

ALLETE INC  
Form DEF 14A  
March 22, 2018  
UNITED STATES  
SECURITIES AND  
EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to  
Section 14(a) of  
the Securities Exchange Act of  
1934 (Amendment No. )

Filed by the Registrant ☒ x  
Filed by a Party other than the  
Registrant ☐ o

Check the appropriate box:

- ☐ Preliminary Proxy Statement  
Confidential, for Use of the  
Commission Only (as  
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14a-6(e)(2))  
☒ Definitive Proxy Statement  
Definitive Additional  
☐ Materials  
☐ Soliciting Material Pursuant  
to §240.14a-12

ALLETE, Inc.  
(Name of Registrant as  
Specified In Its Charter)

(Name of Person(s) Filing  
Proxy Statement, if other than  
the Registrant)

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the appropriate box):

☒ No fee required.

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(2) Aggregate number of  
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Per unit price or other  
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Schedule and the date of its  
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- (1) Amount Previously Paid:

Form, Schedule or

- (2) Registration Statement  
No.:

- (3) Filing Party:

- (4) Date Filed:
-

ALLETE,  
Inc.  
30 West  
Superior  
Street  
Duluth,  
Minnesota  
55802

NOTICE OF 2018 ANNUAL MEETING OF SHAREHOLDERS

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When: Tuesday, May 8, 2018, at 10:30 a.m., CDT  
(Doors will open at 9:30 a.m.)  
Duluth Entertainment Convention Center

Where: Lake Superior Ballroom  
350 Harbor Drive  
Duluth, MN 55802

Business  
Items: 1. To elect a Board of Directors to serve for the ensuing year;  
2. To hold an advisory vote to approve ALLETE's executive compensation;  
3. To ratify the selection of PricewaterhouseCoopers LLP as ALLETE's independent registered public  
accounting firm for 2018; and  
4. To transact such other business as may properly come before the meeting or any adjournments or  
postponements thereof.

Entitled Vote: Shareholders of record on the books of ALLETE at the close of business on March 9, 2018.

Attendance: All shareholders are invited and encouraged to attend the Annual Meeting in person. If you plan to  
attend, please review the information on page 2.

At the direction of the Board of Directors,

/s/ Bethany M. Owen  
Bethany M. Owen  
Senior Vice President, Chief Legal and Administrative Officer, and Secretary

March 22, 2018  
Duluth, Minnesota

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PROXY STATEMENT TABLE OF CONTENTS

DEFINITIONS	iii
PROXY STATEMENT	1
Proxy Solicitation and Costs	1
QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING	2
OWNERSHIP OF ALLETE COMMON STOCK	7
Securities Owned by Certain Beneficial Owners	7
Securities Owned by Directors and Management	8
Pledging, Hedging, and Short Sales of Common Stock Prohibited	9
Section 16(a) Beneficial Ownership Reporting Compliance	9
ITEM NO. 1—ELECTION OF DIRECTORS	10
Nominees for Director	10
CORPORATE GOVERNANCE	16
Governance Policies	16
Director Independence	17
Related Person Transactions and Director Independence Determinations	18
Board Leadership Structure	19
Overview of Board, Committee Memberships, and Meetings in 2017	20
Board Committees	20
Director Meeting Attendance	21
Director Nominations	21
Communications between Shareholders and Other Interested Parties and the Board	22
Common Stock Ownership Guidelines	22
Code of Business Conduct and Ethics	23
Risk Oversight	23
Sustainability and Corporate Responsibility	23
ITEM NO. 2—ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION	24
COMPENSATION DISCUSSION AND ANALYSIS	25
Executive Summary	25
Compensation Philosophy	25
2017 Financial Performance for Incentive Plans	25
2017 Compensation Decisions	27
Say-on-Pay Advisory Vote Results	27
Key Compensation Elements: What We Pay and Why	28
Key Compensation Practices	29
How We Link Executive Pay to Performance	29
Retirement and Other Broad-Based Benefits	36
Severance Benefits	37
Perquisites	38
Executive Stock Ownership Guidelines	38
Compensation Recovery Policy	39
Process for Determining Executive Compensation	39
Realized Compensation	44
CEO Pay Ratio	45

Shareholder Advisory Voting on Executive Compensation	45
COMPENSATION COMMITTEE REPORT	46
EXECUTIVE COMPENSATION TABLES	47
Summary Compensation Table	47
Grants of Plan-Based Awards–2017	49
Grants of Plan-Based Awards Discussion	50
Outstanding Equity Awards at Fiscal Year-End–2017	53
Option Exercises and Stock Vested–2017	53
Pension Benefits–2017	54
Pension Benefits Discussion	55
Non-Qualified Deferred Compensation–2017	57
POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL	59
Estimated Potential Payments Upon Termination Associated with a Change in Control	60
Estimated Potential Payments Upon Termination Due to Retirement, Disability, or Death	61
Estimated Additional Payments Due to Long-Term Disability	61
DIRECTOR COMPENSATION	62
ITEM NO. 3—RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	64
AUDIT COMMITTEE REPORT	65
Audit Committee Pre-Approval Policies and Procedures	66
Audit and Non-Audit Fees	66
OTHER BUSINESS	67
Shareholder Proposals for the 2019 Annual Meeting	67

## DEFINITIONS

The following abbreviations or acronyms are used in this Proxy Statement. References to "we," "us," and "our" are to ALLETE, Inc.

Abbreviation or Acronym	Term
AIP	ALLETE Executive Annual Incentive Plan
ALLETE, or Company	ALLETE, Inc.
Annual Meeting	Annual Meeting of Shareholders
ASC	Financial Accounting Standards Board Accounting Standards Codification
Audit Committee	Audit Committee of the Board
Board, or Directors	ALLETE's Board of Directors
CD&A	Compensation Discussion and Analysis Section of this Proxy Statement
CEO	ALLETE's Chief Executive Officer
CFO	ALLETE's Chief Financial Officer
CIC Severance Plan	ALLETE and Affiliated Companies Change in Control Severance Plan
Common Stock	ALLETE Common Stock
Compensation Committee, or ECC	Executive Compensation Committee of the Board
Compensation Recovery Policy	ALLETE and Affiliated Companies Compensation Recovery Policy
Corporate Governance Committee, or CGC	Corporate Governance and Nominating Committee of the Board
Deferral Plan I	ALLETE Non-Employee Director Compensation Deferral Plan I
Deferral Plan II	ALLETE Non-Employee Director Compensation Deferral Plan II
Deferral Plans	Deferral Plan I and Deferral Plan II, collectively
EITE	Energy-Intensive Trade-Exposed Rates
EEI	Edison Electric Institute
ERM	Enterprise Risk Management
Exchange Act	Securities Exchange Act of 1934, as amended
LTIP	ALLETE Executive Long-Term Incentive Compensation Plan
NEO	Named Executive Officer
NYSE	New York Stock Exchange
Pearl Meyer	Pearl Meyer & Partners, LLC
PricewaterhouseCoopers	PricewaterhouseCoopers LLP
PSA	Performance Share Award
Retirement Plan A	ALLETE and Affiliated Companies Retirement Plan A
Retirement Plan B	ALLETE and Affiliated Companies Retirement Plan B
RSOP	ALLETE and Affiliated Companies Retirement Savings and Stock Ownership Plan
RSU	Restricted Stock Unit
SEC	Securities and Exchange Commission
SERP	SERP I and SERP II, collectively
SERP I	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan I
SERP II	ALLETE and Affiliated Companies Supplemental Executive Retirement Plan II
SWL&P	Superior Water, Light and Power Company
Tax Code	Internal Revenue Code of 1986, as amended
TSR	Total Shareholder Return

ALLETE, Inc.  
30 West Superior Street  
Duluth, Minnesota 55802

PROXY STATEMENT \_\_\_\_\_

Proxy Solicitation and Costs

ALLETE is delivering these proxy materials to our shareholders as part of soliciting proxies to be voted at the Company's 2018 Annual Meeting, which will be held in the Lake Superior Ballroom at the Duluth Entertainment Convention Center in Duluth, Minnesota, on Tuesday, May 8, 2018, at 10:30 a.m., CDT.

We expect to solicit proxies primarily by mail. We will also solicit proxies by e-mail from shareholders who previously requested to receive proxy materials electronically and from the majority of our employee shareholders.

We have retained Georgeson LLC to assist in the solicitation of proxies. Directors, officers, other employees, or retirees also may solicit proxies in person or by telephone at a nominal cost. Brokers and other custodians, nominees, and fiduciaries will be asked to solicit proxies or authorizations from beneficial owners and will be reimbursed for their reasonable expenses. The Company expects to pay approximately \$10,000 plus expenses in connection with soliciting proxies.

The Notice of Annual Meeting, Proxy Statement, and form of proxy were first sent to shareholders on or about March 22, 2018.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Proxy Statement and 2017 Annual Report on Form 10-K are available online at [materials.proxyvote.com/018522](https://materials.proxyvote.com/018522).

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING  
AND VOTING \_\_\_\_\_

Q: Why did I receive these proxy materials?

You received these materials because you were an ALLETE shareholder at the close of business on March 9, 2018 (the Record Date) and are entitled to vote at the Annual Meeting.

Q: Who is entitled to vote at the Annual Meeting?

Investors who held the Company's Common Stock at the close of business on the Record Date are entitled to vote at the Annual Meeting. As of the close of business on the Record Date, there were 51,269,172 outstanding shares of Common Stock, each entitled to one vote.

Q: What is the purpose of the Annual Meeting?

At the meeting, shareholders will be asked to do the following:

Elect a Board of twelve Directors to serve for the ensuing year. The Director nominees are: Kathryn W. Dindo, Sidney W. Emery, Jr., George G. Goldfarb, James S. Haines, Jr., Alan R. Hodnik, James J. Hoolihan, Heidi E. Jimmerson, Madeleine W. Ludlow,

Susan K. Nestegard, Douglas C. Neve, Robert P. Powers, and Leonard C. Rodman;

• Hold an advisory vote to approve executive compensation;

• Ratify the selection of PricewaterhouseCoopers as the Company's independent registered public accounting firm for 2018; and

• Transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

The Board is not aware of any other matter to be presented at the Annual Meeting. If any other matters properly come before the meeting, all shares represented by valid proxies will be voted in accordance with the judgment of the appointed proxies.

Q: What do I need if I plan to attend the Annual Meeting?

You will need an admission ticket to attend the Annual Meeting. An admission ticket has been included with your proxy materials or with your Notice of Internet Availability of Proxy Materials.

Please vote your proxy even if you plan to attend the Annual Meeting. After you vote, keep your admission ticket and bring it with you to the meeting.

If you do not bring your admission ticket to the Annual Meeting, you will be asked to present proof of your Common Stock ownership and a government-issued photo identification in order to receive an admission ticket on the day of the meeting.

Each shareholder may bring a guest to the Annual Meeting. Guests must be accompanied by a shareholder and will need an admission ticket to enter the meeting. You may request an additional ticket for your guest on the day of the Annual Meeting.



Q: How many votes must be present to hold the Annual Meeting?

The holders of a majority of the shares of Common Stock entitled to vote at the meeting must be present in person or represented by proxy to constitute a quorum, which is required to transact business at the Annual Meeting.

Q: What are the Board's voting recommendations?

The Board recommends that you vote as follows:

- (1) "FOR" each Director nominee;
  - (2) "FOR" the advisory approval of ALLETE's executive compensation;
  - (3) "FOR" ratification of PricewaterhouseCoopers as the Company's independent registered public accounting firm for 2018; and
  - (4) in accordance with the discretion of the persons acting under the proxy concerning such other business as may properly be brought before the meeting or any adjournments or postponements thereof.
- Unless contrary instructions are provided, all shares of Common Stock represented by valid proxies will be voted in accordance with the Board's recommendations.

Q: How do I vote my shares?

You may vote your shares by proxy using any of the following methods:

Internet: Vote online at [www.proxypush.com/ale](http://www.proxypush.com/ale). Follow the instructions on your proxy card or, if you received these materials electronically, the instructions in the email message notifying you of the availability of these materials. Do not return your proxy card if you vote online. Internet voting will be available until 12:00 p.m. CDT on May 7, 2018.

Telephone: Vote using a touch-tone telephone by calling (866) 883-3382 and following the instructions on your proxy card or, if you received these materials electronically, the instructions in the e-mail message notifying you of the availability of these materials. Do not return your proxy card if you vote by telephone. Telephonic voting will be available until 12:00 p.m. CDT on May 7, 2018.

Mail: Complete, sign, and date the proxy card that you received and return it, using the prepaid postage envelope provided, to ALLETE, Inc., c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873.

If your shares are held in the name of a broker, bank, or other nominee, you must vote your shares in the manner prescribed by your brokerage firm, bank, or other nominee. Your brokerage firm, bank, or other nominee should give you a voting instruction form to direct your broker or other nominee about how to vote your shares.

Q: What is the difference between a shareholder of record and a "street name" holder?

If your Common Stock is registered directly in your name with our transfer agent, Equiniti Trust Company, you are called a "shareholder of record." As the shareholder of record, you have the right to vote your shares by proxy directly with the Company (online, by telephone, or by mail) or in person at the Annual Meeting.

If your Common Stock is in an account or trust held in the name of a broker, bank, or other nominee as custodian on your behalf, you are a "street name" holder. As a beneficial owner, you have the right to direct your broker, bank, or other nominee as to how to vote your shares. You are also invited to attend the Annual Meeting. If you wish to vote your shares in person at the meeting, however, you must bring a legal proxy from your broker, bank, or other nominee.

Q: Can my broker vote my shares for me without my instruction?

Your broker can vote your shares without instruction from you only as to the ratification of the selection of our independent registered public accounting firm for 2018 (Item 3).

As to all other voting items in this Proxy Statement, your broker cannot vote your shares without instructions from you.

If you do not instruct your broker to vote your shares as to Item 1, your shares will not be considered in determining the number of votes necessary for approval and will have no effect on the outcome of this proposal.

If you do not instruct your broker to vote your shares as to Item 2, your shares will be considered an abstention and your abstention will have the same effect as a vote against that proposal.

Q: Can I change my vote or revoke my proxy?

Yes. If you are a shareholder of record, you can change your vote or revoke your proxy at any time before it is voted at the Annual Meeting, either by signing and returning a proxy card with a later date or by attending the Annual Meeting in person and changing your vote prior to the start of the meeting. If you have voted your shares online or by telephone, you can revoke your prior online or telephonic vote by recording a different vote, or by signing and returning a proxy card dated as of a date later than your last online or telephonic vote. If your shares are held in street name, you must contact your broker, bank, or other nominee to change your vote or revoke your proxy.

Q: What vote is required to approve each proposal?

Item 1: Each Director will be elected by the affirmative vote of a majority of the votes cast with respect to that Director nominee. A majority of the votes cast means that the number of votes cast “for” the election of a nominee must exceed the number of votes cast “against” the election of that nominee. Each nominee receiving more votes for his or her election than votes against his or her election will be elected. If you abstain from voting for one or more of the nominees for Director, your abstention will have no effect on the election of such Director.

Item 2: The advisory vote on executive compensation will be decided by an affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote, provided that the total number of shares voting for this proposal represents more than 25 percent of the Common Stock shares outstanding on the Record Date. If you abstain from this advisory vote, your abstention will have the same effect as a vote against this proposal. Although this is a non-binding, advisory vote, the Compensation Committee and the Board will consider the outcome of the vote when making future executive compensation decisions.

Item 3: The affirmative vote of a majority of the shares present in person or represented by proxy is required to ratify the selection of PricewaterhouseCoopers as our independent registered public accounting firm for 2018, provided that the total number of shares voting for this proposal represents more than 25 percent of the shares outstanding on the Record Date. If you abstain from voting for the ratification of the selection of PricewaterhouseCoopers, your abstention will have the same effect as a vote against this proposal.

A “broker non-vote” occurs when a broker submits a proxy card for shares to the Company but does not indicate a vote on a particular matter because the broker has not received timely voting instructions from the beneficial owner with respect to that particular matter. Broker non-votes are not counted for or against any proposal. They are treated as shares not present and not entitled to vote on a particular proposal.

An automated system administered by EQ Shareowner Services will tabulate the proxy votes.

Q: How can I subscribe to electronic delivery of annual reports and proxy statements?

