

*Approved by ALLETE Board of  
Directors on May 11, 2010*

# **ALLETE, Inc.**

Board of Directors

Corporate Governance Guidelines

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**ALLETE, Inc.**  
**Board of Directors**  
**Corporate Governance Guidelines**

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**May 11, 2010**

ALLETE, Inc. (“ALLETE” or the “Company”) is a publicly held company and operates in a complex, dynamic, highly competitive, and regulated environment. These Corporate Governance Guidelines (the "Guidelines") have been adopted by the Board of Directors of the Company to assist it in the performance of its duties and the exercise of its responsibilities. The Board believes that good corporate governance is a source of competitive advantage for ALLETE. Good corporate governance drives superior performance and maximizes the effectiveness of the Board and the Company's executive management team by efficiently bringing to bear the skills, experience and judgment of the Board.

These Guidelines are the current views of ALLETE's Board of Directors concerning philosophy, style, and emphasis of governance. Except where otherwise specifically stated, the Board views these Guidelines as guidelines—not rigid restraints—and believes they are evolutionary in nature. The Guidelines are subject to review and modification from time to time by the Board.

**BOARD ROLES AND RESPONSIBILITIES**

**Board Objective**

The Board's objective is to build long-term value for ALLETE's shareholders and to assure the vitality of the Company for its customers, employees, and the other individuals and organizations who depend on the Company. The Board recognizes that in order to achieve this goal it must be sensitive to the interests of all of the Company's stakeholders, including the Company's employees, customers, suppliers, creditors and the communities in which the Company operates.

**Board Responsibilities**

The Board is elected by and accountable to the Shareholders and is responsible for the direction and control of the Company. In carrying out its responsibilities, the Board will exercise sound, informed, and independent business judgment. The Board recognizes that to do so requires individual preparation by each Director and group deliberation by the Board. The Board's responsibilities include both decision-

making and oversight. The Board of Directors oversees and guides the Company's management and its business. The basic responsibility of the Board is to exercise its business judgment to act on what it reasonably believes to be in the best interest of the Company and its shareholders. In discharging their obligations, Directors are entitled to rely on the honesty and integrity of the Company's executives, and its outside advisors and auditors.

Among other things, the Board's decision-making responsibilities include: (a) review and approval of the Company's mission, strategies, objectives and policies, as developed by Management; (b) the selection and evaluation of the Company's Chief Executive Officer; (c) the determination of the terms of the CEO's employment, including his or her compensation package; and (d) the approval of material investments or divestitures, strategic transactions, and other significant transactions that are not in the ordinary course of the Company's business.

The Board provides oversight with respect to the strategic direction and key policies of the Company. It approves major initiatives, advises on key financial and business objectives, and monitors progress with respect to these matters. Among other things, the Board's oversight responsibilities include monitoring: (a) the Company's compliance with legal requirements and ethical standards; (b) the Company's risk management program; (c) the performance of the Company (in relation to its mission, strategies, financial and non-financial objectives, and competitors); (d) the Company's success in developing leaders and ensuring a strong management team with sound succession plans; (e) the performance and effectiveness of the CEO and Management; and (f) directly and through its Audit Committee the Company's financial reporting processes and internal controls. In addition, as appropriate, the Board should offer the CEO and Management constructive advice and counsel. The Board as a whole should consider all major decisions.

#### **Expectations of Individual Directors**

Among other things, the Board expects each Director to: (a) understand ALLETE's businesses and the marketplaces in which they operate; (b) regularly attend meetings of the Board and of the committees on which he or she serves; (c) review and understand the materials provided in advance of meetings and any other materials provided to the Board from time to time; (d) monitor and keep abreast of general economic, business and management news and trends, developments in ALLETE's competitive environment, and ALLETE's performance; (e) actively, objectively and constructively participate in meetings and the strategic decision making processes; (f) share his or her perspective, background, experience, knowledge and insights as they relate to the matters before the Board and its committees; and (g) be reasonably available when requested to advise the CEO and Management on specific issues not

requiring the attention of the full Board but where an individual Director's insights might be helpful to the CEO or Management.

#### **Board's Expectations of Management**

Management is responsible for the day-to-day business operations of ALLETE, Inc. Among other things, the Board expects Management to: (a) provide strong, informed and ethical leadership; (b) develop strategies that build businesses with strong sustainable marketplace positions and that build Shareholder value over the long term; (c) develop appropriate strategic and operating plans; (d) maintain effective control of operations and report regularly on its programs to ensure compliance with the highest ethical standards, as well as with legal, regulatory and other requirements; (e) measure and report performance against peer enterprises; (f) provide sound succession planning and management development; (g) maintain a sound organizational structure; (h) inform the Board regularly of the status of key initiatives and changes in the Company's performance or the environment in which it operates; and (i) timely address and resolve issues discussed at Board and Board committee meetings. Management acting through the CEO will inform the Board of material developments as soon as practical, and not wait until regularly scheduled Board meetings.

