



ALLETE Reports Third Quarter Results; Raises 2004 Earnings Guidance for Continuing Operations

ALLETE Reports Third Quarter Results; Raises 2004 Earnings Guidance for Continuing Operations

DULUTH, Minn.--ALLETE, Inc. (NYSE: ALE) today reported 2004 year-to-date income from continuing operations of \$23.2 million. Excluding a one-time charge of \$10.9 million for the early repayment of debt in the third quarter, income from continuing operations was \$34.1 million compared to \$25.6 million for the first three quarters of 2003.

Based on its year-to-date performance and fourth quarter projections, ALLETE has raised its expectation for income from continuing operations (excluding the aforementioned one-time charge) to approximately \$38 million for 2004, an increase of 28 percent over 2003.

The debt prepayment charge was incurred as a result of an early retirement of \$125 million of long-term debt in July as ALLETE recapitalized in preparation for the spin-off of ADESA. Year-to-date interest expense decreased by about \$7 million after-tax compared with the same period last year. Interest was reduced as a result of the debt retired in July and because proceeds of Water Services asset sales were applied to debt repayment in late 2003 and early 2004.

"We are very pleased with how this year is progressing," said ALLETE President and CEO Don Shippar. "Power sales to Minnesota Power's industrial customers have shown healthy increases and our real estate business in Florida is having another solid year of financial performance. The strong operating results, combined with significantly lower interest expense than last year, have helped us absorb anticipated expense increases and an impairment charge associated with our emerging technology portfolio."

ALLETE's quarterly income from continuing operations was primarily affected by the debt prepayment charge. Excluding the charge, income from continuing operations was slightly less than the \$10.9 million recorded last year. Energy sales to Minnesota Power industrial customers rose 13 percent from the third quarter of 2003. Compared with last year, the regulated utility business incurred higher pension expense, increased costs associated with a plant outage at Square Butte, and lower power sales to other power suppliers--all of which were anticipated. "All in all, financial results for the regulated utility business exceeded our expectations for the quarter," Shippar said.

Income from discontinued operations includes earnings from ADESA up until its spin-off to ALLETE shareholders on September 20, 2004, ALLETE expenses related to the spin-off, earnings from operations at the Water Services business and gains from the sales of Water Services assets.

A change in an accounting principle used to account for ALLETE's emerging technology investment portfolio led to a \$7.8 million retroactive non-cash charge. The charge, recorded in year-to-date results, reflects the change to the equity method of accounting from the cost method for these investments.

ALLETE's corporate headquarters are located in Duluth, Minnesota. ALLETE provides energy services in the upper Midwest and has significant real estate holdings in Florida. More information about the company is available on ALLETE's Web site at www.allete.com.

Investor Contact:
Tim Thorp
218-723-3953
tthorp@allete.com

ALLETE, Inc.
Consolidated Statement of Income
For the Periods Ended September 30, 2004 and 2003
Millions Except Per Share Amounts