We offer our shareholders the convenience of receiving proxy statements, annual reports, and other shareholder materials electronically. With your consent, we will no longer send you paper copies of these documents beginning next year. Instead, we will send you an email notification that the shareholder materials have been filed with the SEC and are available for you to view, including a link to the website where you can view the materials. We will also provide you with a link to allow you to vote your shares of Common Stock online. To sign up for electronic receipt of shareholder materials, follow these directions:

1. Log onto the Internet at [www.allete.com](http://www.allete.com)
2. Click on “Investors”
3. Click on “Shareholder Services”
4. Click on “Proxy Electronic Delivery”
5. Follow the prompts to submit your electronic consent

You will receive an e-mail confirmation of your enrollment. You will continue to receive your shareholder materials electronically for as long as you remain a shareholder and the e-mail account that you provide the Company remains active, unless you choose to cancel your enrollment, which you may do at any time.

Q: I received proxy materials electronically. How can I get paper copies of these materials?

If you want paper copies of proxy materials, including a proxy card, delivered to you, please call ALLETE Shareholder Services at (800) 535-3056 or (218) 355-3974.

Q: Why would I receive more than one proxy card?

You might receive multiple proxy cards if you hold your shares in more than one account. Please vote all the shares that you own. We encourage you to have all accounts registered in the same name and address whenever possible. You can accomplish this by contacting ALLETE Shareholder Services at (800) 535-3056 or (218) 355-3974, or by writing to ALLETE, Inc., Attention: Shareholder Services, 30 West Superior Street, Duluth, MN 55802.

Q: I received more than one complete set of proxy materials. Is it possible to eliminate duplicates?

If you hold stock in more than one account or if you are a registered shareholder and you share the same address with another of our registered shareholders, you may request delivery of a single copy of future annual reports and proxy statements at any time by calling ALLETE Shareholder Services at (800) 535-3056 or (218) 355-3974, or by writing to ALLETE's transfer agent, Equiniti Trust Company, Shareowner Services, Attention: Householding, P.O. Box 64854, St. Paul, MN 55164-0854.

Many brokerage firms and financial institutions have procedures for delivering a single copy of Company documents to households with multiple beneficial shareholders. If your family has one or more "street name" accounts under which you beneficially own shares of Common Stock, please contact your broker or financial institution directly if you require additional copies of this Proxy Statement or the 2017 Annual Report on Form 10-K, or if you have other questions or directions concerning your "street name" account.

Q: Where can I find the voting results?

We will announce preliminary results at the Annual Meeting and publish the results in a Form 8-K filed with the SEC within four business days after the date of the Annual Meeting.

Q: Who can answer my additional questions?

You are welcome to contact ALLETE Shareholder Services with any questions you may have regarding this Proxy Statement. The telephone numbers are (800) 535-3056 or (218) 355-3974. The mailing address is: ALLETE, Inc., Attention: Shareholder Services, 30 West Superior Street, Duluth, MN 55802.

## OWNERSHIP OF ALLETE COMMON STOCK

Company records and other information available from outside sources, including information filed with the SEC, indicate that the following shareholders beneficially owned more than five percent of the Company's voting securities as of March 9, 2018:

## Securities Owned by Certain Beneficial Owners

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class <sup>1</sup>
Common Stock	BlackRock, Inc. <sup>2</sup> 55 East 52nd Street New York, NY 10055	6,686,198	13%
	The Vanguard Group, Inc. <sup>3</sup> 100 Vanguard Boulevard Malvern, PA 19355		
Common Stock		5,148,770	10%

<sup>1</sup> As of March 9, 2018.

The information shown, including the number of shares beneficially owned, comes from information filed with the

<sup>2</sup> SEC on Schedule 13G/A on January 19, 2018. The information reflects the number of Common Stock shares beneficially owned as of December 31, 2017, and includes BlackRock, Inc. and certain of its affiliates.

The information shown, including the number of shares beneficially owned, comes from information filed with the

<sup>3</sup> SEC on Schedule 13G/A on February 12, 2018. The information reflects the number of Common Stock shares beneficially owned as of December 31, 2017 and includes The Vanguard Group, Inc. and certain of its subsidiaries.

## Securities Owned by Directors and Management

As discussed on page 22, Directors are expected to own shares with a valuation equal to at least five times their annual cash retainer within five years of election. As of March 9, 2018, all Directors met the Common Stock ownership guideline, except Ms. Nestegard and Mr. Powers, who first became subject to the guideline in 2018 and 2017, respectively, and who both are making expected progress toward meeting the guideline.

Common Stock ownership guidelines applicable to NEOs are discussed on page 22 and starting on page 38. The Board reviewed executive stock ownership in July 2017. As of March 9, 2018, all NEOs met their respective stock ownership guideline, except Mr. Adams, who was promoted in 2017 to a position with a higher share ownership expectation, and who is making expected progress toward meeting his guideline.

In determining whether Directors and NEOs meet the Common Stock ownership guidelines, we include deferred shares and RSUs because we believe these derivative holdings accomplish similar objectives as stock ownership, namely, (1) encouraging Directors and NEOs to have a stake in the Company, and (2) aligning interests of Directors and NEOs with those of shareholders.

The following table shows the shares of Common Stock beneficially owned, as of March 9, 2018, by Directors, nominees for Director, executive officers named in the Summary Compensation Table on page 47, and all Directors, nominees for Director, and executive officers as a group. The shares shown under the heading "Other" are not considered beneficially owned in accordance with Rule 13d-3 of the Exchange Act, but we include those holdings in determining whether an individual has met the Company's share ownership guidelines. Except as otherwise indicated, the persons shown have sole voting and investment power over the Common Stock listed.

## Securities Owned by Directors and Management

	Name of Beneficial Owner	Number of Shares Beneficially Owned <sup>1</sup>	Other <sup>2</sup>		
			Restricted Stock Units	Deferred Shares Under the Director Deferred Stock Plan	Company Share Ownership Guidelines <sup>3</sup>
Directors and Nominees for Director	Kathryn W. Dindo	7,669	—	6,490	4,553
	Sidney W. Emery, Jr.	23,623	—	—	4,553
	George G. Goldfarb	2,542	—	7,106	4,553
	James S. Haines, Jr.	4,645	—	12,671	4,553
	James J. Hoolihan	10,398	—	6,886	4,553
	Heidi E. Jimmerson	12,420	—	7,758	4,553
	Madeleine W. Ludlow	12,336	—	3,864	4,553
	Susan K. Nestegard	500	—	466	4,553
	Douglas C. Neve	13,656	—	5,675	4,553
	Robert P. Powers	664	—	666	4,553
	Leonard C. Rodman	500	—	16,489	4,553
Named Executive Officers	Alan R. Hodnik	56,122	14,842	—	46,342
	Robert J. Adams	11,122	3,091	—	15,709
	Bradley W. Oachs	13,516	2,821	—	11,188
	Deborah A. Amberg	20,551	2,947	—	10,131
	Bethany M. Owen	6,771	2,191	—	8,659
	Steven Q. DeVinck	5,011	—	—	—

All Directors, nominees for Director, and executive officers as a group (20): 211,238

The share amounts in this column include: (i) shares as to which voting and investment power is shared with the person's spouse: Mr. Hoolihan—5,171 and Mr. Neve—13,156, and (ii) shares owned by the person's spouse:

<sup>1</sup> Mr. Rodman—500. Each Director, nominee for Director, and executive officer, individually, and all Directors, nominees for Director, and executive officers as a group, beneficially own only a fraction of one percent of the Common Stock outstanding.

<sup>2</sup> Although amounts in the "Other" column do not represent either issued Common Stock or a right of the holder to receive Common Stock within 60 days, the amounts are shown here because we count them when considering whether a Director or NEO meets share ownership guidelines. Directors are able to defer their retainer fees under the Deferral Plan II. Distributions of deferred shares will be made in Common Stock.

<sup>3</sup> Guideline amounts have been calculated using a Common Stock valuation of \$68.08 per share, the closing price on March 9, 2018. Amounts shown in this column for all NEOs, except Mr. DeVinck, were determined based on the NEO's salary as of March 9, 2018. Mr. DeVinck, who retired on May 31, 2017, was no longer subject to share ownership guidelines after that date.



**Pledging, Hedging, and Short Sales of Common Stock Prohibited**

The ALLETE Purchase and Sale of Company Securities Policy prohibits Directors and NEOs from holding Common Stock in a margin account or otherwise entering into any pledge arrangement that would permit a third party to sell the securities without the Director's or NEO's consent or knowledge. In addition, no Director or NEO may enter into any transaction that allows him or her to be insulated from the full risk or reward of Common Stock ownership (i.e., hedging) nor may a Director or NEO enter into any transaction that allows him or her to benefit from the devaluation of the Common Stock (i.e., short sale).

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires Directors, executive officers, and persons who beneficially own more than 10 percent of a registered class of the Company's equity securities to file with the SEC and NYSE reports of initial ownership of Common Stock and other equity securities, and subsequent changes in that ownership. Based on a review of such reports and the written representations of our Directors and executive officers, the Company believes that all such filing requirements were met during 2017.



ITEM NO. 1—ELECTION OF DIRECTORS

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Each Director is elected to serve until the next annual election of Directors and until a successor is qualified and elected, or until the Director's earlier resignation or removal. If any nominee should become unavailable, which is not anticipated, the Board may provide by resolution for a lesser number of Directors, or designate substitute nominees, who would receive the votes represented by proxies. All shares represented by proxy will be voted, unless otherwise directed, "FOR" the election of the twelve nominees for Director named below and on the following pages.

Nominees for Director

Kathryn W. Dindo

Age: 68

Director Since: 2009

Committee: Audit Committee Chair

From 2001 to 2008, Ms. Dindo was the vice president and chief risk officer of FirstEnergy Corporation (NYSE: FE), a diversified electric company. Ms. Dindo is a certified public accountant who was a partner at Ernst & Young and later served as a senior financial executive at Caliber System, Inc. (formerly Roadway Services, Inc.), a transportation services company, before joining FirstEnergy in 1998.

Ms. Dindo serves as a director and audit committee member of The J.M. Smucker Company (NYSE: SJM), which manufactures and markets branded food products. She also serves as a director and chair of the audit committee of Bush Brothers & Company, a privately owned food processing and manufacturing company. Ms. Dindo is also a director of Shoebox Private Trust Company, LLC and a member of the distribution committee of the GAR Foundation, a non-profit making community investments in the Akron, Ohio region.

Ms. Dindo is an audit committee financial expert within the meaning of the SEC rules. She has extensive experience with public company financial reporting and oversight, and a broad business perspective. Ms. Dindo also brings experience in electric utility risk management.

Sidney W. Emery, Jr.

Age: 71

Director Since: 2007

Committee: Compensation Committee Member

Mr. Emery, the owner and chief executive officer of Supply Chain Services, LLC, a nationwide, value-added provider of barcode scanning equipment, has served in those roles since 2010. Mr. Emery served as the chairman and chief executive officer of MTS Systems Corporation (NASDAQ: MTSC), a global supplier of mechanical testing systems and industrial position sensors, from 1998 to 2008.

For years, Mr. Emery served as a director, chair of the compensation committee, and member of the audit and governance committees of Urologix Inc., a Minneapolis-based manufacturer of minimally invasive medical devices; Mr. Emery's role with Urologix, Inc. ended in February 2016 when the company transitioned to private ownership. Mr. Emery brings experience as a public company chief executive officer, strategic planning and diversified business experience, and extensive knowledge about executive compensation matters.

Nominees for Director

George G. Goldfarb

Age: 58

Director Since: 2012

Committee: Audit Committee Member

Mr. Goldfarb is the president and chief executive officer of Maurices Incorporated, a retailer of womens' apparel and wholly owned subsidiary of Ascena Retail Group, Inc. (NASDAQ: ASNA). He has served as Maurices Incorporated president since 2011 and as chief executive officer since 2015. From October 2016 to January 2018, Mr. Goldfarb was the president and chief executive officer of the Value Fashion Segment of Ascena Retail Group, Inc., which included the Duluth-based Maurices brand and the Mahwah, New Jersey-based Dressbarn brand. Mr. Goldfarb served as chief operating officer of Maurices Incorporated from 2006 to 2011 and as its chief financial officer from 2001 to 2006. Prior to his career in the retail fashion business, Mr. Goldfarb worked in public accounting at Kolquist, Seitz & Goldman, LLC in Duluth.

Mr. Goldfarb serves on the Chancellor's Advisory Board for the University of Minnesota-Duluth.

Mr. Goldfarb is an audit committee financial expert within the meaning of SEC rules. He brings a wealth of business knowledge and experience that includes deep ties to and insights into the local and regional economy as well as extensive national branding experience.

James S. Haines, Jr.

Age: 71

Director Since: 2009

Committees: Compensation Committee Chair

Corporate Governance Committee Member

From 2002 to 2007, Mr. Haines was the chief executive officer and a director of Westar Energy, Inc. (NYSE: WR), the largest electric energy provider in Kansas. He has also served as chief executive officer of El Paso Electric Company (NYSE:EE).

Mr. Haines is a member of the board of FirstSun Capital Bancorp, based in Denver, Colorado, and its affiliate community bank, Sunflower Bank. Mr. Haines also serves on the board of The Land Institute, a research organization based in Salina, Kansas, focused on developing sustainable agricultural practices.

Mr. Haines has had a long career of public utility experience, having served as chief executive officer of two public utilities. He brings expertise in legal and regulatory matters, strategic planning, finance, and executive compensation.

Nominees for Director

Alan R. Hodnik

Age: 58

Director Since: 2009

Mr. Hodnik is ALLETE's Chairman, President, and CEO. Since joining the Company in 1982, Mr. Hodnik has served in many capacities, including in organizational development and managing electric generation facilities from 1995 to 2005, with an increasing scope of leadership responsibilities. In 2005, Mr. Hodnik was named Vice President-Generation Operations; in 2006, he became Senior Vice President of Minnesota Power Operations; and he was promoted to Chief Operating Officer in 2007, assuming responsibility for subsidiaries, SWL&P and BNI Energy, at that time. Mr. Hodnik was elected President of ALLETE in May 2009, CEO in May 2010, and Chairman in May 2011.

Mr. Hodnik is a director for PolyMet Mining Corporation (NYSE-A: PLM; TSX: POM), serving as the chair of its compensation committee and as a member of several other committees, including its nominating and corporate governance committee. He also serves on the board of EEI and as president of the Board of the Association of Edison Illuminating Companies, an operations-focused electric industry trade association.

Mr. Hodnik is also a director of Essentia Health System, where he is a member of its physician compensation, finance, and executive committees. Mr. Hodnik served as the elected mayor of the City of Aurora, Minnesota from 1988 to 1997.

Mr. Hodnik has served the Company for more than three decades, working in a wide variety of positions with increasing responsibility. He has extensive experience with both regulated utility and non-regulated utility operations, strategic planning, leadership, organizational development, and governmental affairs. Mr. Hodnik brings a deep understanding of the natural resource industries that ALLETE and its energy businesses interact with and serve.

James J. Hoolihan

Age: 65

Director Since: 2006

Committee: Corporate Governance Committee Chair

Until his retirement in December 2017, Mr. Hoolihan served as chief executive officer and chair of the board of Industrial Lubricant Company, which provides industrial supplies and services to logging, railroad, taconite, and coal mining industries. He is the owner and president of Can-Jer Industrial Lubricant, Ltd., which operates in Canada.

From 2004 until September 2011, Mr. Hoolihan was the president and chief executive officer of the Blandin Foundation, a private, philanthropic foundation whose mission is to strengthen communities in rural Minnesota, particularly the Grand Rapids area.

From 1981 to 2004, Mr. Hoolihan was the president of Industrial Lubricant Company. From 1990 to 1995, he served as the elected mayor of the City of Grand Rapids, Minnesota.

Mr. Hoolihan is a director of the U.S. Endowment for Forestry and Communities, a non-profit that collaborates with partners in the public and private sectors to support working forests and forest-reliant communities. He also currently serves as a trustee for the Blandin Foundation and co-trustee for the Charles K. Blandin Residuary Trust.

Mr. Hoolihan is also a trustee for the Mitchell Hamline School of Law.

Mr. Hoolihan is a long-time community leader in the Company's electric utility service area. He brings a deep knowledge of the industries and political issues of the service area, as well as business experience related to serving these industries.



Nominees for Director

Heidi E. Jimmerson

Age: 61

Director Since: 2004

Committees: Audit Committee Member (ex officio)

Compensation Committee Member (ex officio)

Corporate Governance Committee Member (ex officio)

As Lead Director, Ms. Jimmerson is an ex officio member of each Board committee.