### **BOARD SELECTION AND COMPOSITION**

#### **Number of Directors**

The Board should have a sufficient number of Directors to reflect a substantial diversity of perspectives, backgrounds and experiences, but not so many Directors that the size of the Board hinders effective discussion or diminishes individual accountability. Given the current size and complexity of the Company's businesses, the Board believes that its size should range from nine to fifteen Directors as provided in the Articles of Incorporation. The Board will from time to time evaluate its size in light of changes in the size and complexity of the Company and its businesses and may change the specific number of Directors constituting the Board by resolution.

#### **Number of Independent Directors**

Independent Directors will constitute a substantial majority of the Board. The Board believes that, except in unusual circumstances, no more than two members of Management should serve on the Board at the same time.

#### **Definition of Independent Director**

An "Independent Director" is one who has been affirmatively determined, by resolution of the Board as a whole after due deliberation, to have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) other than as a Director. Independence determinations will be made public at least annually prior to the Directors

standing for election to the Board of Directors. The Board will consider all relevant facts and circumstances in making an independence determination and will apply the following standards:

A Director will not be considered an Independent Director if:

1. the Director is an employee of the Company or has been an employee of the Company within the least three years, other than in his or her capacity as a former interim Chairman or a former interim Chief Executive Officer;

2. an immediate family member (i.e., spouse, parents, children, stepchildren, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law of a Director and anyone, other than a domestic employee, who shares the Director's home) is employed by the Company as an executive officer or has been employed by the Company as an executive officer within the last three years;

3. (a) the Director is a partner or employee of the firm that is the Company's current independent registered public accounting firm; or (b) a immediate family member is a current partner of such firm; or (c) a immediate family member is a current employee of such firm and personally works on the Company's audit; or (d) the Director or an immediate family member was within the last three years a partner or employee of such firm and personally worked on the Company's audit within that time;

4. the Director or an immediate family member has been employed within the last three years as an executive officer of any business organization for which any of the Company's executive officers concurrently serves as a member of that business organization's compensation committee;

5. the Director has received, or an immediate family has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company (other than director and committee fees and pension or other deferred compensation for prior service with the Company, so long as such compensation is not contingent in any way on continued service);

6. the Director is an employee, or an immediate family member is an executive officer, of any business organization that has made payments to the Company, or received payments from the Company, for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues;

7. the Director has been within the last three years an employee, or an immediate family member has been within the last three years an executive officer, of any business organization to which the Company was indebted at any time during the last three years in an aggregate amount in excess of 5% of the Company's total assets;

8. the Director or an immediate family member has served within the last three years as an executive officer or general partner of an entity that has received an investment from the Company or any

of its subsidiaries that exceeds \$1 million or 2% of such entity's total invested capital, whichever is greater, in any of the last three years; or

9. the Director or an immediate family member has been an executive officer of a foundation, university, non-profit trust or other charitable organization, within the last three years, for which the Company and its respective trusts or foundations, account or accounted for more than the greater of \$250,000, or 2% of such charitable organization's consolidated gross revenues, in any of the last three.

To help maintain the independence of the Board, all Directors are required to deal at arms length with the Company and its subsidiaries, and to disclose circumstances material to the Director that might be perceived as a conflict of interest. These circumstances include those situations where a Director and an Executive Officer have a material financial interest in a common entity.

#### **Nomination and Selection of Directors**

The Board, as a whole, will be responsible for nominating individuals for election to the Board and for filling vacancies on the Board that may occur between annual meetings of the Shareholders. The Corporate Governance and Nominating Committee, in consultation with the Chairman of the Board, will be responsible for identifying, screening, personally interviewing and recommending candidates to the entire Board. In nominating candidates, the Board shall take into consideration such factors as it deems appropriate. These factors may include ethical standards and integrity, achievements, judgment, intelligence, personal character, the interplay of the candidate's relevant experience with the experience of other Board members, board succession plans, the willingness of the candidate to devote adequate time to Board duties, and likelihood that he or she will be willing and able to serve on the Board for a sustained period. In connection with the selection of nominees for Director, due consideration will be given to the Board's overall balance of diversity of perspectives, backgrounds and experiences. It is the Board's policy that any potential nominee will have been interviewed by a majority of the members of the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee will consider any suggestions offered by Management, other Directors or any Shareholder with respect to potential Directors.

