



## **Two real estate sales boost ALLETE's second quarter EPS to 80 cents compared to 47 cents in second quarter of 2006**

### **First closing of Sawmill Creek sale included in quarterly results**

ALLETE, Inc. (NYSE: ALE) today reported second quarter 2007 earnings per share of 80 cents compared to 47 cents per share in the second quarter a year ago.

Net income in the second quarter of 2007 was \$22.6 million on operating revenue of \$223.3 million, compared to net income of \$13.2 million on operating revenue of \$178.3 million in the second quarter of 2006.

ALLETE's Real Estate segment recorded net income of \$11.5 million during the second quarter compared to \$5.6 million in the corresponding period a year ago. ALLETE Properties closed a \$12.6 million sale of property for a Super Target and associated retail stores at its Town Center at Palm Coast development. At its Palm Coast Park development, ALLETE Properties closed a \$13.1 million sale to a subsidiary of Lowe Enterprises, which represents the first phase of Lowe's Sawmill Creek project.

"We're particularly pleased to report the first closing of the sale to Lowe," said Don Shippar, ALLETE's Chairman, President and Chief Executive Officer. "The Sawmill Creek development will enhance the value of the surrounding property we are marketing in Palm Coast Park." ALLETE's Regulated Utility net income was down from \$6.8 million in the second quarter of 2006 to \$6.1 million in 2007, primarily due to higher operations and maintenance costs related to outage schedules at the Boswell and Taconite Harbor Energy Centers. Total kilowatthour sales were about the same as a year ago.

Net income from ALLETE's investment in ATC, which commenced in May of 2006, grew to \$1.9 million during the second quarter of 2007, compared to \$54,000 in the second quarter a year ago. As of June 30, 2007, ALLETE had an investment balance of \$64.4 million in ATC.

ALLETE's other segment recorded net income of \$2.5 million in the second quarter of 2007, compared to \$321,000 in the second quarter of 2006. The increase was primarily due to a \$1.5 million after-tax resolution of a tax audit, and release of a \$1 million loan guarantee for the now-vacant Northwest Airlines maintenance base in Duluth.

ALLETE anticipates its earnings will be between \$3.00 and \$3.05 per share in 2007. This guidance assumes lower real estate sales during the second half of 2007 compared to 2006, normal weather patterns in Minnesota Power's service territory compared to a warmer than normal third quarter in 2006, and higher income from the investment in ATC due to a larger investment balance in 2007. 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](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, 2007 and 2006**  
Millions Except Per Share Amounts

	Quarter Ended		Year to Date	
	2007	2006	2007	2006
<b>Operating Revenue</b>	\$223.3	\$178.3	\$428.6	\$370.8
<b>Operating Expenses</b>				
Fuel and Purchased Power	92.9	63.0	170.6	132.4
Operating and Maintenance	84.6	76.8	159.2	151.3
Depreciation	11.9	12.2	23.8	24.4
<b>Total Operating Expenses</b>	<b>189.4</b>	<b>152.0</b>	<b>353.4</b>	<b>308.1</b>
<b>Operating Income from Continuing Operations</b>	<b>33.9</b>	<b>26.3</b>	<b>75.2</b>	<b>62.7</b>
<b>Other Income (Expense)</b>				
Interest Expense	(6.1)	(6.4)	(12.4)	(12.8)
Other	7.3	3.4	14.8	5.1
<b>Total Other Income (Expense)</b>	<b>1.2</b>	<b>(3.0)</b>	<b>2.4</b>	<b>(7.7)</b>
<b>Income from Continuing Operations</b>				
Before Minority Interest and Income Taxes	36.1	23.3	77.6	55.0
<b>Minority Interest</b>	<b>1.3</b>	<b>0.8</b>	<b>1.4</b>	<b>2.1</b>
<b>Income from Continuing Operations Before Income Taxes</b>	<b>33.8</b>	<b>22.5</b>	<b>76.2</b>	<b>52.9</b>
<b>Income Tax Expense</b>	<b>11.2</b>	<b>8.9</b>	<b>27.3</b>	<b>20.5</b>
<b>Income from Continuing Operations</b>	<b>22.6</b>	<b>13.6</b>	<b>48.9</b>	<b>32.4</b>
<b>Income from Discontinued Operations – Net of Tax</b>	<b>–</b>	<b>(0.4)</b>	<b>–</b>	<b>(0.4)</b>
<b>Net Income</b>	<b>\$ 22.6</b>	<b>\$ 13.2</b>	<b>\$ 48.9</b>	<b>\$ 32.0</b>
<b>Average Shares of Common Stock</b>				
Basic	28.2	27.7	28.1	27.6
Diluted	28.3	27.9	28.2	27.8
<b>Basic Earnings Per Share of Common Stock</b>				
Continuing Operations	\$0.80	\$0.50	\$1.74	\$1.18
Discontinued Operations	–	(0.02)	–	(0.02)
	<b>\$0.80</b>	<b>\$0.48</b>	<b>\$1.74</b>	<b>\$1.16</b>
<b>Diluted Earnings Per Share of Common Stock</b>				
Continuing Operations	\$0.80	\$0.49	\$1.73	\$1.17
Discontinued Operations	–	(0.02)	–	(0.02)
	<b>\$0.80</b>	<b>\$0.47</b>	<b>\$1.73</b>	<b>\$1.15</b>
<b>Dividends Per Share of Common Stock</b>	<b>\$0.4100</b>	<b>\$0.3625</b>	<b>\$0.8200</b>	<b>\$0.7250</b>

