2005	2004	2005	2004
<b>Net Income (Loss)</b>				
Millions				
Regulated Utility	\$ 7.8	\$ 7.4	\$ 20.7	\$ 19.9
Nonregulated Energy Operations (a)	(50.5)	0.1	(48.9)	(0.1)
Real Estate	2.8	2.1	9.7	13.0
Other	0.3	(7.2)	(3.1)	(9.0)
Income (Loss) from Continuing Operations	(39.6)	2.4	(21.6)	23.8
Income (Loss) from Discontinued Operations	(0.7)	34.3	(1.3)	65.6
Change in Accounting Principle	—	—	—	(7.8)
Net Income	\$ (40.3)	\$ 36.7	\$ (22.9)	\$ 81.6
<b>Diluted Earnings (Loss) Per Share</b>				
Continuing Operations	\$(1.45)	\$0.08	\$(0.79)	\$0.84
Discontinued Operations	(0.03)	1.21	(0.05)	2.31
Change in Accounting Principle	—	—	—	(0.27)
	\$(1.48)	\$1.29	\$(0.84)	\$2.88

(a) In April 2005, ALLETE recorded a \$50.4 million, or \$1.84 per diluted share, charge related to the assignment of the Kendall County power purchase agreement.

Note: In 2005, we began allocating corporate charges and interest expense to our business segments. For comparative purposes, segment information for 2004 has been restated to reflect the new allocation method used in 2005 for corporate charges and interest expense. This restatement had no impact on consolidated net income or earnings per share.

#### Kilowatthours Sold

Millions

Regulated Utility				
Retail and Municipals				
Residential	229.9	228.8	549.7	539.1
Commercial	300.5	294.3	640.3	626.2
Industrial	1,746.9	1,770.0	3,524.0	3,536.8
Municipals	199.3	189.0	421.3	402.8
Other	18.1	17.8	38.5	38.0
	2,494.7	2,499.9	5,173.8	5,142.9
Other Power Suppliers	366.9	168.4	603.6	385.6
	2,861.6	2,668.3	5,777.4	5,528.5
Nonregulated Energy Operations	399.9	414.6	753.8	848.6
	3,261.5	3,082.9	6,531.2	6,377.1

#### Real Estate

Acres Sold	96	159	579	1,427
Lots Sold	—	12	7	211