#### **Director Resignation Policy**

In an uncontested election, any nominee for director who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall promptly offer to tender his or her resignation to the Board following certification of the shareholder vote. The Corporate Governance and Nominating Committee shall make a recommendation to the Board on whether to accept or reject the offer, or whether

other action should be taken. The Board shall act on whether to accept the director's offer, taking into account the Corporate Governance and Nominating Committee's recommendation, and publicly disclose (by press release, a filing with the Securities and Exchange Commission or other broadly disseminated means of communication) its decision and the rationale behind it within 90 days after the date of the certification of the election results. The Corporate Governance and Nominating Committee, in making its recommendation, and the board, in making its decision, may each consider any factors or other recommendations that it considers relevant and appropriate. The incumbent director who offers to tender his or her resignation shall not participate in the Board's decision. If such incumbent director's offer to tender his or her resignation is not accepted by the Board, such director shall continue to serve until the next annual meeting and until his or her successor is duly elected, or his or her earlier death, resignation, retirement, disqualification or removal.

#### **Board Leadership**

The Company will have a Chairman of the Board and Chief Executive Officer, who may be the same person. The Board may, however, separate these two positions when it deems it to be in the best interests of the Company and the Shareholders to do so. If the Chairman is not an Independent Director, the Independent Directors will select an Independent Director to act as the Board's leader when it meets in executive session or when the Board Chairman is unable to lead the Board's deliberations (the "Lead Director"). The Lead Director will also serve as a liaison between the Board and the CEO. In the absence of the Chairman and Lead Director, the Chair of the Corporate Governance and Nominating Committee shall chair the meeting.

#### **Director Retirement**

Directors will not stand for re-election if they will have reached age 70 prior to the mailing to Shareholders of that year's Proxy Statement. Any member of Management (including the CEO) who is a Director will retire from the Board at the same time he or she discontinues active management responsibilities with the Company, or ceases to hold the position held at the time the last Proxy Statement was mailed to shareholders in connection with election of Directors, unless in either case requested by the Board to continue as a Director.

#### **Change of Position**

If a non-employee Director experiences a material change in the Director's occupation (including termination of or retirement from the Director's employment or a material change in the Director's position or principal responsibilities), the Director shall promptly provide to the Chairman of the Board a written notice and offer to tender the Director's resignation.

The Corporate Governance and Nominating Committee shall consider the resignation offer and recommend to the Board whether the Director should be asked to resign. The Board will determine whether or not such Director will continue as a member of the Board.

**Service on Other Boards**

The Board believes that individuals should limit the number of boards on which they serve in order to give proper attention to their responsibility to each board. Directors will seek and obtain approval of the Corporate Governance and Nominating Committee for memberships on other boards of directors (or similar governing bodies) and shall inform the committee of any nomination to such a body. The committee shall review the requirements of such membership with the Director. As a general policy, the Board believes that Directors should limit their service to not more than three other boards of public companies but exceptions to this policy will be made in appropriate cases. Where a Director seeks to serve on more than three other boards, the Corporate Governance and Nominating Committee will consider the request and submit its recommendation to the Board for consideration and decision. All memberships on other boards by the CEO will be considered and decided by the full Board based upon the Corporate Governance and Nominating Committee's recommendation.

**Service on Boards of Competing or Interlocking Enterprises**

A Director will not serve as a director of any public company that is competitive with the businesses of the Company. Federal law regulates so-called "interlocking" directorates; and other restrictions are imposed where two or more Directors of the Company serve together on another board or similar body. Directors should seek legal guidance concerning such memberships. There are additional limitations imposed by the Federal Energy Regulatory Commission relating to participants in and suppliers to the energy market.

**Director Orientation Program**

The Board and Management will provide an orientation program for new Directors (and, as appropriate, a continuing education program for returning Directors) that includes, as advisable, management meetings, facility visits, and materials, such as the Company's organizational and governance documents, recent Board and committee minutes, recent Securities and Exchange Commission filings, strategic and operating plans, financial information, corporate structure and organizational charts, and information about the Company's businesses, products, services and the industries in which the Company operates.

All new Directors must participate in the Company's Director orientation program. This orientation includes presentations by senior management to familiarize new Directors with the Company's strategic plans, its significant financial and accounting and risk management issues, its compliance programs, its code of business conduct and ethics, its principal officers, and its internal and independent auditors. In

addition, each Board committee also provides new committee members with appropriate background information about the workings of the committee.

#### **Continuing Education**

The Company endeavors to provide Directors with frequent updates on corporate governance practices and the legal requirements of Board members. In addition, Directors are expected to participate in relevant educational opportunities at least every other year to enhance their effectiveness on the Board. The Company will pay for courses Directors deem appropriate to help them in their role as Board members.