Ms. Jimmerson is the former executive vice president, secretary, and general of Florida East Coast Railway, LLC, a railway company that is a successor to Florida East Coast Industries, Inc.'s transportation business. She joined Florida East Coast Industries, Inc. in 1999, and was responsible for all legal and governmental affairs of the corporation in addition to managing a variety of real estate transactions until her retirement in 2008. She is a board member of non-profit organizations in St. Johns County, Florida.

In 2017, Ms. Jimmerson successfully completed the National Association of Corporate Directors' Cyber-Risk program, through which she earned a Certificate in Cybersecurity Oversight from the Software Engineering Institute at Carnegie Mellon University.

Ms. Jimmerson brings diversified business experience, and expertise in public company corporate governance and strategic planning.

Madeleine W. Ludlow

Age: 63

Director Since: 2004

Committees: Compensation Committee Member

Corporate Governance Committee Member

Ms. Ludlow provides consulting services regarding investments in private equity transactions. From 2009 to January 2011, she was a principal of Market Capital Partners LLC and from 2005 to 2009 was a principal of LudlowWard Capital Advisors, LLC, both of which were Ohio-based investment banking firms serving middle market companies. Ms. Ludlow was the chair, chief executive officer, and president of Cadence Network, Inc., a web-based provider of utility expense management services from 2000 to 2004. She was formerly the vice president and chief financial officer of Cinergy Corp.

Ms. Ludlow is the founder and chair of the board of directors of West Capital Advisors, LLC, which provides strategic and development advisory services for corporate innovation. She also serves on the board of the Ohio National Fund, Inc., a registered investment company with 25 separate investment funds. Ms. Ludlow also serves on the board of directors and as audit committee chair for the Greater Cincinnati Energy Alliance, a non-profit that facilitates investment in energy efficiency and renewable energy projects.

Ms. Ludlow, an audit committee financial expert within the meaning of the SEC rules, brings deep experience with and a sophisticated understanding of investment banking and finance. She was a senior executive at a public utility and has worked closely with entrepreneurial and diversified businesses.

Nominees for Director

Susan K. Nestegard

Age: 57

Director Since: 2018

Committee: Audit Committee

Ms. Nestegard was president of global healthcare of Ecolab, Inc. (NYSE:ECL), a global supplier of water, hygiene, and energy services, from 2010 to 2012; executive vice president, global healthcare from 2008 to 2010; and senior vice president, research, development, and engineering, and chief technical officer from 2003 to 2008. Ms.

Nestegard has more than 20 years of experience with 3M Company (NYSE:MMM) in product development and business unit management, driving revenue expansion through innovation. Also an individual innovator, Ms.

Nestegard holds 26 patents in her name.

Ms. Nestegard is a director and audit committee member of Hormel Foods, Inc. (NYSE:HRL). She is also an advisor for True Wealth Ventures, a venture capital fund focusing on investments in women-led businesses in high-growth markets where women are the primary customers. From 2013 to 2017, she served as a director of American Capital, Ltd, a private equity and global asset management company that merged, in 2017, into Ares Capital Corporation.

From 2013 to 2017, Ms. Nestegard was also a director of Alcam Corporation, a pharmaceutical company based in Wilmington, North Carolina, and, in 2014, she served as the company's interim chief executive officer.

Ms. Nestegard is an experienced corporate officer and director who brings extensive experience in project management, product development, and strategic thinking. She also brings insight into the value of the nexus between energy and water as well as a demonstrated passion for supporting women in sciences and in corporate leadership.

Douglas C. Neve

Age: 62

Director Since: 2007

Committees: Audit Committee Member

Corporate Governance Committee Member

Mr. Neve provides financial consulting services. Mr. Neve is the former executive vice president and chief financial officer of Minneapolis-based Ceridian Corp., a multinational human resources company, where he worked from February 2005 until March 2007. He is a certified public accountant who, prior to February 2005, was an audit partner with Deloitte & Touche LLP, a public accounting firm.

Mr. Neve serves as a director, chair of the audit committee, and member of the executive committee of Tyndale House Publishing, Inc.

Mr. Neve is an audit committee financial expert within the meaning of the SEC rules and brings to the Company his knowledge of public accounting, corporate reporting, and risk management. His financial background includes experience as an executive of a publicly traded company.

Nominees for Director

Robert P. Powers

Age: 64

Director Since: 2017

Committee: Compensation Committee Member

Mr. Powers retired in August 2017 as vice chair and senior advisor to the chairman and chief executive officer of American Electric Power Company (NYSE:AEP), one of the largest electric utilities in the United States with more than five million customers in eleven states. Prior to becoming vice chair, Mr. Powers served in numerous leadership positions at AEP, including as executive vice president and chief operating officer of AEP from 2010 to 2016; president of AEP utilities from 2008 to 2010; executive vice president of AEP east utilities from 2006 to 2008; and executive vice president of generation from 2003 to 2006. Mr. Powers also spent 16 years with Pacific Gas and Electric Company, rising to site vice president and plant manager at the Diablo Canyon Nuclear Generating Station, and six years with the Tennessee Valley Authority as a health physicist.

Mr. Powers is a longtime, active member of EEI and the former chair of the Center for Energy Workforce Development, an organization focused on recruiting technical talent to utilities.

Mr. Powers brings diverse regulated-utility experience and strategic leadership, including expertise in strategic planning, executive compensation, and cybersecurity oversight.

Leonard C. Rodman

Age: 69

Director Since: 2009

Committees: Audit Committee Member

Corporate Governance Committee Member

Mr. Rodman is the retired chairman, president, and chief executive officer of Black & Veatch, a major provider of engineering and construction services to the electric utility, power generation, water, environmental, and telecommunications industries. Mr. Rodman had served as president and chief executive officer of Black & Veatch since 1998 and as its chairman since 2000, before retiring in 2013.

Mr. Rodman served as a director and member of the audit committee of the Federal Reserve Bank of Kansas City until his term ended in December 2016. He is currently chair of the board of National Association of Corporate Directors, Heartland Chapter.

Mr. Rodman's career serving utilities and other regional industries has spanned over 40 years. He has led a large, internationally diversified company and has strategic planning knowledge and experience. Mr. Rodman also brings insights and experience with board leadership.

## CORPORATE GOVERNANCE

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ALLETE's independent Board is accountable for effectively governing the Company's affairs for our shareholders' benefit. To the extent appropriate under Minnesota law, the Board considers the interests of other constituents, including our employees, customers, suppliers, and the communities in which we do business.

The independent Directors meet regularly in executive session for discussion without management present. The Board has direct access to management and meets with them individually when it deems appropriate. The Board and its committees also retain their own independent advisors.

Ongoing development is an important aspect of independent governance. Directors are asked to attend educational seminars and to share these experiences with the other Directors. During 2017, Directors attended educational courses presented by outside entities on a variety of topics including: cybersecurity risk, business disruption, aligning culture with strategy, culture and compliance, risk oversight, communicating in a crisis, managing in the era of engaged investors, uncovering unconscious biases, daring leadership, compensation design, the future of the workforce, CEO succession, benchmarking boards, financial disclosures, corporate governance, and developments in the electric utility and broader energy industries.

In addition, Directors attended educational presentations hosted by the Company in 2017 covering the following topics: climate change, sustainability, and corporate responsibility; cybersecurity and physical security; and the board's role in mergers and acquisitions.

The Board and its committees also undertake self-evaluations on an annual basis.

### Governance Policies

ALLETE's Corporate Governance Guidelines and Board committee charters are available on our website at [www.allete.com/governance](http://www.allete.com/governance).

Our Corporate Governance Guidelines address the Board's responsibilities, committee responsibilities, Board selection and operating policies, Director compensation, expectations for Directors, Director stock ownership, and other matters. These Guidelines were most recently revised in October 2017.

Each Board committee operates under its own charter. The Audit Committee Charter was last revised in January 2018. The Compensation Committee Charter was last revised in July 2017. The Corporate Governance Committee Charter was last revised in October 2017.



## Director Independence

Our Corporate Governance Guidelines provide that independent Directors will constitute a substantial majority of the Board. The Board has adopted independence standards that are consistent with the Director independence standards of the NYSE and the SEC. An “independent” Director has no material relationship with the Company (neither directly nor as a partner, shareholder, or officer of an organization that has a relationship with the Company) other than as a Director. The Board annually reviews and makes an affirmative determination of each Director's independence.

The Board has adopted certain categorical standards to assist in determining each Director's independence. A “material relationship” with the Company exists and, therefore, a Director will not be independent, if any of the following applies:

- the Director is or has been employed by the Company within the last three years (other than as a former interim Chairman or former interim CEO);
- a member of the Director's immediate family is or has been employed by the Company as an executive officer within the last three years;
- the Director or an immediate family member has received, during any 12-month period in any of the last three years, more than \$120,000 in direct compensation from the Company (other than Director and committee fees, pension, and other deferred compensation);
- the Director is a current partner or employee of a firm that is the Company's current independent registered public accounting firm;
- the Director has an immediate family member who is a current partner of the Company's current independent registered public accounting firm;
- the Director has an immediate family member who is a current employee of the Company's current independent registered public accounting firm and who personally works on the Company's audit;
- the Director or an immediate family member was, within the last three years, a partner or employee of the Company's current independent registered public accounting firm and personally worked on the Company's audit within that time;
- the Director or an immediate family member is or has been, within the last three years, employed as an executive officer of another company where any of the Company's present executive officers serves or served on that company's compensation committee at the same time;
- the Director is a current employee, or the Director's immediate family member is a current executive officer, of a company that has made payments to, 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 two percent of such other company's consolidated gross revenues;
- the Director has been, within the last three years, an employee, or the Director's 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 five percent of the Company's total assets;
- 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 the greater of \$1 million or two percent of such entity's total invested capital in any of the last three years; or
- 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 two percent of such charitable organization's consolidated gross revenues, in any of the last three years.

#### Related Person Transactions and Director Independence Determinations

The Board recognizes that in the ordinary course of business, transactions may occur between ALLETE and its subsidiaries and entities with which some of our Directors are or may have been affiliated. Such transactions are evaluated in accordance with our Related Person Transaction Policy, which was last reviewed and approved by the Board in July 2017 and is available at [www.allete.com/governance](http://www.allete.com/governance).

Related persons include Directors, Director nominees, executive officers, and five percent shareholders, as well as their immediate family members and any entity controlled by these individuals or in which these individuals have a substantial financial interest. The Related Person Transaction Policy applies to a financial transaction or arrangement, or a series of similar transactions or arrangements, which exceeds \$25,000 annually or \$6,250 quarterly, in which a related person has or will have a direct or indirect material interest. These transactions generally require advance approval by the Corporate Governance Committee. If a new situation arises where advance approval is not practical, it is discussed with the Chair of the CGC, or with another CGC member designated by the Committee; an appropriate response might include subsequent ratification by the CGC.

The CGC also periodically reviews and assesses related person relationships to ensure ongoing fairness to the Company. Any member of the CGC who has an interest in a transaction will abstain from voting, but may participate in the discussion if invited to do so by the Chair of the CGC, or the Lead Director if the CGC Chair has an interest in the transaction.

The CGC considers factors it deems relevant in determining whether to approve a related person transaction, including:

- the extent of the related person's interest in the transaction;
- the availability of comparable products or services from non-related persons;
- whether the transaction is on terms comparable to those that could be obtained in an arm's-length dealing with an unrelated third party;
- the business reasons to enter into the transaction;
- whether the transaction could impair the independence of a Director;
- whether the annual amount involved exceeds the greater of \$200,000 or 5 percent of the recipient's gross revenues for the year; and
- whether the transaction would present an improper conflict of interest, taking into account the size of the transaction, the overall financial position of the related person, the direct or indirect relationship of the related person, and the ongoing nature of any proposed relationships.

The CGC examined all transactions between Directors and the Company in 2017 and determined that each such transaction was not material to the Director's overall business and that the Director had no direct involvement in the transaction. Specifically, the CGC considered that, throughout 2017, Mr. Hoolihan served as the chief executive officer of, and had an ownership interest in, Industrial Lubricant Company (ILCO). ILCO provides lubricant products and services to one of the Company's generating facilities and to one of the Company's wholly owned subsidiaries, BNI Energy, Ltd. During 2017, Company payments to ILCO totaled \$974,802. The CGC reviewed the transactions, without Mr. Hoolihan's participation, and determined that the amounts, which fell below the Company's and the NYSE's categorical standards for director independence, were not material to Mr. Hoolihan or to any person or organization with whom he has an affiliation. In the same manner, the CGC also considered similar transactions that occurred in 2016 and 2015 and reached the same conclusions. Based on this, the CGC recommended to the Board, and the Board determined, that these transactions do not impair Mr. Hoolihan's independence.

The Board reviewed the CGC's determinations in light of the Company's independence standards and the NYSE's corporate governance rules and concluded that each Director, except Mr. Hodnik, is “independent.”

There were no transactions in 2017 between the Company and any related persons other than Directors that would have required Board review.

#### Board Highlights

- ü Combined Board Chairman and CEO
- ü Independent Lead Director
- ü Committees Comprised of and Chaired by Independent Directors

#### Board Leadership Structure

Mr. Hodnik has served as Board Chairman since 2011. As Chairman, he presides over meetings of the Board, presides over meetings of the shareholders, consults with and advises the Board and its committees on the Company's business and affairs, and performs other duties as may be assigned by the Board.

In accordance with the Corporate Governance Guidelines, because the Chairman is not an independent Director, the Board has selected an independent Lead Director. The Lead Director performs the following duties:

- acts as the Board's leader when it meets in executive session;
- presides at Board meetings when the Chairman is not present to lead the Board's deliberations;
- serves as an ex officio member of each Board committee;
- serves as a liaison between the Chairman and the independent Directors when necessary to provide a supplemental communication channel;
- works with the Chairman to develop Board meeting agendas, schedules, and information to be provided to Directors;
- leads the evaluation of CEO performance in consultation with the Corporate Governance Committee; and
- performs other duties as requested by the independent Directors.

The Board believes that its leadership structure—a combined Board Chairman and CEO, an independent Lead Director, and committees led by independent Directors—is the most effective for ALLETE at this time. In reaching this determination, the Board considered factors including the Company's size, the diversity and experience of our independent Board members, Mr. Hodnik's industry and governance experience, the Board's effective use of the Lead Director who provides coordination and leadership for the independent Directors, and the demonstrated active engagement by all Directors.

Overview of Board, Committee Memberships, and Meetings in 2017

	Board of Directors	Audit Committee	Compensation Committee	Corporate Governance Committee
Alan R. Hodnik				
Kathryn W. Dindo		,		
Sidney W. Emery, Jr.				
George G. Goldfarb		,		
James S. Haines, Jr.				
James J. Hoolihan				
Heidi E. Jimmerson <sup>1</sup>				
Madeleine W. Ludlow				
Susan K. Nestegard <sup>2</sup>				
Douglas C. Neve		,		
Robert P. Powers <sup>3</sup>				
Leonard C. Rodman				

Meetings Held in 2017:	7	5	5	5
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= Member = Chair = "Audit committee financial expert" within the meaning of SEC rules

<sup>1</sup> As Lead Director, Ms. Jimmerson is an ex officio member of each standing committee. For more details about the duties of the Lead Director, see page 19.

<sup>2</sup> Ms. Nestegard was elected to the Board and appointed to the Audit Committee on January 16, 2018.

<sup>3</sup> Mr. Powers was elected to the Board and appointed to the Compensation Committee on August 23, 2017.

#### Board Committees

The Board has three standing committees: the Audit Committee, the Compensation Committee, and the Corporate Governance Committee. We anticipate that committee chairs will rotate among Directors in the future. The Board recognizes that rotating chairs provides development for the Directors and allows a variety of perspectives in leadership positions.

#### Audit Committee

The Audit Committee selects, and reviews the independence and performance of, the independent registered public accounting firm. The Audit Committee also reviews the performance and resources of ALLETE's internal audit function, reviews and evaluates ALLETE's accounting policies, reviews periodic financial reports to be provided to the public, and, upon favorable review, recommends approval of the Company's Consolidated Financial Statements.

#### Compensation Committee

The Compensation Committee establishes for ALLETE's executive officers and other key executives compensation and benefits that are designed to be equitable, competitive in the marketplace, and consistent with the Company's executive compensation philosophy. The Compensation Committee also makes recommendations to the Board regarding Director compensation. All members of the Compensation Committee qualify as "independent directors" under NYSE rules, "non-employee directors" under Rule 16b-3 of the Exchange Act, and "outside directors" under Section 162(m) of the Tax Code.

