



ALLETE Reports First Quarter Earnings; Reaffirms 2005 Earnings Guidance

DULUTH, Minn. -- ALLETE, Inc. (NYSE: ALE) today reported first quarter 2005 earnings from continuing operations of 66 cents per share compared with 76 cents per share in the first quarter of 2004. Including discontinued operations, earnings were 64 cents per share on net income of \$17.4 million and operating revenue of \$206.9 million.

During the quarter the company recorded a \$3.3 million, or 12 cents per share, charge related to its emerging technology investment portfolio, which impacted the comparison to the same period a year ago. "We remain on track to meet our expectation for earnings growth despite the charge," said Don Shippar, ALLETE President and CEO. "We are pleased with our first quarter financial performance."

Net income at the company's Regulated Utility business was \$12.9 million for the quarter compared with \$12.5 million a year ago. Operating revenue for this business was 4.4 percent higher than in 2004, partially due to increased electric sales to other power suppliers combined with higher prices. Retail electric sales remained strong. First quarter results include \$1.2 million after-tax of outage expense, primarily due to planned maintenance at one of the company's generating stations.

Nonregulated Energy Operations net income was \$1.6 million for the quarter versus a \$0.2 million net loss in 2004. Net income from the Taconite Harbor facility was higher than the same period a year ago primarily due to a power sales contract that went into effect in May 2004. Positive earnings contributions from the Taconite Harbor facility and BNI Coal were partially offset by a \$1.9 million net loss at the Kendall County facility.

Net income at the Real Estate business was \$6.9 million for the quarter compared with \$10.9 million in the first quarter last year. Real estate sales were strong at ALLETE Properties' southwest Florida operations this quarter. The company expects a growing and consistent annual earnings contribution from this business; however, quarterly results will vary due to the timing of real estate transaction closings.

"Site preparation is underway at ALLETE Properties' Town Center project in Palm Coast," said Shippar, "and several pending sales contracts will close this year." Flagler County, Florida, where Palm Coast is located, was recently named the fastest-growing county in the United States by the U.S. Census Bureau.

ALLETE's "Other" segment posted a \$3.4 million net loss in the first quarter versus a \$1.8 million net loss in the first quarter a year ago. The previously mentioned \$3.3 million charge for two emerging technology investments was partially offset by lower interest and corporate expenses.

"We recently announced the successful exit from the Kendall County power purchase agreement, which will eliminate its ongoing annual losses of approximately \$8 million after-tax," said Shippar. Excluding a second quarter charge of \$50.4 million associated with the Kendall transaction and earnings ALLETE may realize from investments in growth initiatives, the company continues to expect 45 to 50 percent earnings per share growth from continuing operations in 2005 compared to last year. Shippar cited several additional reasons for the expected earnings growth:

- Continued lower interest charges (\$1.3 million after-tax lower in the first quarter of 2005 versus 2004) due to debt repayment and refinancing in 2004;
- Strong electric sales and a vigorous Florida real estate market; and
- Fewer shares outstanding for earnings-per-share calculation purposes.

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.

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.

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ALLETE, Inc.

Consolidated Statement of Income
 For the Periods Ended March 31, 2005 and 2004
 Millions Except Per Share Amounts

	Quarter Ended	
	2005	2004
Operating Revenue	\$206.9	\$209.0
Operating Expenses		
Fuel and Purchased Power	69.1	68.9
Operating and Maintenance	83.1	83.6
Depreciation	12.6	12.4
Total Operating Expenses	164.8	164.9
Operating Income from Continuing Operations	42.1	44.1
Other Income (Expense)		
Interest Expense	(6.8)	(9.1)
Other	(4.2)	0.4
Total Other Expense	(11.0)	(8.7)
Income from Continuing Operations Before Minority Interest and Income Taxes	31.1	35.4
Minority Interest	1.2	1.4
Income from Continuing Operations Before Income Taxes	29.9	34.0
Income Tax Expense	11.9	12.6
Income from Continuing Operations Before Change in Accounting Principle	18.0	21.4
Income (Loss) from Discontinued Operations - Net of Tax	(0.6)	31.3
Change in Accounting Principle - Net of Tax	-	(7.8)
Net Income	\$ 17.4	\$ 44.9
Average Shares of Common Stock		
Basic	27.2	28.1
Diluted	27.4	28.3
Basic Earnings (Loss) Per Share of Common Stock		
Continuing Operations	\$0.66	\$0.77
Discontinued Operations	(0.02)	1.11
Change in Accounting Principle	-	(0.28)
	\$0.64	\$1.60
Diluted Earnings (Loss) Per Share of Common Stock		
Continuing Operations	\$0.66	\$0.76
Discontinued Operations	(0.02)	1.10
Change in Accounting Principle	-	(0.27)
	\$0.64	\$1.59
Dividends Per Share of Common Stock	\$0.3000	\$0.8475

Consolidated Balance Sheet
 Millions

	Mar. 31, 2005	Dec. 31, 2004		Mar. 31, 2005	Dec. 31, 2004
Assets			Liabilities and Shareholders' Equity		
Cash and Cash Equivalents	\$ 213.2	\$ 194.1	Current Liabilities	\$ 98.2	\$ 97.8
Restricted Cash	-	30.3	Long-Term Debt	389.6	390.2
Other Current Assets	140.4	141.7	Other Liabilities	297.4	300.9
Property, Plant and Equipment	880.8	883.1	Discontinued Operations	5.4	12.0
Investments	118.9	124.5	Shareholders' Equity	617.5	630.5
Discontinued Operations	4.5	4.9			
Other	50.3	52.8			
Total Assets	\$1,408.1	\$1,431.4	Total Liabilities and Shareholders' Equity	\$1,408.1	\$1,431.4

ALLETE, Inc.	Quarter Ended March 31,	
	2005	2004
Net Income (Loss)		
Millions		
Regulated Utility	\$12.9	\$12.5
Nonregulated Energy Operations	1.6	(0.2)
Real Estate	6.9	10.9
Other	(3.4)	(1.8)
Income from Continuing Operations	18.0	21.4
Income (Loss) from Discontinued Operations	(0.6)	31.3
Change in Accounting Principle	-	(7.8)
Net Income	\$17.4	\$44.9

Diluted Earnings (Loss) Per Share

Continuing Operations	\$0.66	\$0.76
Discontinued Operations	(0.02)	1.10
Change in Accounting Principle	-	(0.27)
	\$0.64	\$1.59

Note: In 2005, we began allocating corporate charges and interest expenses 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 net income or earnings per share.

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Millions

Regulated Utility		
Retail and Municipals		
Residential	319.8	310.3
Commercial	339.8	331.9
Industrial	1,777.1	1,766.8
Municipals	222.0	213.8
Other	20.4	20.2
	2,679.1	2,643.0
Other Power Suppliers	236.7	217.2
	2,915.8	2,860.2
Nonregulated Energy Operations	353.9	434.0
	3,269.7	3,294.2

Real Estate

Acres Sold	483	1,268
Lots Sold	7	199