	Quarter Ended		Nine Months Ended	
	2004	2003	2004	2003
Operating Revenue	\$183.2	\$170.1	\$582.7	\$530.3
Operating Expenses				
Fuel and Purchased Power	71.9	64.9	218.0	197.2
Operating and Maintenance	69.0	55.3	221.3	194.7
Depreciation	12.3	12.6	37.2	38.4
Taxes Other than Income	6.7	7.1	21.5	22.7
Total Operating Expenses	159.9	139.9	498.0	453.0
Operating Income from Continuing Operations	23.3	30.2	84.7	77.3
Other Income (Expense)				
Interest Expense	(7.5)	(13.2)	(25.7)	(38.0)
Other	(18.4)	0.5	(21.4)	2.4
Total Other Expense	(25.9)	(12.7)	(47.1)	(35.6)
Income (Loss) from Continuing Operations Before Income Taxes	(2.6)	17.5	37.6	41.7
Income Tax Expense (Benefit)	(2.0)	6.6	14.4	16.1
Income (Loss) from Continuing Operations Before Change in Accounting Principle	(0.6)	10.9	23.2	25.6
Income from Discontinued Operations – Net of Tax	13.7	36.7	79.3	110.7
Change in Accounting Principle – Net of Tax	–	–	(7.8)	–
Net Income	\$ 13.1	\$ 47.6	\$ 94.7	\$136.3
Average Shares of Common Stock				
Basic	28.5	27.7	28.3	27.5
Diluted	28.6	27.8	28.5	27.6
Basic Earnings (Loss) Per Share of Common Stock				
Continuing Operations	\$(0.03)	\$0.40	\$0.82	\$0.93
Discontinued Operations	0.48	1.32	2.80	4.02
Change in Accounting Principle	–	–	(0.28)	–
	\$0.45	\$1.72	\$3.34	\$4.95
Diluted Earnings (Loss) Per Share of Common Stock				
Continuing Operations	\$(0.02)	\$0.40	\$0.82	\$0.93
Discontinued Operations	0.47	1.31	2.78	4.00
Change in Accounting Principle	–	–	(0.27)	–
	\$0.45	\$1.71	\$3.33	\$4.93
Dividends Per Share of Common Stock	\$0.8475	\$0.8475	\$2.5425	\$2.5425

ALLETE, Inc.
Consolidated Balance Sheet

Millions

	Sept. 30, 2004	Dec. 31, 2003		Sept. 30, 2004	Dec. 31, 2003
Assets			Liabilities and Shareholders' Equity		
Current Assets	\$ 302.6	\$ 225.0	Current Liabilities	\$ 74.7	\$ 185.5
Property, Plant and Equipment	885.0	919.3	Long-Term Debt	389.5	514.7
Investments	190.6	170.1	Other Liabilities	314.0	321.9
Discontinued Operations	8.0	1,724.0	Discontinued Operations	8.7	619.0
Other	63.1	62.9	Shareholders' Equity	662.4	1,460.2
Total Assets	\$ 1,449.3	\$ 3,101.3	Total Liabilities and Shareholders' Equity	\$ 1,449.3	\$ 3,101.3

ALLETE, Inc.	Quarter Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net Income				
Millions				
Regulated Utility	\$ 9.5	\$12.2	\$32.1	\$ 30.5
Nonregulated Energy Operations	1.5	2.8	2.6	3.2
Real Estate	1.6	1.9	14.8	11.3
Other	(13.2)	(6.0)	(26.3)	(19.4)
Income (Loss) from Continuing Operations	(0.6)	10.9	23.2	25.6
Income from Discontinued Operations	13.7	36.7	79.3	110.7
Change in Accounting Principle	—	—	(7.8)	—
Net Income	\$13.1	\$47.6	\$94.7	\$136.3

Diluted Earnings (Loss) Per Share

Continuing Operations	\$(0.02)	\$0.40	\$ 0.82	\$0.93
Discontinued Operations	0.47	1.31	2.78	4.00
Change in Accounting Principle	—	—	(0.27)	—
	\$ 0.45	\$1.71	\$ 3.33	\$4.93

Statistical Data

Kilowatthours Sold
Millions

Regulated Utility				
Retail and Municipals				
Residential	233.7	250.2	772.8	787.0
Commercial	334.7	347.5	960.9	963.5
Industrial	1,736.9	1,535.6	5,273.7	4,909.2
Municipals	211.1	231.8	613.9	636.9
Other	19.9	20.5	57.9	59.3
	2,536.3	2,385.6	7,679.2	7,355.9
Other Power Suppliers	260.2	504.4	646.8	1,012.5
	2,796.5	2,890.0	8,325.0	8,368.4
Nonregulated Energy Operations	349.4	400.4	1,198.0	1,100.6
	3,145.9	3,290.4	9,523.0	9,469.0

Notes

On September 20, 2004 ALLETE's common stock was split one-for-three. All common share and per share amounts have been adjusted for all periods to reflect the one-for-three reverse stock split.