#### Corporate Governance Committee

The Corporate Governance Committee makes recommendations to the Board with respect to Board membership, function, committee structure and membership, succession planning for executive management, and application of corporate governance principles. It also performs the functions of a Director nominating committee, oversees the Board's annual evaluation of the CEO, and is authorized to exercise the authority of the Board in the intervals between Board meetings.

#### Director Meeting Attendance

Our Corporate Governance Guidelines provide that Directors are expected to regularly attend Board meetings and meetings of the committee or committees on which they serve. The Board held seven meetings during 2017 and each Director attended every Board meeting, with the exception that one Director missed one meeting. Each Director attended at least 80 percent of the aggregate number of meetings of the committees on which he or she served in 2017. Directors standing for election are also expected to attend the Annual Meeting, and each Director but one attended the 2017 Annual Meeting.

#### Director Nominations

The Corporate Governance Committee recommends Director candidates to the Board and will consider persons proposed by other Directors, management, search firms, or shareholders. We seek candidates whose diverse experiences, backgrounds and perspectives will contribute to robust discussion in the boardroom. The Board values diversity and strives to ensure the Board members reflect a range of ages as well as a variety of regional and professional backgrounds. All Director candidates will be evaluated based on the criteria identified below, regardless of who proposed such person.

In selecting Director nominees, the Board considers the following factors: integrity, achievements, judgment, personal character, the fit of the candidate's relevant experience with the experience of other Board members, the candidate's willingness to devote adequate time to Board duties, and the likelihood that he or she will be willing and able to serve on the Board for a sustained period. The Corporate Governance Committee will consider the candidate's independence in accordance with the Corporate Governance Guidelines and the NYSE and SEC rules. Director nominees must be willing and able to devote adequate time and attention to Board service, must demonstrate independent thinking, a collaborative nature, and stakeholder awareness, and must have experience with business and strategic planning, as well as prior service on, or working closely with, one or more other boards. In connection with the selection, due consideration will be given to a candidate's particular experience, including but not limited to: understanding of board committee functions; understanding of generally accepted accounting principles; financial expertise (including "audit committee financial experts" within the meaning of the SEC's rules); financing experience; auditing experience; human resource and executive compensation expertise; strategic planning and business development experience; experience with utilities, energy-centric businesses, or both; familiarity with the Company's service area; and community leadership.



The Board may engage a search firm to assist in identifying and conducting due diligence on potential Director nominees.

Before making contact with a potential candidate, the Corporate Governance Committee will notify the Board of its intent to do so, will provide the candidate's name and background information to the Board, and will allow time for Directors to comment. The Corporate Governance Committee will screen, personally interview, and recommend candidates to the Board. A majority of the Corporate Governance Committee members will interview any candidate before recommending that candidate to the Board. The recommendations of the Corporate Governance Committee will be timed so as to allow Board members an opportunity to interview the candidate prior to the nomination of the candidate.

A shareholder who wishes to propose a candidate should provide the person's name and a detailed background of his or her qualifications to the Corporate Governance Committee, c/o Corporate Secretary, ALLETE, Inc., 30 West Superior Street, Duluth, MN 55802.

#### Communications between Shareholders and Other Interested Parties and the Board

Shareholders and other interested parties who wish to communicate directly with the Board, the non-management Directors, or a particular Director, may do so by addressing the Lead Director, c/o Corporate Secretary, ALLETE, Inc., 30 West Superior Street, Duluth, MN 55802-2093.

#### Common Stock Ownership Guidelines

The Corporate Governance Committee has determined that Directors and executive officers should have an equity interest in the Company. The Corporate Governance Committee believes that such equity ownership aligns the interests of Directors and NEOs with the interests of the Company's shareholders. Accordingly, the Board has adopted Common Stock ownership guidelines. The CGC regularly reviews the share ownership guidelines and may recommend changes to the Board as it deems appropriate. In July 2017, the CGC recommended, and the Board approved, changes to the share ownership guideline for Directors and to the respective share ownership guidelines for ALLETE's CEO and CFO.

#### Director Share Ownership Guidelines

Directors are expected to own at least 500 shares of Common Stock prior to their election to the Board. Further, within five years of their election to the Board, Directors are expected to own shares worth at least five times the amount of the annual cash retainer to Directors. The previous share ownership guideline for Directors provided that, within five years of their election to the Board, Directors were expected to own shares worth at least \$300,000 (based on the average price of Common Stock in the preceding 12-month period).

#### Executive Share Ownership Guidelines

The Board reviewed executive stock ownership in July 2017 and increased the share ownership guideline for the CEO to five times base salary (up from four times base salary previously) and for the CFO to three times base salary (up from two times base salary previously). Common Stock ownership guidelines for all NEOs are discussed in the CD&A starting on page 25.

#### Code of Business Conduct and Ethics

We have adopted a written Code of Business Conduct (which includes our code of ethics) that applies to all Directors and Company employees and officers, including the CEO, the CFO, and the Controller. The Code of Business Conduct also applies to our contractors, suppliers and vendors. ALLETE's Code of Business Conduct is available on our website at [www.allete.com/governance](http://www.allete.com/governance). Any amendment to, or waiver of, the Code of Business Conduct will be published on ALLETE's website promptly following the date of such amendment or waiver.

#### Risk Oversight

The Board is responsible for overseeing risk management at the Company. The Board exercises direct oversight of strategic risks to the Company and other risk areas not delegated to one of its committees. The Audit Committee reviews and assesses the Company's processes to manage financial reporting risk and to manage tax and other financial risks. The Compensation Committee oversees compensation programs and policies and their effect on risk-taking by management. The Corporate Governance Committee oversees compliance with legal and regulatory requirements, ALLETE's Code of Business Conduct, and other related policies.

It is management's responsibility to manage enterprise risks. The Board has overall responsibility for risk oversight, including, as part of regular Board and committee meetings, oversight of how Company leadership manages risks relevant to the Company. The Company's ERM program ensures that strategic goals align with ALLETE's mission, vision, and values and that decision-making includes adequate consideration of the associated risks. ERM defines procedures for identifying, mitigating, and reporting significant risks. In 2017, the Board received updates from senior management on ALLETE's risk appetite criteria and risk governance structure. The Board also reviewed ALLETE's updated strategy, including the strategy of each ALLETE business unit, to ensure appropriate consideration of risks and alignment with the Company's overall risk management objectives. In addition, management provides the Board with regular updates of key enterprise risk indicators.

The Board's focus on effective risk oversight supports management as it establishes a tone and culture of effective risk management. Mr. Hodnik and Ms. Jimmerson, as CEO and Lead Director, respectively, play important roles in identifying significant risks to the Company and facilitating the Board's consideration of those risks. Among other things, they both review Board and committee agendas to ensure risks are appropriately addressed. The Lead Director participates as an ex officio member on all Board committees.

#### Sustainability and Corporate Responsibility

At ALLETE, we recognize that impacts from human activity, including climate change, are real, complex, and interrelated. We are committed to answer the call to transform the nation's energy and water landscape through innovative and sustainable solutions. Please see our website for additional information regarding ALLETE's commitment to sustainability at: <http://www.allete.com/Sustainability>.



ITEM NO. 2—ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

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We are asking our shareholders to cast a non-binding, advisory vote approving compensation for our NEOs as reported in this Proxy Statement.

ALLETE's executive compensation program is designed to enhance shareholder value while attracting and retaining experienced, qualified executives. To fully understand ALLETE's 2017 executive compensation, we encourage you to read the CD&A, starting on page 25, as well as the compensation tables and narrative disclosures that follow the CD&A. Those sections describe how our compensation programs are designed to achieve ALLETE's compensation objectives and provide detailed information on the 2017 compensation of our NEOs. We believe our executive compensation program reflects a pay-for-performance philosophy and is aligned with shareholders' long-term interests.

This proposal, commonly known as "say-on-pay," is required under Section 14A of the Exchange Act. Although this say-on-pay vote is advisory and not binding on the Company, the Compensation Committee and the Board will review the voting results and will take the outcome of the vote into account when considering future executive compensation decisions.

We have determined to hold a say-on-pay vote each year until the next non-binding, advisory shareholder vote on how frequently to hold the say-on-pay vote, commonly known as "say-on-frequency." The next say-on-frequency vote will be held no later than the 2023 Annual Meeting.

The Board recommends a vote "FOR" the advisory vote to approve executive compensation.

## COMPENSATION DISCUSSION AND ANALYSIS

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This CD&A explains ALLETE's executive compensation program and 2017 compensation for the following NEOs:

Alan R. Hodnik	Chairman, President, and CEO
Robert J. Adams	Senior Vice President and CFO
Bradley W. Oachs	Senior Vice President and President Regulated Operations
Deborah A. Amberg	Senior Vice President and Chief Strategy Officer Regulated Operations
Bethany M. Owen	Senior Vice President and Chief Legal and Administrative Officer
Steven Q. DeVinck	Retired Senior Vice President; and former CFO

## EXECUTIVE SUMMARY

### Compensation Philosophy

We use compensation as a tool to attract and retain the leaders on whom ALLETE's success depends. Our compensation program provides competitively benchmarked compensation (fixed), as well as incentive compensation (variable) for accomplishing goals that we believe will create long-term shareholder value. Our compensation philosophy is based on these fundamental principles:

- We link compensation to performance.
- We balance compensation elements.
- Our compensation is competitive and consistent with ALLETE's core values.
- The ECC and the Board exercise independent judgment.
- We require executive stock ownership.
- We consider tax and accounting rules.

### 2017 Financial Performance for Incentive Plans

NEOs have a significant portion of their compensation tied to Company performance. Annual incentives focus on achieving annual financial, strategic, and operational goals. Long-term incentives reward growth and long-term profitability. As explained in detail in this CD&A, ALLETE's 2017 performance directly affected our NEOs' compensation for 2017.

Annual incentives reward one-year performance as measured by net income and cash from operating activities subject to certain adjustments, both of which are described in more detail beginning on page 31. Annual incentives also reward strategic and operational accomplishments.

As disclosed in ALLETE's 2017 Annual Report on Form 10-K, Net Income Attributable to ALLETE, prior to adjustment, for the year ended December 31, 2017, was \$172.2 million (compared to \$155.3 million for 2016). Cash from Operating Activities, prior to adjustment, was \$402.9 million for 2017 (compared to \$332.0 million for 2016). After certain adjustments, as discussed more fully beginning on page 31, those financial results along with the performance on the strategic and operational goals, resulted in an ALLETE annual incentive payout for 2017 equal to 119.1 percent of target (compared to 94.9 percent in 2016).

2017 ALLETE Annual Incentive Results

Net Income		Cash from Operating Activities		Strategic and Operational Goals
	\$177.5MSuperior	\$419.7Mà	\$419.7MSuperior	100% Superior
Annual Incentive Results:		Annual Incentive Results		
\$170.5à	\$161.4MTarget		\$381.5MTarget	
				50% Target
	\$145.2MThreshold		\$343.4MThreshold	Results: 30% à 0% Threshold

Long-term incentives reflect performance over longer periods. Performance shares, awarded under the LTIP, reward TSR targets relative to peer group companies over a three-year period. ALLETE's TSR for the three-year period ended December 31, 2017, was 49.9 percent. This ranked us 8<sup>th</sup> among the peer group companies, which was above target and resulted in a performance share payout equal to 160 percent of target.

2015 - 2017 Long-Term Incentive Results  
TSR Ranking Relative to Peer Companies  
4th Superior

Actual: 8thà 14thTarget

19thThreshold

### 2017 Compensation Decisions

Our 2017 executive compensation program remained materially consistent with prior years. The ECC based its 2017 compensation decisions on peer-company compensation data and pay-for-performance compensation analysis from Pearl Meyer, its independent compensation consultant. The ECC also considered each NEO's role, his or her performance, and other relevant factors, including the most recent shareholder advisory vote on executive compensation.

During 2017, the ECC increased Mr. Hodnik's base salary by 3 percent. Mr. Adams' salary increased by 25 percent, largely in connection with his promotion to the CFO position. During 2017, Mr. Oachs' salary increased by 8 percent, and Ms. Owen's by 17 percent, reflecting their increased proficiency in their newer roles with greater responsibilities.

Mr. Hodnik's 2017 target annual incentive opportunity increased to 100 percent of his base salary (compared to 75 percent in 2016) and Mr. Adams' 2017 target annual incentive opportunity increased to 50 percent of his base salary (compared to 40 percent in 2016).

The ECC increased Mr. Hodnik's total long-term incentive opportunity to \$1,250,000 (compared to \$1,050,000 in 2016), with 75 percent of this increase (\$150,000) allocated to his target PSA opportunity and 25 percent (\$50,000) allocated to RSUs. Mr. Adams' total opportunity was increased to \$275,000 (compared to \$150,000 in 2016), with 75 percent of this increase (\$93,750) allocated to his target PSA opportunity and 25 percent (\$31,250) allocated to RSUs; Mr. Oachs' total opportunity was increased to \$250,000 (compared to \$150,000 in 2016), with 75 percent of this increase (\$75,000) allocated to his target PSA opportunity and 25 percent (\$25,000) allocated to RSUs; Ms. Owen's total opportunity was increased to \$225,000 (compared to \$50,000 in 2016), with 75 percent of this increase (\$131,250) allocated to her target PSA opportunity and 25 percent (\$43,750) allocated to RSUs.

### Say-on-Pay Advisory Vote Results

Each year, shareholders cast an advisory vote on executive compensation, commonly known as a "say-on-pay." At last year's Annual Meeting, 94 percent of the votes were cast in favor of the Company's say-on-pay proposal. The ECC takes the result of the say-on-pay vote into account as it makes its compensation decisions and this was a factor in the ECC's decision not to make any fundamental changes to ALLETE's executive compensation program.

At least once every five years, shareholders are asked to cast an advisory vote on whether future advisory shareholder votes on executive compensation should occur annually, once every other year, or once every three years. At last year's Annual Meeting, 78 percent of the votes were cast in favor of holding annual advisory say-on-pay votes. The ECC considered the outcome of this shareholder vote in affirming its decision to hold an advisory shareholder say-on-pay vote annually until the next advisory say-on-pay frequency vote.

## KEY COMPENSATION ELEMENTS: WHAT WE PAY AND WHY

	Element	Key Characteristics	Why We Pay this Element	How the Amount is Determined	2017 Decisions and Outcomes
FIXED:	Base Salary	Competitive cash compensation.	Helps attract and retain executive talent.	We consider market data, responsibilities, experience, role within the executive group, performance, and other information from the ECC's independent compensation consultant.	Mr. Hodnik's base salary increased by 3 percent; Mr. Adams' base salary increased by 25 percent (largely to reflect his promotion to CFO); Mr. Oachs' base salary increased by 8 percent and Ms. Owen's base salary increased by 17 percent (both largely in connection with recent promotion to more responsible roles). 2017 annual incentive target opportunities (expressed as percentage of base salary) increased as follows: from 75 percent to 100 percent for Mr. Hodnik and from 40 percent to 50 percent for Mr. Adams. ALLETE achieved above-target net income, superior cash flow from operating activities, and below-target strategic and operational performance, resulting in an annual incentive payment equal to 119.1 percent of target; except that Ms. Amberg's annual incentive payment was at 97.1 percent of target, reflecting the combination of ALLETE's results and SWL&P's results, which were below-target net income and slightly-above-target strategic and operational performance.
	Annual Incentive	Payable in cash based on achievement of annual goals. In addition to financial targets, strategic and operational goals are linked to ALLETE's long-term objectives and core values.	Rewards achievement of annual financial, strategic, and operational.	The ECC approves performance measures, targets, and individual award opportunities and has discretion to set terms and to reduce, increase, or eliminate awards.	Target opportunities for the 2017-2019 performance period increased by \$150,000 for Mr. Hodnik, by \$93,750 for Mr. Adams, by \$75,000 for Mr. Oachs, and by \$131,250 for Ms. Owen. TSR for the three-year performance period
VARIABLE:					
	Long-term Incentive: PSAs	Payable in Common Stock at the end of the performance period based on achieving multi-year performance goals.	Coupled with RSUs, facilitates stock ownership, aligns the interests of executive officers with long-term shareholder	PSA payment is determined by measuring ALLETE's TSR relative to peer companies' TSRs over a three-year period.	

	value, and helps retain executive talent.	ending December 31, 2017, ranked 8 <sup>th</sup> among peer group, resulting in a payout equal to 160 percent of target.
Long-term Payable in Common Incentive: Stock at the time of RSUs vesting.	Coupled with PSAs, facilitates stock ownership, aligns the interests of executive officers with long-term shareholder value, and helps retain executive talent.	One RSU entitles the NEO to receive one share of Common Stock when the RSU vests at the end of a three-year period. 2017 RSU grants increased by \$50,000 for Mr. Hodnik, by \$31,250 for Mr. Adams, by \$25,000 for Mr. Oachs, and by \$43,750 for Ms. Owen.