#### **Conflict of Interest**

If an actual or potential conflict of interest develops because of a change in the business of the Company or a subsidiary, or in a Director's circumstances, the Director should disclose the matter to the Corporate Governance and Nominating Committee. If a Director has a personal interest in a matter before the Board, the interest shall be disclosed to the full Board, and the Director shall recuse himself or herself from participation in the discussion, and shall not vote on the matter.

### **BOARD OPERATIONS**

#### **Number of Regular Meetings**

The Board will hold at least four regular meetings each year.

#### **Meeting Schedule**

The Chairman will prepare and propose a Board meeting schedule for the ensuing year for consideration by the Board at its first meeting following the Annual Meeting of Shareholders.

#### **Extended Meeting**

One of the Board's meetings, usually the January meeting, will be scheduled over an extended period to permit detailed review of the Company's strategic plan.

#### **Executive Sessions**

At each regularly scheduled meeting, the Board will meet with only the non-management Directors present. These meetings will be chaired either by the Chairman (if he or she is an Independent Director) or by the Lead Director (if the Chairman is not an Independent Director). If not all of the non-management Directors are Independent Directors, the Independent Directors will meet separately in Executive Session at least once a year in connection with the Annual Meeting of Shareholders. In order that interested parties may be able to make their concerns about the Company known to the non-management Directors, those parties should contact the Chair of the Corporate Governance and Nominating Committee directly through the executive offices of the Company.

### **Meeting Materials**

In advance of each Board meeting, an agenda for such meeting will be sent to each Director together with: (a) written materials pertaining to certain matters to be presented for Board decision at such meeting; (b) summary financial information needed to understand the performance of the Company; (c) minutes of the most recent Board meeting and of any committee meetings held since the distribution of materials for the most recent Board meeting; and (d) other written materials that are available in advance of the meeting. Written materials should be designed to provide a foundation for the Board's discussion of key issues and allow the Board to make the most efficient use of its meeting time. Directors may request additional information or changes in the scope, amount or format of the information provided, and the CEO will make every effort to provide such additional information or make such changes.

### **Board Contact with Management and Independent Advisors**

Members of senior management are included in open sessions of the Board and Committee meetings, as appropriate. Directors may from time to time meet individually with members of Management. Normally, the CEO should be informed of such meetings in advance and, following such meetings, informed of the results of and matters discussed during such meetings. Directors should use their access to Management with care so as not to undermine normal lines of management authority. As necessary and appropriate, Directors shall have access to independent advisors retained by the Board.

### **CEO Evaluation**

Each year the Corporate Governance and Nominating Committee will develop and recommend to the Board criteria that will be used to evaluate the CEO's performance. These criteria will include, among other things, the Company's performance against its strategic and operating plans, as well as achievements in management development and succession planning. The Corporate Governance and Nominating Committee will solicit input from each of the Independent Directors regarding the CEO's performance, and share the results of its evaluation with the Board's Independent Directors. The Executive Compensation Committee will set financial goals and objectives relevant to the compensation of the CEO and, based on the performance evaluation conducted by the Corporate Governance and Nominating Committee, and results achieved relative to the goals and objectives, set the compensation level in light of those goals and objectives. After discussion and approval by the Independent Directors, the Lead Director (if the Chairman is not an Independent Director) or the Chairman (if he or she is an Independent Director) and the Chair of the Executive Compensation Committee will meet with the CEO to discuss the evaluation.

### **Strategy**

It is Management's responsibility to formulate, propose and implement strategy and the Board's role to approve strategic direction and to evaluate strategic results. Board approval will be required for changes

in long-range strategy (including resource allocation) and changes in long-term capital structure as well as the entry into a new substantial line of business.

**Management Development and Succession Planning**

On an annual basis, the CEO will present to the Board for its consideration a report on management development and succession planning for key Management positions in all corporate and business units., The report will include a proposed succession plan addressing both planned and unanticipated departures of such key Management positions.

**Board Evaluation**

On an annual basis, the Corporate Governance and Nominating Committee has the responsibility to oversee the evaluation of the Board and its Committees. The evaluation seeks the opinion of Directors as to the sufficiency and timeliness of briefing materials provided to them, the content and conduct of meetings, the adequacy of time allocated to, and quality of, presentations and discussions, access to senior management, the Board's understanding of issues, Board's consideration of shareholders' interests in making decisions, overall characteristics and mix of skill sets of Board members, as well as other areas. These assessments include a review of any areas identified by Board members as requiring improvement. The Board endeavors to use these evaluations to improve its performance and effectiveness.