**Consolidated Balance Sheet**  
Millions

	Jun. 30, 2007	Dec. 31, 2006		Jun. 30, 2007	Dec. 31, 2006
<b>Assets</b>			<b>Liabilities and Shareholders' Equity</b>		
Cash and Short-Term Investments	\$ 158.9	\$ 149.3	Current Liabilities	\$ 130.5	\$ 143.5
Other Current Assets	148.1	138.4	Long-Term Debt	409.2	359.8
Property, Plant and Equipment	977.2	921.6	Other Liabilities	376.7	364.3
Investments	207.8	189.1	Shareholders' Equity	713.3	665.8
Other	137.7	135.0			
<b>Total Assets</b>	<b>\$ 1,629.7</b>	<b>\$ 1,533.4</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 1,629.7</b>	<b>\$ 1,533.4</b>

ALLETE, Inc.	Quarter Ended June 30,		Year to Date June 30,	
	2007	2006	2007	2006
<b>Income (Loss)</b>				
Millions				
Regulated Utility	\$ 6.1	\$ 6.8	\$24.9	\$19.8
Nonregulated Energy Operations	0.6	0.9	2.8	1.8
ATC	1.9	—	3.7	—
Real Estate	11.5	5.6	14.6	10.6
Other	2.5	0.3	2.9	0.2
Income from Continuing Operations	22.6	13.6	48.9	32.4
Loss from Discontinued Operations	—	(0.4)	—	(0.4)
Net Income	\$ 22.6	\$ 13.2	\$48.9	\$32.0
<b>Diluted Earnings Per Share</b>				
Continuing Operations	\$ 0.80	\$ 0.49	\$1.73	\$1.17
Discontinued Operations	—	(0.02)	—	(0.02)
	\$ 0.80	\$ 0.47	\$1.73	\$1.15

#### Statistical Data

##### Corporate

Common Stock				
High	\$51.30	\$48.55	\$51.30	\$48.55
Low	\$45.39	\$44.34	\$44.93	\$42.99
Close	\$47.05	\$47.35	\$47.05	\$47.35
Book Value	\$23.23	\$20.70	\$23.23	\$20.70

##### Kilowatthours Sold

###### Millions

Regulated Utility				
Retail and Municipals				
Residential	231.7	229.1	573.3	537.1
Commercial	320.9	315.5	673.1	644.2
Municipals	229.2	218.1	495.6	435.4
Industrial	1,734.0	1,769.9	3,439.4	3,592.2
Other	19.0	19.6	41.3	38.6
Total Retail and Municipal	2,534.8	2,549.2	5,222.7	5,247.5
Other Power Suppliers	513.0	515.5	1,036.9	1,020.6
Total Regulated Utility	3,047.8	3,064.7	6,259.6	6,268.1
Nonregulated Energy Operations	59.8	55.3	123.5	120.9
Total Kilowatthours Sold	3,107.6	3,120.0	6,383.1	6,389.0

#### Real Estate

Town Center Development Project				
Commercial Square Footage Sold	435,000	170,695	435,000	250,695
Residential Units	130	186	130	186
Palm Coast Park Development Project				
Commercial Square Footage Sold	40,000	—	40,000	—
Residential Units	406	—	406	—
Other Land				
Acres Sold	—	10	367	466
Lots Sold	—	—	—	—