## KEY COMPENSATION PRACTICES

### What We Do

- þ Link Pay to Performance
- þ Balance Compensation Elements
- þ Cap Incentive Compensation
- þ Use Independent Compensation Consultant
- þ Require Executive Stock Ownership
- þ Prohibit Hedging, Pledging, and Short Sales
- þ Require Double-Trigger for CIC Severance Plan Payments
- þ Have a Compensation Recovery ("Clawback") Policy

### What We Don't Do

- ý No Employment Agreements with NEOs
- ý No Dividend Equivalents Paid on Unvested RSUs or Unearned Performance Shares
- ý No Stock Options
- ý No Excessive Perquisites
- ý No Tax Gross-Ups Provided (except on relocation expenses paid under ALLETE's broad-based policy)

## HOW WE LINK EXECUTIVE PAY TO PERFORMANCE

A significant portion of our NEOs' compensation is tied to Company performance. Annual incentives focus on achieving annual financial, strategic, and operational goals. Long-term incentives encourage growth and long-term profitability, and provide incentive to remain employed with the Company.

Total compensation generally increases as position and responsibility increase; at the same time, a greater percentage of total compensation is tied to performance, and therefore, at risk as reflected in our NEOs' annual and long-term incentive opportunities.

We consider market data and Pearl Meyer's advice in setting executive compensation. We establish market ranges for our NEOs' compensation using investor-owned electric utilities data. In setting individual compensation, we consider experience in the position, performance, job responsibilities, and relative role among the executive management group. When market data is insufficient to establish a range for a specific position, we consider internal equity among our NEOs, taking into account the relative responsibilities for that position.

We generally set compensation so that when target performance is achieved under the Company's incentive compensation plans, total compensation is near the market median of ALLETE's compensation peer group. Consistent with our pay-for-performance philosophy, NEOs earn higher compensation when actual performance exceeds target goals. Conversely, when the Company does not meet target goals, total compensation will generally fall below that market median.

2017 total compensation opportunity for the NEOs was divided between base salary and incentive opportunities. The charts below illustrate the breakdown of compensation elements expressed as a percentage of total target compensation:

The chart on the right above reflects the average of each element of total target compensation for all our NEOs except the CEO. For both charts above, total target compensation is calculated using the NEOs' 2017 target opportunities for annual and long-term incentives and his or her base salary as of December 31, 2017, except with respect to Mr. DeVinck whose base salary is as of his retirement on May 31, 2017.

#### Annual Incentive Awards

At the beginning of each year, the ECC, with the CEO, approves performance measures and targets for the annual incentive, and individual target award opportunities. The ECC has discretion not only to determine the terms of annual incentive awards, but also the ability to reduce, increase, or eliminate awards, regardless of whether applicable performance goals have been achieved. The ECC sets annual incentive opportunity levels for our NEOs such that if the Company achieves target goals, the combination of salary and annual incentives will result in total cash compensation near the market median for ALLETE's compensation peer group.

#### 2017 Annual Incentive Target Opportunities

Annual Incentive Target Opportunity as a  
Percentage of Base Salary

Mr. Hodnik	100%
Mr. Adams	50%
Mr. Oachs	45%
Ms. Amberg	40%
Ms. Owen	40%
Mr. DeVinck	50%



2017 ALLETE annual incentive performance goals, weighting, and measures, applicable to all NEOs, except Ms. Amberg, were as follows:

ALLETE Annual Incentive Performance Goals, Weighting, and Measures

Performance Goals	Weighting	Measures		
		Threshold <sup>1</sup>	Target <sup>1</sup>	Superior <sup>1</sup>
Net Income <sup>2</sup>	25%	\$145.2 million	\$161.4 million	\$177.5 million
Cash from Operating Activities <sup>2</sup>	25%	\$343.4 million	\$381.5 million	\$419.7 million
Strategic and Operational <sup>3</sup>				
Competitiveness	20%			
Advance EnergyForward Plan	20%	Various		
Operational and Values	10%			

<sup>1</sup> Target financial goals are set at the Company's budgeted amount; threshold financial goals are set at 90 percent of budget and superior financial goals are set at 110 percent of budget. The amount of the annual incentive target opportunity actually earned is based on the weighting percentage assigned to the annual incentive performance goals achieved.

<sup>2</sup> Net income and cash from operating activities for annual incentive calculation purposes are described in more detail below.

<sup>3</sup> Strategic and Operational goals are described in more detail below.

ALLETE Annual Incentive Financial Goals

The 2017 annual incentive financial measures, established at the beginning of the 2017 plan year, were net income and cash from operating activities. The ECC selected net income because it is a widely-used financial performance measure that reflects revenue generation and expense management. Cash from operating activities was selected because it indicates the Company's ability to internally generate funds for capital projects, to repay debt, and to pay dividends and interest. Both measures also can affect the Company's stock price.

**ALLETE Net Income.** For annual incentive purposes, ALLETE net income means Net Income Attributable to ALLETE, adjusted to exclude ALLETE Properties investments and the effect of changes in tax law or accounting principles. The basis for making these adjustments was established at the beginning of the performance period.

**Cash from Operating Activities.** For annual incentive purposes, cash from operating activities means Cash from Operating Activities, adjusted to exclude the 2017 change in liability associated with a customer capital-improvement security deposit, pension cash contributions, cash related to ALLETE Properties operations, and cash related to EITE discounts. The basis for making these adjustments was established at the beginning of the performance period.

ALLETE Annual Incentive Strategic and Operational Goals

Our annual incentive strategic and operational goals are linked to ALLETE's core values: integrity, safety, employee growth, community engagement, and environmental stewardship. ALLETE's 2017 strategic and operational goals were as follows:

**Competitiveness Goal**—Reduce costs through internal cost control and advance initiatives for improved financial performance;

**EnergyForward Goal**—Advance the Company's EnergyForward plan, which is designed to preserve affordable utility service rates, protect reliability, enhance environmental performance, and modernize the customer experience; and

Operational and Values Goal—Demonstrate continuous safety improvement, as well as commitment to environmental and customer service values as measured by goals relating to safety leading and lagging indicators, environmental stewardship, and system reliability. Safety goal measurements included tracking the number and severity of incidents recorded with the Occupational Safety and Health Administration and the Mine Safety and Health Administration, while also implementing proactive safety measures designed to support "zero injury" efforts. System reliability goals were measured by the System Average Interruption Duration Index and System Average Interruption Frequency Index relative to the EEI utilities' three-year average results. An employee fatality or willful disregard of environmental, reliability, or any Federal Energy Regulatory Commission regulation or standard would automatically result in no payout for this goal.

The ECC reviews the allocation between financial and strategic and operational goals each year. For 2017, ALLETE's strategic and operational goals represented 50 percent of the overall opportunity and their achievement was measured independently of the financial goals. Therefore, it would have been possible to earn an annual incentive payout based on achieving strategic and operational goals even if financial goals had not been met.

The CEO, with input from senior management, reports the progress made on strategic and operational goals to the ECC. The ECC then determines the extent to which performance targets have been achieved.

Ms. Amberg's 2017 annual incentive performance goals, weighting, and measures were divided between the ALLETE plan described above, which constituted 25 percent of her total 2017 annual incentive opportunity, and the SWL&P plan described below, which constituted 75 percent of her total 2017 annual incentive opportunity.

#### SWL&P Annual Incentive Performance Goals, Weighting, and Measures

Performance Goals	Weighting	Measures		
		Threshold <sup>1</sup>	Target <sup>1</sup>	Superior <sup>1</sup>
ALLETE Net Income <sup>2</sup>	20%	\$145.2 million	\$161.4 million	\$177.5 million
SWL&P Net Income	55%	\$3.8 million	\$4.3 million	\$4.7 million
Strategic and Operational <sup>3</sup>				
Customer Experience and Regulatory Initiatives	15%	Various		
Operational and Values	10%			

Target financial goals are set at the Company's budgeted amount; threshold financial goals are set at 90 percent of budget and superior financial goals are set at 110 percent of budget. The amount of the annual incentive target opportunity actually earned is based on the weighting percentage assigned to the annual incentive performance goals achieved.

<sup>2</sup> ALLETE net income for annual incentive calculation purposes is described in more detail above.

<sup>3</sup> Strategic goals and operational and values goals are described in more detail below.

SWL&P's 2017 strategic goal was as follows:

Customer Experience and Regulatory Initiatives Goal—Deploy technology enhancements related to metering infrastructure and customer service.

SWL&P's 2017 operational and values goal was the same as the ALLETE goals described above, except that the system reliability measurements were related to SWL&P's performance.

The CEO determines the extent to which SWL&P performance targets have been achieved.

### 2017 Annual Incentive Results

As disclosed in ALLETE's 2017 Annual Report on Form 10-K, Net Income Attributable to ALLETE for the year ended December 31, 2017, was \$172.2 million, prior to adjustment, (compared to \$155.3 million for 2016). Cash from Operating Activities was \$402.9 million, prior to adjustment, for 2017 (compared to \$332.0 million for 2016). Annual incentives also reward strategic and operational accomplishments. NEOs, except Ms. Amberg, earned 119.1 percent of their 2017 target opportunity (compared to 94.9 percent in 2016).

For annual incentive purposes, ALLETE net income and cash from operating activities are designed, at the beginning of the plan year, to be adjusted using specified resets and exclusions. 2017 net income was adjusted to exclude a loss related to ALLETE Properties (\$1.0 million), the impact of the remeasurement of deferred income tax assets and liabilities resulting from the Tax Cuts and Jobs Act of 2017 (\$14.1 million), and a non-cash charge for the Minnesota Public Utilities Commission's decision to disallow recovery of Minnesota Power's regulatory asset for deferred fuel adjustment clause cost (\$11.4 million). Additionally, cash from operating activities was adjusted to exclude the 2017 change in liability associated with a customer capital-improvement security deposit (\$3.8 million), pension cash contributions (\$1.7 million), and cash related to ALLETE Properties operations (\$2.7 million) and, EITE discounts provided (\$8.6 million).

ALLETE's strategic and operational goals were achieved at a level that fell between threshold and target.

The ALLETE annual incentive results were calculated as follows:

#### 2017 ALLETE Annual Incentive Payout

Performance Goal	Weighting	Achievement	Payout <sup>1</sup>
Net Income	25 %	156.3 %	39.1%
Cash from Operating Activities	25 %	200.0 %	50.0%
Strategic and Operational	50 %	60.0 %	30.0%
Total	100 %		119.1%

<sup>1</sup> Payout is expressed as a percentage of the NEO's annual incentive target opportunity.

Ms. Amberg earned 97.1 percent of her 2017 target opportunity. The payout for the 25 percent of her award tied to ALLETE goals was 119.1 percent; for the 75 percent of her award tied to SWL&P goals, the payout was 89.8 percent. SWL&P's net income came in below target, but above threshold, at

\$3.9 million (resulting in a 31.9 percent payout); SWL&P's strategic and operational goals were achieved at slightly above target (resulting in a 26.5 percent payout). The SWL&P annual incentive results were calculated as follows:

#### 2017 SWL&P Annual Incentive Payout

Performance Goal	Weighting	Achievement	Payout <sup>1</sup>
ALLETE Net Income	20 %	156.3 %	31.3%
SWL&P Net Income	55 %	58.1 %	32.0%
Strategic and Operational	25 %	106.0 %	26.5%
Total	100 %		89.8%

<sup>1</sup> Payout is expressed as a percentage of the NEO's annual incentive target opportunity.

The ECC believes that the annual incentive provides appropriate motivation and does not encourage excessive business risks because it has multiple goals that align with the objectives of different stakeholders (e.g., shareholders, customers, regulators, and employees). The annual incentive provides payment opportunity levels that are market-competitive, and includes a cap on the maximum award amount.

#### Long-Term Incentive Awards: PSAs and RSUs

We use long-term incentive compensation to reward executives for achieving business strategies that we believe will grow long-term shareholder value. The time-vesting and forfeiture provisions associated with long-term incentive compensation also encourage NEOs to stay with the Company. Long-term compensation elements consist of PSAs and RSUs.

The ECC grants the PSAs and RSUs under the LTIP in January of each year. Although the ECC can make additional grants at other times of the year, it did not do so in 2017 for any NEO. We do not time equity awards to the release of material, non-public information. ECC meeting schedules are generally set six months prior to the start of the calendar year. The current LTIP was most recently approved by shareholders in May 2015 and became effective January 1, 2016.

#### Performance Share Awards (PSAs)

PSAs reward executives for multi-year performance, measured by ALLETE's TSR relative to a group of peer companies. The ECC selected relative TSR because it measures the value shareholders realize from their investment in Common Stock as compared to investment opportunities available in comparable companies. Rewarding executives for creating long-term shareholder value further links pay to performance.

The performance period begins on the first day of the first calendar month in the period. The amount of the payment with respect to any award is determined at the end of the three-year period.

In 2017, NEOs were granted PSAs for the three-year performance period beginning on January 1, 2017, and ending on December 31, 2019.

For the 2015-2017 performance period, our TSR peer group included 27 companies selected from among the investor-owned electric utilities included in the EEI Index. Our TSR peer group companies were selected based on comparability to ALLETE as to market capitalization and stock-trading characteristics (e.g., dividend yield, price-earnings ratio, etc.). The ECC approves the peer group companies prior to the start of each performance period. During 2017, for the 2015-2017 performance period, we substituted DTE Energy Company for The Empire District Electric Company after The Empire District Electric Company was acquired by Algonquin Power & Utilities Corp., a non-peer group company. The Empire District Electric Company's financial results were included until immediately prior to the acquisition date; thereafter, DTE Energy Company's financial results were included.

## TSR Peer Group Companies for 2015-2017 Performance Period

Alliant Energy Corporation	FirstEnergy Corporation	Otter Tail Corporation
Ameren Corporation	Great Plains Energy Incorporated	Pinnacle West Capital Corporation
Avista Corporation	Hawaiian Electric Industries, Inc.	PNM Resources, Inc.
Black Hills Corporation	IDACORP, Inc.	Portland General Electric Company
CenterPoint Energy, Inc.	MDU Resources Group, Inc.	SCANA Corporation
CMS Energy Corporation	MGE Energy, Inc.	Unitil Corporation
DTE Energy Company	NiSource, Inc.	Vectren Corporation
El Paso Electric Company	NorthWestern Corporation	WEC Energy Group, Inc.
Entergy Corporation	OGE Energy Corp.	Westar Energy, Inc.

For the 2016-2018 and 2017-2019 performance periods, ALLETE's TSR will be compared to the TSR of the companies in the EEI Index. Starting with the awards granted in 2016, the ECC moved to the EEI Index companies as our peer group because it more closely reflects the investment choices available to shareholders than comparing only to the ones that most closely match our market capitalization and stock-trading characteristics. The integrated utility companies comprising the EEI Index as of

December 31 of the final year of each three-year performance period that have been in the EEI Index for at least three years as of that date will constitute the peer group used to determine actual payout results.

The table below lists the EEI Stock Index as of December 31, 2017:

## TSR Peer Group Companies for the 2016-2018 and 2017-2019 Performance Periods\*

Alliant Energy Corporation	Entergy Corporation	PG&E Corporation
Ameren Corporation	Eversource Energy	Pinnacle West Capital Corporation
American Electric Power Company	Exelon Corporation	PNM Resources, Inc.
Avista Corporation	FirstEnergy Corporation	Portland General Electric Company
Avangrid, Inc.	Great Plains Energy Incorporated	PPL Corporation
Black Hills Corporation	Hawaiian Electric Industries, Inc.	Public Service Enterprise Group, Inc.
CenterPoint Energy, Inc.	IDACORP, Inc.	SCANA Corporation
CMS Energy Corporation	MDU Resources Group, Inc.	Sempra Energy
Consolidated Edison, Inc.	MGE Energy, Inc.	The Southern Company
Dominion Resources, Inc.	NextEra Energy, Inc.	Unitil Corporation
DTE Energy Company	NiSource, Inc.	Vectren Corporation
Duke Energy Corporation	NorthWestern Corporation	WEC Energy Group, Inc.
Edison International	OGE Energy Corp.	Westar Energy, Inc.
El Paso Electric Company	Otter Tail Corporation	Xcel Energy Inc.