**BOARD COMMITTEES**

The Board will normally have three standing committees - Audit Committee, Executive Compensation Committee, and Corporate Governance and Nominating Committee which shall also serve the functions of an executive committee. The Board may, from time to time, expand or reduce the number of standing committees, change committee responsibilities or form ad hoc committees. Each standing committee will have a charter that is adopted by the Board. In general, the committees should function to identify and focus issues for discussion by the full Board. Each committee chair shall report regularly to the Board on committee meetings and other committee activities.

**Committee Composition; Rotation of Membership**

The size, membership, and chairs of each committee will be determined by the Board as recommended by the Corporate Governance and Nominating Committee. Each of the committees will be chaired by an Independent Director and will have only Independent Directors as members. The Chairman, or Lead Director, if the Chairman is not an Independent Director, if any, is an ex-officio member of each of the standing committees. The membership and chairs of the committees will be rotated from time to time after considering the recommendations of the Corporate Governance and Nominating Committee, to allow Directors serve on various committees over time while providing for continuity of membership and leadership on each committee. Any Board member and the CEO may participate in any committee

meeting except when such participation would present a conflict of interest or, in the case of a Chairman who is not an Independent Director, the meeting is an executive session of the committee. In the absence of the Committee chair, the most senior Committee members (in terms of Committee service) chairs the Committee meeting.

#### **Annual Committee Meeting Schedule**

The chair of each committee, in consultation with the CEO and the Chairman (or Lead Director if the Chairman is not an Independent Director), will prepare and recommend to the Board at its Annual Meeting held in May a schedule for the committee for the ensuing year. Copies of each committee's schedule will be distributed to all Directors.

#### **Committee Meeting Materials**

The chair of each committee will oversee the preparation of an agenda for each meeting. The agenda, together with: (a) written materials pertaining to the matters to be presented for consideration at such meeting; and (b) the minutes of the most recent meeting of the committee, will be provided to each committee member in advance.

#### **Management Attendance at Committee Meetings**

The chair of each committee in consultation with the CEO will determine which members of Management will attend each committee meeting.

#### **Committee Reports to the Board**

At least once per year, normally at the annual meeting of Directors held in May, the chair of each committee will make a presentation to the Board regarding the activities and policies and practices of his or her committee. The purpose of such presentation is to inform Directors of the activities, policies and practices of committees on which they do not serve.

#### **Other Committees**

The Board may form ad hoc committees from time to time. The Board will determine the size, membership, and chair of each ad hoc committee. Generally, the chairs and most members of such committees will be Independent Directors. The Board may appoint members of Management as ex officio members of such ad hoc committees.

### **DIRECTORS' COMPENSATION**

The Board will determine Directors' compensation. Members of Management who are also Directors will not receive additional compensation for their service as Directors. Management will report annually to the Executive Compensation Committee on the amount and composition of the compensation of the Company's Directors in relation to the compensation of directors of comparable enterprises. The Board believes that it is important to align the interests of Directors with those of the Shareholders.

Accordingly, the Board believes that a significant portion of Directors' compensation should be paid in stock or other forms of compensation that correlate with the market value of the Company. The Executive Compensation Committee will recommend changes in Directors' compensation to the Board.

#### **DIRECTORS' AND OFFICERS' SHARE OWNERSHIP**

The Board believes that the Directors and Officers should be Shareholders. The Corporate Governance and Nominating Committee is charged with establishing guidelines for stock ownership by Directors and Officers. The Corporate Governance and Nominating Committee has determined that Directors should own 500 shares of Company stock prior to their election as a Director, and a total of 3000 shares within 3 years of such election. It is also expected that Officers should own shares of the Company as determined annually by the Corporate Governance and Nominating Committee.

#### **MANAGEMENT SERVICE ON OTHER BOARDS**

The CEO will report to the Board annually regarding membership of Executive Management on boards or similar governing bodies of other entities.

#### **COMMUNICATIONS**

Management speaks for the Company. Inquiries from investors, analysts, the press, customers, suppliers, or others should be referred to the CEO or other appropriate members of Management. Individual Directors may, from time to time, meet with various constituencies of the Company, at the request of or with the concurrence of Management. Directors are free to meet with or address the public or special groups concerning board practices generally, and other matters of interest to the Directors not directly related to activities of the Company, and such contacts will not require Management concurrence.

#### **CODE OF CONDUCT**

The Company has adopted an Ethics Policy which applies to all Directors, Officers, and Employees of the Company and its subsidiaries. The Corporate Governance and Nominating Committee shall review the Ethics Policy from time to time and recommend any proposed changes to the Board.