\* The EEI Index companies listed are those included in the index as of December 31, 2017. Companies may be added to or dropped from the EEI Index during the performance period due to mergers or other activities. Any company that is added to the EEI Index after the start of the performance period will be excluded from our performance calculation. Similarly, if a company is dropped from the index during the performance period, no information related to that company will be included in the calculation, as if that company had never been part of the index. During 2016, three companies were dropped from the EEI Index: Cleco Corporation, Pepco Holdings, Inc., and TECO Energy, Inc. and during 2017, The Empire District Electric Company was dropped.

**Restricted Stock Units (RSUs)**

RSUs are used as a retention incentive and to encourage stock ownership. One RSU entitles the NEO to receive one share of Common Stock and accrued dividend equivalents after the RSU vests at the end of a three-year period. The table below shows 2017 long-term incentive target opportunities for the NEOs. The target opportunities were allocated 75 percent to performance shares and 25 percent to RSUs. The target number of performance shares is determined by dividing each NEO's target award opportunity—shown in the table below—by \$70.27, the estimated fair value of a share of our Common Stock as of December 30, 2016. Our consultant Mercer calculated the estimated fair value, which reflects a modeled probability of achieving the performance goals, employing a Monte-Carlo simulation model that used an underlying Black-Scholes methodology. The number of RSUs granted to the NEOs was calculated using a per-share value of \$64.19, the closing price for Common Stock on December 30, 2016. The end-of-year valuation gives Mercer sufficient time to calculate the performance shares' value and to facilitate ECC approval of the awards at the January Board meeting.

**Long-Term Incentive Target Opportunities for 2017–2019 Performance Period**

	Total Target Opportunity	Allocation of Long-Term Incentive			
		Plan Target Opportunity		RSUs % of Total Target Opportunity	
		PSAs	% of Total Target Opportunity	RSUs	% of Total Target Opportunity
Mr. Hodnik	\$1,250,000	13,341	75%	4,868	25%
Mr. Adams	\$275,000	2,935	75%	1,071	25%
Mr. Oachs	\$250,000	2,668	75%	974	25%
Ms. Amberg	\$225,000	2,401	75%	876	25%
Ms. Owen	\$225,000	2,401	75%	876	25%
Mr. DeVinck	\$275,000	2,935	75%	1,071	25%

The ECC has discretion to reduce or eliminate awards, whether or not performance goals have been achieved, but does not have discretion to increase awards beyond the performance that is achieved. The ECC did not exercise discretion to reduce or eliminate LTIP awards during 2017.

**RETIREMENT AND OTHER BROAD-BASED BENEFITS**

We provide benefits, including retirement benefits, to attract and retain executive talent. Retirement benefits also reward long-term service with the Company. NEOs are eligible for retirement benefits under the same plans available to other eligible employees. They are also eligible for supplemental retirement benefits under our supplemental executive retirement plans. Retirement benefits are described in more detail below.

NEOs are also eligible to participate in a range of broad-based employee benefits, including vacation pay, sick pay, disability benefits, a flexible compensation plan, an employee stock purchase plan, group term life insurance, and both active and post-retirement health benefits.

#### Tax-Qualified Retirement Benefits

We provide retirement income benefits to the NEOs from two primary sources: (1) the RSOP, a defined-contribution retirement savings and stock ownership plan, and (2) traditional defined benefit pension plans. The RSOP has features of both an employee stock ownership plan and a 401(k) savings plan. These retirement benefits are intended to be tax-qualified. Since October 2006, we have emphasized delivering nonunion retirement benefits through the RSOP. Each NEO's service through September 30, 2006, is counted for calculating his or her benefit under the pension plan. The present value of each NEO's pension benefits on December 31, 2017, is shown in the Pension Benefits table on page 54. The 2017 increase in the pension benefits value for each NEO is included in column (f) of the Summary Compensation Table on page 47.

NEOs may elect to defer salary into the RSOP up to the limits imposed by the Tax Code and the RSOP. In addition, we contribute to the NEOs' RSOP accounts a matching contribution of up to four percent of base salary, plus an annual Company contribution of between 8.5 percent and 11.5 percent of base salary, depending on the NEO's age. Amounts contributed by the Company to the NEOs under the RSOP are included in column (g) of the Summary Compensation Table on page 47.

#### Supplemental Executive Retirement Benefits

We provide supplemental retirement benefits to the NEOs through the SERP, our non-tax-qualified retirement plan. Generally, the SERP is designed to provide retirement benefits to the NEOs that, in the aggregate, substantially equal the benefits they would have been entitled to receive if the Tax Code did not limit the types and amounts of compensation that can be considered under tax-qualified benefit plans. Providing SERP benefits is also a recruiting and retention strategy for executive talent because it provides additional retirement planning opportunities.

The SERP has three components: a supplemental pension benefit, a supplemental defined contribution benefit, and a deferral account benefit. On December 31, 2004, the Company froze SERP I with respect to all deferrals and vested accrued retirement benefits. Effective January 1, 2005, the Company established SERP II to comply with Section 409A of the Tax Code. SERP II covers compensation initially deferred and retirement benefits accrued or vested after December 31, 2004. The SERP benefits are discussed in more detail starting on page 57.

#### SEVERANCE BENEFITS

We have no employment agreements with any of our NEOs. Under the CIC Severance Plan, NEOs could receive severance benefits in connection with a change in control of the Company. The CIC Severance Plan would provide benefits in the event of an involuntary termination of employment (or resignation following certain unfavorable changes made to an NEO's duties, compensation, or benefits) occurring six months before, or up to two years after, a change in control. The CIC Severance Plan is designed to encourage executives to remain dedicated and objective when evaluating transactions that could result in a loss of employment in connection with a potential change in control and to minimize the risk that executives would depart prior to a change in control. The ECC believes that the most effective way to accomplish these objectives is to require both a change in control and termination of employment before severance benefits are paid. This ensures that NEOs would not receive severance benefits unless they are adversely affected by a change in control.

The CIC Severance Plan would provide each NEO a lump-sum severance payment of 2.5 times annual cash compensation. The CIC Severance Plan also contains a modified payment cap whereby the payment would be reduced below the Tax Code Section 280G safe harbor amount if the NEO would retain a greater after-tax amount than the after-tax amount that would be retained if the Company paid an unreduced benefit subject to the excise tax. We provide no tax gross-up in connection with any severance payments. As it does each year, the ECC reviewed the terms of the CIC Severance Plan in 2017, in consultation with Pearl Meyer. The ECC believes that the CIC Severance Plan is in line with market practice and made no changes to the CIC Severance Plan in 2017.

The SERP II includes a change in control provision that accelerates payment of the supplemental executive retirement benefits and deferral account benefits, earned after December 31, 2004, upon a termination of employment in connection with a change in control. There are also change in control features in both the AIP and the LTIP. The change in control features in the SERP II, the AIP, and the LTIP are designed to protect NEOs from losing previously-earned benefits.

The potential value of the change in control severance benefits is discussed more fully in the “Potential Payments Upon Termination or Change in Control” section starting on page 59.

## PERQUISITES

The Company gives executives limited perquisites. Perquisites are tailored to the individual NEO, take into account business purpose, and may include: club memberships; reimbursement for financial and tax planning services; identity theft coverage; office parking spaces; approved travel, meal, and entertainment expenses for spouses; and executive physicals. As required by the Tax Code, we impute income to the NEOs for reimbursement of personal expenses and we provide no tax gross-ups for this imputed income.

The ECC has reviewed all perquisites and determined that they are a minimal component of total compensation and facilitate the NEOs' performance of their job responsibilities. In 2017, each NEO received less than \$10,000 in perquisites, except Mr. Hodnik who received perquisites in 2017 valued at \$11,238.

## EXECUTIVE STOCK OWNERSHIP GUIDELINES

We believe NEOs should be ALLETE shareholders to encourage them to act as owners and focus on long-term, sustained performance when making business decisions. We use Common Stock to fund the NEO's long-term incentive compensation and a portion of the Company's contribution to the NEOs' tax-qualified, defined-contribution retirement savings plan accounts.

NEOs are expected to own Common Stock in accordance with the share ownership guidelines that have been established by the Corporate Governance Committee as discussed on page 22. The applicable share ownership guidelines are as follows:

### Executive Share Ownership Guidelines

Position	Share Ownership Value as Multiple of Base Salary
Chief Executive Officer	5X
Chief Financial Officer	3X
Senior Vice President	2X



NEOs are expected to meet the applicable share ownership guideline within seven years after first becoming subject to the share ownership guidelines. An NEO who is promoted to a position with a higher share ownership expectation has five years from the promotion to meet his or her new guideline. At least annually, the Corporate Governance Committee reviews Common Stock ownership to confirm that the NEOs have met or are making reasonable progress toward their share ownership guidelines.

The Corporate Governance Committee may, on a case-by-case basis, make adjustments to share ownership guidelines to fit a particular situation.

Each NEO has met his or her share ownership guideline or is making appropriate progress toward meeting the guideline. Common Stock ownership levels, as of March 9, 2018, are shown in the table on page 7.

## COMPENSATION RECOVERY POLICY

Our Compensation Recovery Policy, sometimes called a clawback policy, allows us to recover incentive payments and other forms of compensation from NEOs if any of the following events occur:

Financial restatement. In the event of an accounting restatement due to material non-compliance with financial reporting rules, we can recover any excess payments made pursuant to the AIP or the LTIP in the three-year period prior to the date on which the Company is required to prepare the restatement.

Error. In the event of a material error in the measurement of performance criteria, we can recover any excess payments made pursuant to the AIP or the LTIP during the three years prior to the discovery of the error.

Misconduct. If an NEO engages in criminal behavior or work-related dishonesty, we can recover any AIP awards, LTIP awards, and bonuses that were paid during and subsequent to the period of misconduct.

## PROCESS FOR DETERMINING EXECUTIVE COMPENSATION

### Role of the Compensation Committee

The ECC establishes our executive compensation philosophy and objectives and oversees the administration of our executive compensation programs. The ECC sets the CEO's compensation, which is reviewed and ratified by the Board without the CEO's participation. In setting the CEO's compensation, the ECC considers the Board's annual evaluation of the CEO's performance, which, among other things, assesses his performance relative to annual objectives established by the Board. The ECC also compares the CEO's compensation to the compensation of CEOs at other investor-owned electric utilities. Benchmark compensation data is adjusted for the Company's size as measured by revenue and provides a market context for the ECC's decisions. The ECC also approves the compensation of the other NEOs after considering the CEO's recommendations regarding such compensation.

Each January, the ECC, with the CEO, sets performance goals for the AIP and the LTIP. With respect to the LTIP, the ECC also sets multi-year TSR targets relative to a peer group for performance shares, and establishes the award dates, vesting periods, and forfeiture provisions for performance shares and RSUs.

### Compensation Consultant Independence

The ECC's independent compensation consulting firm for 2017 was Pearl Meyer. Pearl Meyer is engaged by, and reports directly to, the ECC. The ECC has the sole authority to hire or terminate its compensation consultant. It is the ECC's policy that its Chair pre-approve any additional services its independent compensation consultant performs for management. The ECC reviewed and confirmed Pearl Meyer's independence in 2017.

### Role of Management

The CEO recommends compensation for all other NEOs to the ECC for approval. Recommendations are based, in part, on each NEO's experience and responsibility level and on the CEO's assessment of his or her performance. The CEO works with each NEO at the beginning of the year to identify individual goals that are aligned with strategic objectives unique to each NEO's scope of responsibility. The CEO reviews each NEO's performance during the year regarding accomplishments, areas of strength, and areas for development. The CEO bases his evaluation on a written self-assessment completed by each NEO, the CEO's knowledge of his or her accomplishments, and discussions with each NEO. The CEO's recommendation is also based on the executive compensation studies described below. The CEO also recommends to the ECC financial and non-financial performance measures under the Company's incentive compensation plans.

### Executive Compensation Studies

Annually, the ECC reviews the peer group that ALLETE uses for compensation benchmarking purposes. Compensation benchmarking is based on published salary surveys and proxy statement data from compensation benchmarking peer companies. During 2016, Cleco Corporation and UIL Holdings Corporation were removed from the benchmarking peer group because they no longer were a member of the EEI Index after being acquired in 2015. The ECC approved adding OGE Energy Corp. to maintain a compensation peer group of at least 15 companies. As there is a strong correlation between executive compensation pay levels and company size, and the ECC compares executive pay levels with those at companies that are similar in size to ALLETE as measured by market capitalization and revenue. For this reason, ALLETE's compensation peer group was made up of a subset of companies in the EEI Index in 2016 that are used for TSR comparison purposes. Even within this subset, however, the companies range in size significantly. Accordingly, the compensation data is size adjusted to establish appropriate market compensation comparisons for ALLETE. The ECC approved the following 15-company peer group for 2017:

### Compensation Benchmarking Peer Group

Avista Corporation	IDACORP, Inc.	PNM Resources, Inc.
Black Hills Corporation	MGE Energy, Inc.	Portland General Electric Company
El Paso Electric Company	NorthWestern Corporation	The Empire District Electric Company
Great Plains Energy Incorporated	OGE Energy Corp.	Vectren Corporation
Hawaiian Electric Industries, Inc.	Otter Tail Corporation	Westar Energy, Inc.

In October 2016, the ECC directed Pearl Meyer to conduct two compensation benchmarking studies for ALLETE: one for the CEO and another for the other NEOs. These studies provided the basis for compensation recommendations made in January 2017.

The CEO benchmarking study compared Mr. Hodnik's compensation to an external market using size-adjusted data from published surveys and compensation data disclosed in the proxy statements of the 15-company peer group. The study also analyzed CEO pay-for-performance practices and effectiveness. The Pearl Meyer report indicated that the elements of Mr. Hodnik's compensation were comparable to market and well balanced. The report further indicated that Mr. Hodnik's base salary was at the 25th percentile, while target total cash compensation and target total direct compensation were between the 25th and 50th percentile of the market range. The report also indicated that Mr. Hodnik's compensation was aligned with growth in pre-tax income and one-year TSR.

Pearl Meyer's analysis compared the other NEOs' base salaries and annual and long-term target incentive opportunities to market data using the same survey sources and proxy statement data used in the CEO analysis. The Pearl Meyer report indicated that base salary, target total cash compensation and total direct compensation for the other NEOs were below the market median, with limited variance on total direct compensation from executive to executive, with the exception of Ms. Amberg, who had total direct compensation above the 50th percentile. Long-term incentive opportunities were below the market median for the executive officer group.

Based on the 2016 executive compensation studies, the ECC determined the following: (1) NEOs' compensation included appropriate elements; (2) Mr. Hodnik's base salary, annual incentive target opportunity, and LTIP target opportunity should be increased for 2017; (3) Mr. Adams' base salary, annual incentive target opportunity, and LTIP target opportunity should be increased for 2017;

(4) Mr. Oachs and Ms. Owen's base salary and LTIP target opportunity should be increased for 2017 in connection with promotion to more responsible roles; and (5) the annual incentive and LTIP target opportunities for the other NEOs were appropriate as compared to market.

#### 2017 Executive Compensation Changes

The ECC considered the peer company compensation market studies completed in the fall of 2016, as well as other relevant circumstances such as roles and responsibilities, performance, and equity within the executive management group, as the basis for the following 2017 executive compensation changes:

To bring Mr. Hodnik's total compensation closer to the market median, the ECC approved, and the Board of Directors ratified, increases in his salary and his annual and long-term incentive opportunities. His base salary increased 3 percent in 2017 (from \$612,616 to \$630,995). In January 2017, Mr. Hodnik's annual incentive target opportunity was increased to 100 percent of base salary (compared to 75 percent in 2016) and his long-term incentive target opportunity was increased to \$1,250,000 (compared to \$1,050,000 in 2016).

Recognizing Mr. Adams' promotion to CFO, the ECC increased his base salary by approximately 25 percent in 2017 (from \$285,857 to \$356,500), increased his annual incentive target opportunity to 50 percent of base salary (compared to 40 percent in 2016), and increased his long-term incentive target opportunity to \$275,000 (compared to \$150,000 in 2016).

Mr. Oachs received an eight percent base salary increase (from \$335,852 to \$362,720) and his long-term incentive target opportunity was increased to \$250,000 (compared to \$150,000 in 2016).

Ms. Owen received a 17 percent base salary increase (from \$252,705 to \$294,755) and her long-term incentive target opportunity was increased to \$225,000 (compared to \$50,000 in 2016).

Although these changes for the NEOs listed above better aligned total direct compensation with the compensation peer companies, their total compensation remained below the 50th percentile of the market range.

### Tax and Accounting Rule Considerations

We attempt to structure the NEOs' compensation so that all elements of pay are tax-deductible by the Company. Section 162(m) of the Tax Code limits to \$1 million the amount of compensation that we may deduct in any year with respect to Mr. Hodnik and certain of the next most-highly compensated executive officers. For periods before 2018, that limit did not apply to "performance-based compensation" within the meaning of Section 162(m). If Section 162(m) would otherwise limit the Company's ability to deduct an annual incentive award, then the amount of the NEO's annual incentive award paid currently would be capped at the maximum deductible amount and the non-deductible portion would be deferred to the NEO's supplemental executive retirement plan account, described starting on page 57. Mr. Hodnik's 2017 annual incentive award was granted from the LTIP and a majority of the opportunity was designed to qualify as "performance-based compensation" and be fully tax deductible by the Company. Performance shares awarded under the LTIP also are designed to qualify as "performance-based compensation." RSUs do not qualify as "performance-based compensation" because they vest over time rather than based on performance. We believe that all compensation paid to NEOs in 2017 was tax deductible. For taxable years beginning after 2017, the exception for "performance-based" compensation was repealed and the 162(m) limitation on deductibility generally was expanded to include all NEOs. As a result, compensation in excess of \$1 million on account of services after 2017 paid to the NEOs will not be deductible unless it qualifies for transition relief applicable to certain arrangements in place as of November 2, 2017. Recognizing the need to maintain flexibility in administering our executive compensation program, the ECC has the authority to approve executive compensation that may not be tax deductible. Section 280G of the Tax Code limits the amount that we may deduct for payments in connection with a change in control, commonly referred to as "parachute payments." If total payments in connection with a change in control exceed the Section 280G limits, the Company's deduction would be limited and the recipient's parachute payments would be subject to an excise tax. The CIC Severance Plan has a modified severance payment cap that limits payments to a level below the safe harbor amount provided by Tax Code Section 280G if the NEO would retain a greater after-tax amount than the after-tax amount that would be retained if the Company paid an unreduced benefit that was subject to the excise tax.

In addition to tax deductibility, we also consider the accounting implications of each compensation element. Because the primary objectives of our compensation programs are tied to performance, however, the ECC may design a compensation structure regardless of whether it qualifies for a tax deduction or more favorable accounting treatment if deemed in the Company's best interest. We do not provide tax gross-ups on payments to NEOs, except in connection with relocation expenses covered under the Company's broad-based relocation policy.

### Aligning Compensation With Performance

ALLETE designs its executive compensation to align with performance. Annually, Pearl Meyer prepares the following graphs that illustrate the extent of this alignment. The graph on the left shows how Mr. Hodnik's realizable pay over the three-year period ending December 31, 2016, aligns with ALLETE's TSR performance relative to its compensation peer group over the same period. The graph on the right illustrates the same thing for the other NEOs (excluding Mr. Hodnik) aggregated together as a group.

How

Realizable

Pay Aligns

with TSR

Performance

For the graphs above, the NEOs' realizable pay for the three-year period from January 1, 2014 to December 31, 2016, is calculated by: first, taking the sum of: (a) annualized base salary earned during the period; (b) annual incentive compensation, including any stock bonuses, earned during the period; (c) RSUs granted during the period, vested or unvested, valued in each case, as of December 31, 2016; and (d) PSAs earned for performance periods ending during the period, valued, in each case, as of December 31, 2016; and, second, dividing by three (to achieve an annualized result).

Pearl Meyer used the same methodology to calculate realizable pay for ALLETE's compensation peer group, which companies are listed on page 35. To the extent the peer companies provide stock options or SARs, the calculation's initial sum includes options or SARs granted during the period and valued, in each case, as of December 31, 2016, using current Black-Scholes. Pearl Meyer used pay data reported in the compensation peer group companies' proxy statements. TSR data came from Standard & Poor's Capital IQ.

Realizable pay analysis focuses on a combination of actual pay realized (with respect to cash compensation) and pay that was earned, but not necessarily realized (with respect to equity-based compensation), and is designed to capture an accurate, stable comparison measure. ALLETE's annualized 2014-2016 TSR was 13 percent, placing ALLETE in the 20th percentile among its compensation peer companies. Realizable pay for Mr. Hodnik and for the NEOs in the aggregate was in approximately the first percentile. Thus, realizable pay was conservatively aligned with performance for 2014-2016.

## REALIZED COMPENSATION

The SEC's instructions for calculating total compensation, as reflected in the Summary Compensation Table on page 47, include several items affected by accounting and actuarial assumptions. As a result, there can be significant differences between the total compensation shown on the Summary Compensation Table and the compensation realized by our NEOs. To illustrate this difference, the graph below compares Mr. Hodnik's Summary Compensation Table total compensation figure to his realized pay for 2015, 2016 and 2017.

For purposes of the graph above, realized pay includes: (1) base salary earned; (2) annual incentive compensation earned during the calendar year; (3) RSUs and PSAs paid for the performance period ending on December 31 and valued as of payment date; and (4) all other compensation, which consists of perquisites and other personal benefits, Company contributions to the RSOP and Flexible Compensation Plan, and Company contributions under SERP II.

As has been described in this CD&A, the ECC closely monitors the CEO's compensation. Although the ECC recognizes that Mr. Hodnik's compensation is below market median, both the ECC and Mr. Hodnik believe his compensation is appropriate during a period when the Company must balance the rates approved by its regulators and the returns reasonably expected by its shareholders.

## CEO PAY RATIO

Employees drive ALLETE's success and our compensation strategy's essential objective is to compensate all employees appropriately and competitively. We consider market data, responsibilities, experience and internal equity when determining employee pay.

ALLETE's median employee was identified by computing the median annual W-2 Medicare reported wages for all employees, other than the CEO, employed on December 22, 2017, which was the last day of ALLETE's 2017 payroll reporting period. We did not make assumptions, adjustments, or estimates; nor did we annualize compensation for any full-time employee who was not employed for all of 2017.

After identifying the median employee, we calculated the median employee's annual total compensation using the same methodology used to report the NEO's compensation in the Summary Compensation Table on page 47.

The total compensation reported in column (i) of the Summary Compensation Table for Mr. Hodnik is \$3,465,079. This amount is approximately 20 times that of the median employee's total compensation for the same period. The compensation detail is shown below:

## CEO Pay to Median Employee Pay Ratio [20:1]

	Mr. Hodnik	Median Employee
Salary	\$623,574	\$88,595
Stock Awards	\$1,130,234	\$0
Non-Equity Incentive Plan Compensation	\$729,626	\$0
Change in Pension Value*	\$868,081	\$84,716
All Other Compensation	\$112,568	\$870
Total	\$3,464,083	\$174,181

\*These amounts were not paid in the year for which they are reported, but instead represents a theoretical change in the value of the retirement benefits earned under the respective defined benefit pension plans.

## SHAREHOLDER ADVISORY VOTING ON EXECUTIVE COMPENSATION

At last year's Annual Meeting in May 2017, 94 percent of the votes cast by our shareholders were to approve the Company's 2016 executive compensation on an advisory basis. We believe that this say-on-pay vote affirms our executive compensation philosophy and objectives.

As part of our ongoing commitment to monitor pay-for-performance alignment, in October 2017, the ECC reviewed Pearl Meyer's 2016 pay-for-performance analysis, which confirmed our view that our executive compensation programs are linked to performance, balanced, fair, competitive, and contain mainstream provisions.

At the Company's 2017 Annual Meeting, shareholders supported our recommendation to hold the advisory say-on-pay vote on an annual basis. We believe annual say-on-pay voting promotes shareholder awareness of executive compensation and allows shareholders to provide feedback on a regular basis. Annual say-on-pay voting is also consistent with ALLETE's desire to maintain effective relationships with our shareholders. We will hold a say-on-pay vote on an annual basis until the next advisory vote on the frequency of say-on-pay proposals.

## COMPENSATION COMMITTEE REPORT

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The Compensation Committee has reviewed the CD&A and discussed it with management. Based upon such review and the related discussions, the Compensation Committee has recommended to the Board that the CD&A be included in this Proxy Statement and the 2017 Annual Report on Form 10-K.

March 22, 2018

Compensation Committee  
James S. Haines, Jr., Chair  
Sidney W. Emery, Jr.  
Madeleine W. Ludlow  
Robert P. Powers  
Heidi E. Jimmerson, ex officio



## EXECUTIVE COMPENSATION TABLES

The following table sets forth information for the last three fiscal years. Information for fiscal year 2015 is not provided for Mr. Oachs because he was not an NEO prior to fiscal year 2016. Information for fiscal years 2016 and 2015 is not provided for Ms. Owen because she was not an NEO prior to fiscal year 2017.

## Summary Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name and Principal Position <sup>1</sup>	Year	Salary	Bonus <sup>2</sup>	Stock Awards <sup>3</sup>	Non-Equity Incentive Plan Compensation <sup>4</sup>	Change in Pension Value <sup>5</sup>	All Other Compensation <sup>6</sup>	Total
Alan R. Hodnik Chairman, President, and CEO	2017	\$623,574	—	\$1,130,234	\$729,626	\$868,081	\$112,568	\$3,464,083
	2016	\$613,584	—	\$999,067	\$436,029	\$602,455	\$127,303	\$2,778,438
	2015	\$585,676	—	\$946,768	\$571,092	\$375,553	\$104,988	\$2,584,077
Robert J. Adams Senior Vice President and CFO	2017	\$327,456	—	\$248,653	\$212,296	\$200,894	\$51,177	\$1,040,476
	2016	\$282,454	—	\$142,745	\$108,512	\$119,353	\$50,917	\$703,981
	2015	\$258,021	\$32,750	\$78,846	\$151,695	\$16,228	\$39,050	\$576,590
Bradley W. Oachs Senior Vice President and President Regulated Operations	2017	\$351,870	—	\$226,059	\$194,400	\$226,991	\$63,311	\$1,062,631
	2016	\$292,780	—	\$142,745	\$128,816	\$43,809	\$47,150	\$655,300
	2015	—	—	—	—	—	—	—
Deborah A. Amberg Senior Vice President and Chief Strategy Officer Regulated Operations	2017	\$344,867	—	\$203,404	\$133,980	\$173,867	\$54,483	\$910,601
	2016	\$338,731	—	\$214,119	\$130,911	\$116,123	\$57,499	\$857,383
	2015	\$322,306	—	\$210,373	\$179,588	\$21,697	\$54,329	\$788,293
Bethany M. Owen Senior Vice President and Chief Legal and Administrative Officer	2017	\$268,956	—	\$203,404	\$140,421	\$45,838	\$43,309	\$701,928
	2016	—	—	—	—	—	—	—
	2015	—	—	—	—	—	—	—
Steven Q. DeVinck Retired Senior Vice President; and former CFO	2017	\$153,383	—	\$248,653	\$91,628	\$147,332	\$163,134	\$804,130
	2016	\$356,876	—	\$261,700	\$175,211	\$169,566	\$65,281	\$1,028,634
	2015	\$291,901	—	\$210,373	\$182,978	\$46,353	\$58,403	\$790,008

<sup>1</sup> The principal positions are as of December 31, 2017. Mr. Adams was elected Senior Vice President and Chief Financial Officer effective March 4, 2017, in connection with Mr. DeVinck's retirement on May 31, 2017.

<sup>2</sup> The amount in column (d) reflects a cash bonus paid to Mr. Adams on April 2, 2015.

<sup>3</sup> The amounts shown in column (e) represent the actuarial value of the future payout, but are not amounts that were paid to the NEOs in the year reported. The actual amount that an NEO will earn will depend on the extent to which long-term incentive goals are achieved and on the then-current market price of Common Stock. The actual value

each NEO realized in 2017 from stock awards in prior years is shown in the "Option Exercises and Stock Vested" table on page 53. The amounts in column (e) relate to PSA and RSU opportunities awarded during the year to the NEOs. The amounts shown reflect the grant date fair value determined in accordance with generally accepted accounting principles under ASC 718, using the same assumptions used in the valuation of compensation expenses disclosed in Note 16 to the Company's Consolidated Financial Statements contained in the 2017 Annual Report on Form 10-K, but based on a modeled probability of reaching performance goals and excluding the effect of estimated forfeitures. This estimated value was calculated by our consultant Mercer using a Monte-Carlo simulation model that used an underlying Black-Scholes methodology. The grant date fair value is the total amount that we will recognize as an expense over the awards' vesting period, except that the amounts shown do not include a reduction for forfeitures. The amounts shown in column (e) for 2017 are comprised of the following:

	RSUs	PSAs*
Alan R. Hodnik	\$302,692	\$827,542
Robert J. Adams	\$66,595	\$182,058
Bradley W. Oachs	\$60,563	\$165,496
Deborah A. Amberg	\$54,470	\$148,934
Bethany M. Owen	\$54,470	\$148,934
Steven Q. DeVinck	\$66,595	\$182,058

\* The maximum grant date fair value for for each NEO's unearned 2017 PSAs, assuming the highest level of performance were to be achieved, is as follows: Mr. Hodnik—\$1,655,084, Mr. Adams—\$364,116, Mr. Oachs—\$330,992, Ms. Amberg—\$297,868, Ms. Owen—\$297,868, and Mr. DeVinck—\$364,116.

<sup>4</sup> The amounts in column (f) reflect annual incentive awards earned in 2017 and paid in 2018. The amounts shown include any portion of the award that was deferred at the NEO's election.

The amounts shown in column (g) represent a theoretical change in the value of retirement benefits earned by each NEO under our retirement plans, which are described in detail beginning on page 55, and were not paid to the NEOs in the year reported.

<sup>6</sup> The amounts in column (h) for 2017 are comprised of the following:

	Perquisites and Other Personal Benefits*	Company Contributions under the RSOP and the Flexible Compensation Plan	Company Contributions Under SERP II	Acceleration of Outstanding Equity Awards in Connection with Retirement**
Alan R. Hodnik	\$11,238	\$47,770	\$53,560	—
Robert J. Adams	—	\$39,050	\$12,127	—
Bradley W. Oachs	—	\$47,150	\$16,161	—
Deborah A. Amberg	—	\$39,050	\$15,433	—
Bethany M. Owen	—	\$37,562	\$5,747	—
Steven Q. DeVinck	—	\$26,947	\$13,141	\$123,046

\* The amount paid to Mr. Hodnik in 2017 includes: (1) club memberships having a primary business purpose, but which also allow personal use of facilities or services—\$8,760; and (2) reimbursement for financial and tax planning services—\$2,000. The value assigned to each perquisite is based on the aggregate incremental cost to the Company associated with the benefit, except for club memberships, for which the total cost is reported. The amount shown above reflects the full, actual cost of the benefit in all cases, except for spouse's travel, meals and entertainment expenses, for which we include the full, actual cost in excess of the amount the Company would have paid had the CEO been traveling or eating without his spouse. All other NEOs received 2017 perquisites totaling less than \$10,000 each, and no amount for perquisites is included in column (h) for them.

\*\* Mr. DeVinck's retirement on May 31, 2017, resulted in an accelerated vesting of his outstanding RSUs grants as follows:

811 RSUs granted in January 2015, 682 RSUs granted in January 2016, and 153 RSUs granted in January 2017. Dividend equivalent shares also vested in connection with each grant. Mr. DeVinck's receipt of these shares was subject to a

non-elective, six-month deferral. The value of the accelerated vesting was calculated by multiplying the exact (i.e., non-rounded) number of shares acquired on vesting by the closing price of Common Stock on the payment date, December 19, 2017.



The following Grants of Plan-Based Awards table shows the range of each NEO's annual and long-term incentive award opportunities granted for the fiscal year ended December 31, 2017. The narrative following the table describes the terms of each incentive award.

## Grants of Plan-Based Awards—2017

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Name and Award Type <sup>1</sup>	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units	Grant Date Fair Value of Stock and Option Awards <sup>3</sup>
Alan R. Hodnik									
Annual Incentive	01/23/17	\$229,681	\$612,616	\$1,225,232	—	—	—	—	—
PSAs	01/23/17	—	—	—	6,671	13,341	26,682	—	\$827,542
RSUs	01/23/17	—	—	—	—	—	—	4,868	\$302,692
Robert J. Adams									
Annual Incentive	01/23/17	\$66,448	\$178,250	\$356,500	—	—	—	—	—
PSAs	01/23/17	—	—	—	1,468	2,935	5,870	—	\$182,058
RSUs	01/23/17	—	—	—	—	—	—	1,071	\$66,595
Bradley W. Oachs									
Annual Incentive	01/23/17	\$61,003	\$163,224	\$326,448	—	—	—	—	—
PSAs	01/23/17	—	—	—	1,334	2,668	5,336	—	\$165,496
RSUs	01/23/17	—	—	—	—	—	—	974	\$60,563
Deborah A. Amberg									
Annual Incentive	01/23/17	\$51,107	\$137,946	\$275,892	—	—	—	—	—
PSAs	01/23/17	—	—	—	1,201	2,401	4,802	—	\$148,934
RSUs	01/23/17	—	—	—	—	—	—	876	\$54,470
Bethany M. Owen									
Annual Incentive	01/23/17	\$44,117	\$117,902	\$235,804	—	—	—	—	—
PSAs	01/23/17	—	—	—	1,201	2,401	4,802	—	\$148,934
RSUs	01/23/17	—	—	—	—	—	—	876	\$54,470
Steven Q. DeVinck <sup>4</sup>									
Annual Incentive	01/23/17	\$69,115	\$174,627	\$369,254	—	—	—	—	—
PSAs	01/23/17	—	—	—	1,468	2,935	5,870	—	\$182,058
RSUs	01/23/17	—	—	—	—	—	—	1,071	\$66,595

<sup>1</sup> 2017 annual incentive awards for all NEOs, except Mr. Hodnik, were made under the AIP. Mr. Hodnik's annual incentive award was made under the LTIP; PSAs and RSUs were granted under the LTIP.

<sup>2</sup> Actual awards earned are shown in column (f) of the Summary Compensation Table on page 47.

The amounts shown in column (j) reflect the grant date fair value determined in accordance with generally accepted accounting principles under ASC 718, using the same assumptions used in the valuation of compensation expense disclosed in Note 16 to the Company's Consolidated Financial Statements contained in the 2017 Annual Report on Form 10-K, but based on a modeled probability of reaching performance goals and excluding the effect of estimated forfeitures. The amounts shown for PSAs and RSUs are the values of the awards for accounting purposes. The value an NEO realizes from performance shares will depend on actual Common Stock performance relative to the peer

company group, discussed on page 35 and the market price of Common Stock. The value an NEO realizes from RSUs depends on the market value of Common Stock at the time of vesting.

The annual incentive amount shown was calculated as of the grant date and assumed that Mr. DeVinck would have remained employed by the Company for all of 2017. Mr. DeVinck's actual award, as shown in column (f) of the  
4 Summary Compensation Table on page 47, was based on actual 2017 results, but prorated to reflect his retirement on May 31, 2017. The amounts shown for RSUs and PSAs were also calculated assuming Mr. DeVinck would have remained with the Company throughout the applicable RSU vesting period and PSA performance period. Both awards were prorated in connection with his retirement.

## GRANTS OF PLAN-BASED AWARDS DISCUSSION

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The Company's 2017 incentive awards for all NEOs consisted of an annual incentive opportunity and a long-term incentive opportunity allocated between PSAs and RSUs.

### Annual Incentive Opportunity

Annual incentive awards are discussed in detail in the Compensation Discussion and Analysis section beginning on page 25. 2017 annual incentive goal weightings, reflected in columns (c), (d), and (e) of the Grants of Plan-Based Awards table on page 49, are more fully described as follows:

Threshold amount shown in column (c)—the minimum annual incentive award that would be payable, ranging from 15.0 percent to 37.5 percent of base salary as of December 31, 2017, if both net income and cash from operating activities results were at threshold and if there were no progress on strategic and operational goals.

Target amount shown in column (d)—the target annual incentive award that would be payable, ranging from 40 percent to 100 percent of base salary as of December 31, 2017, if both net income and cash from operating activities results were at target and all strategic goals were achieved at the target level.

- Maximum amount shown in column (e)—maximum annual incentive award that would be payable, ranging from 80 percent to 200 percent of base salary as of December 31, 2017, if both net income and cash from operating activities results were at superior and all strategic goals were achieved at the superior level.

Goal achievements that fall between threshold and superior are interpolated on a straight-line basis.

The amounts shown in column (f) of the Summary Compensation Table on page 47 include annual incentive awards earned in 2017 at 119.1 percent of target for all NEOs, except Ms. Amberg. As discussed on page 33, Ms. Amberg's annual incentive opportunity was weighted 25 percent to ALLETE's goals and 75 percent to SWL&P's goals, resulting in an incentive award earned in 2017 at 97.1 percent of her target. Annual incentive award amounts, expressed as a percentage of the NEO's base salary, ranged from 25 percent to 119 percent.

Each NEO may elect to receive his or her annual incentive award in cash, or to defer some or all of the awards in accordance with SERP II. NEOs who retire, die, or become disabled during the year remain eligible to receive a prorated annual incentive award, based on actual results at the end of the year. NEOs who terminate employment for any other reason forfeit any annual incentive award. In the event of a change in control, annual incentive awards would be calculated as if the end of the performance year had occurred, based on the Company's performance at the time of the change in control. Any awards earned would be prorated based on the number of months in the performance year which had elapsed as of the time of the change in control.

## PSAs

The PSAs for the three-year performance period beginning January 1, 2017, are reflected in the Grants of Plan-Based Awards table on page 49. Specifically, the amounts shown in column (f), (g), and (h) reflect the following:

Threshold amount shown in column (f)—the minimum 2017 PSA payable, set at 50 percent of the target amount, which would be earned if ALLETE's TSR percentile ranking was at the 30th percentile among the peer group. If ALLETE's TSR percentile ranking for the three-year performance period were below threshold among the peer group, no PSAs would be paid.

Target amount shown in column (g)—the target PSA payable, which would be earned if ALLETE's TSR percentile ranking were at the 50th percentile among the peer group.

Maximum amount shown in column (h)—the maximum PSA payable, set at 200 percent of the target amount, which would be earned if ALLETE's TSR percentile ranking for the three-year performance period were at the 85th percentile or higher among the peer group.

PSAs are earned as a result of TSR percentile rankings that fall between threshold and maximum, which are interpolated on a straight-line basis.

Dividend equivalents accrue during the performance period and allow NEOs to receive the value of dividends that would have been paid on Common Stock between the grant date and the date the performance shares are paid, but only if performance goals are achieved. If earned, performance shares and dividend equivalents are paid in Common Stock after the end of the performance period. An NEO who retires, dies, or becomes disabled during the performance period remains eligible to receive a prorated payment of performance shares. Upon a change in control, PSAs would immediately vest and be paid out on a prorated basis, including dividend equivalents, at the greater of the target level or the level earned based on the actual TSR ranking as of the date of the change in control. The grant date fair value, based on a modeled probability of reaching performance goals for performance shares awarded to each NEO, is included in the amounts shown in column (e) of the Summary Compensation Table on page 47.

Performance shares awarded for the 2016-2018 and 2017-2019 performance periods remain unearned unless the performance goals are achieved at the end of the performance periods. The performance shares awarded to each NEO for those periods are shown in column (d) of the Outstanding Equity Awards at Fiscal Year-End table on page 53. The estimated market value of the unearned performance shares, assuming superior performance in the case of the 2016-2018 and the 2017-2019 performance periods, is shown in column (e) of that table. The actual value to the NEOs, if any, will be determined at the end of the performance periods based on the Company's actual TSR ranking for the three-year performance periods.

During the 2015-2017 performance period, the Company's shareholders realized a TSR of 49.9 percent, ranking us 8th in the 27-company peer group and resulting in payout of 160 percent of target performance. Earned performance shares are included in column (b) of the Outstanding Equity Awards at Fiscal Year-End table on page 53.

The Summary Compensation Table on page 47 reflects in column (e) the grant date fair value of the PSAs granted in the year in which the three-year performance period commenced. The number of shares of Common Stock that each NEO will earn pursuant to the 2017 PSA grant will be based on the Company's TSR percentile ranking within an EEI company peer group at the end of the performance period. The TSR peer group and other PSA design terms are discussed in the Compensation Discussion and Analysis section beginning on page 25.



## RSUs

The number of RSUs awarded to the NEOs in 2017 is shown in column (i) of the Grants of Plan-Based Awards table on page 49. Each RSU entitles the NEO to receive one share of Common Stock when the unit vests at the end of a three-year period. The RSUs granted in 2017 will vest on December 31, 2019. The NEOs must remain employed by the Company at the time RSUs vest to receive the Common Stock. Dividend equivalents accrue during the vesting period. Dividend equivalents allow the NEOs to receive the value of dividends that would have been paid on Common Stock during the vesting period, but only if the RSUs vest. RSUs and dividend equivalents are paid in Common Stock after the end of the vesting period. Upon an NEO's retirement, disability, or death, a prorated number of the RSUs would immediately vest. In the event of a change in control, restrictions in RSU grants will be deemed to have expired upon the change in control and a prorated number of the RSUs would immediately vest, unless the RSU grant is fully assumed by the successor corporation. If the RSU grant were to be fully assumed, a prorated number of RSUs would immediately vest if the NEO's employment were terminated by the successor corporation for reasons other than cause within 18 months of the change in control.

The full grant date fair value for RSUs awarded to each NEO is included in the amount shown in column (e) of the Summary Compensation Table on page 47. The number of unvested RSUs outstanding at the end of 2017, including dividend equivalents, is shown in column (b) of the following Outstanding Equity Awards at Fiscal Year-End table, while the value of the award as of December 31, 2017, is shown in column (c).

RSUs are also discussed in the CD&A section on page 36.

## Outstanding Equity Awards at Fiscal Year-End—2017

(a)	(b)	(c)	(d)	(e)
Name	Number of Shares or Units of Stock That Have Not Vested <sup>1</sup>	Market Value of Shares or Units of Stock That Have Not Vested <sup>2</sup>	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested <sup>3</sup>	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested <sup>4</sup>
Alan R. Hodnik	36,939	\$2,746,784	56,194	\$4,178,586
Robert J. Adams	4,097	\$304,653	9,884	\$734,974
Bradley W. Oachs	6,197	\$460,809	9,403	\$699,207
Deborah A. Amberg	7,934	\$589,972	11,216	\$834,022
Bethany M. Owen	2,720	\$202,259	5,698	\$423,703
Steven Q. DeVinck	3,787	\$281,526	4,710	\$350,236

The amounts in column (b) are comprised of the following: (i) the performance shares earned for the 2015-2017 performance period that all NEOs received in Common Stock on February 1, 2018 (the amount shown for Mr. DeVinck reflects that he received a prorated amount due to his retirement on May 31, 2017), and (ii) RSUs granted on

January 21, 2015, January 20, 2016, and January 23, 2017 to each NEO, except Mr. DeVinck, plus dividend equivalents. RSUs vest over a three-year period provided the NEO continues to be employed by the Company.

<sup>2</sup> The amounts in column (c) were calculated by multiplying the number of shares and units in column (b) by \$74.36, the closing price of Common Stock on December 29, 2017.

<sup>3</sup> The amounts in column (d) represent the Common Stock that would be payable for outstanding PSAs if superior performance were achieved for the 2016-2018 and 2017-2019 performance periods (a TSR ranking of 85th percentile among the EEI Index peer group described on page 35). If the performance period had ended on December 31, 2017, performance shares would have been paid for the 2016-2018 performance period at 200 percent and at 163.1 percent for the 2017-2019 performance period. The amounts shown for Mr. DeVinck reflect the reduced (prorated) amounts for which he is eligible because of his retirement on May 31, 2017.

<sup>4</sup> The amounts in column (e) were calculated by multiplying the number of shares and units in column (d) by \$74.36, the closing price of Common Stock on December 29, 2017.

## Option Exercises and Stock Vested—2017

(a)	(d)	(e)
Name	Stock Awards	
	Number of Shares Acquired on Vesting <sup>1</sup>	Value Realized on Vesting <sup>2</sup>

Alan R. Hodnik	4,501	\$293,690
Robert J. Adams	557	\$36,344
Bradley W. Oachs	844	\$55,071
Deborah A. Amberg	1,125	\$73,406
Bethany M. Owen	371	\$24,208
Steven Q. DeVinck	2,490	\$178,110

The amounts reflect the RSUs that vested at the end of the 2014-2016 vesting period, which were paid in Common Stock on February 3, 2017. All numbers shown have been rounded to the nearest whole share, whereas actual Common Stock payments included fractional shares. Mr. DeVinck's total amount also includes 811 RSUs plus dividends granted in

January 2015, 682 RSUs plus dividends granted in January 2016, and 153 RSUs plus dividends granted in January 2017, all of which vested in connection with his retirement on May 31, 2017. Because Mr. DeVinck's receipt of these shares was subject to a non-elective six month deferral, he also received 48 dividend equivalent shares that are included in the totals.

For each NEO, except Mr. DeVinck, the value realized on vesting (shown in column (e)) is calculated by multiplying the number of shares acquired on vesting (as shown in column (d)) by \$65.25, the closing price of Common Stock on February 3, 2017. For Mr. DeVinck, the value shown is equal to the sum of (1) 844 shares multiplied by \$65.25, the closing price of Common Stock on February 3, 2017, and (2) 1,646 shares multiplied by \$74.75, the closing price on the payment date, December 19, 2017.

## Pension Benefits—2017

(a)	(b)	(c)	(d)	(e)
Name	Plan Name	Number of Years Credited Service <sup>1</sup>	Present Value of Accumulated Benefit <sup>2</sup>	Payments During Last Fiscal Year
Alan R. Hodnik	ALLETE and Affiliated Companies Retirement Plan A	11.75	\$399,790	—
	ALLETE and Affiliated Companies Retirement Plan B	12.75	\$967,578	—
	SERP II	35.75	\$5,196,606	—
Robert J. Adams	ALLETE and Affiliated Companies Retirement Plan A	19.67	\$576,964	—
	SERP II	30.92	\$451,482	—
	ALLETE and Affiliated Companies Retirement Plan A	17.08	\$622,907	—
Bradley W. Oachs	SERP II	28.25	\$618,986	—
	ALLETE and Affiliated Companies Retirement Plan A	16.25	\$438,768	—
	SERP II	27.33	\$602,853	—
Deborah A. Amberg	ALLETE and Affiliated Companies Retirement Plan A	4.42	\$96,914	—
	SERP II	15.50	\$109,412	—
	ALLETE and Affiliated Companies Retirement Plan A	9.25	\$304,470	\$30,309
Bethany M. Owen	SERP II	19.92	\$452,654	\$173,702
	ALLETE and Affiliated Companies Retirement Plan A	9.25	\$304,470	\$30,309
	SERP II	19.92	\$452,654	\$173,702
Steven Q. DeVinck	ALLETE and Affiliated Companies Retirement Plan A	9.25	\$304,470	\$30,309
	SERP II	19.92	\$452,654	\$173,702
	ALLETE and Affiliated Companies Retirement Plan A	9.25	\$304,470	\$30,309

The numbers in column (c) for SERP II reflect actual years of service with the Company. No service has been credited under Retirement Plan A since September 30, 2006. Mr. Hodnik's credited service under Retirement Plan B reflects the actual years that he was a participant in Retirement Plan B.

For the named officers, except for Mr. DeVinck, the amounts shown in column (d) represent the discounted net present value of the annual annuity payments to which the NEOs would be entitled at retirement assuming they retire at age 62, the earliest age at which NEOs can receive unreduced pension benefits. Mr. DeVinck retired on May 31, 2017. The amounts shown for him represent the discounted net present value of the annuity payments he began receiving upon retirement. In addition to retirement age, the following assumptions were used to calculate the present value of accumulated benefits: discount rate of 3.86 percent; cost of living adjustment of 1.5 percent; and female spouses are assumed to be three years younger than male spouses. The amounts reflect the accumulated pension benefits over the years of credited service shown for each plan.

## PENSION BENEFITS DISCUSSION

Retirement Plan A is a defined benefit pension plan that is intended to be tax-qualified and covers some of our nonunion employees, including the NEOs. Pension benefits are calculated based on years of service and final average earnings. As a result of a company-wide nonunion benefit change, no employee, including any NEO, has accrued additional credited service under Retirement Plan A after September 30, 2006. The Retirement Plan A pension benefit is calculated as a life annuity using the following formula:

$$\begin{aligned}
 & \left( \begin{array}{l} \text{(years of} \\ \text{credited} \\ \text{service} \\ \text{from July} \\ \text{1, 1980} \\ \text{through} \\ \text{September} \\ \text{30, 2006)} \end{array} \right) \times \text{final average earnings}^* \\
 & \text{plus (for NEOs hired before July 1, 1980):} \\
 & \left( \begin{array}{l} (1\% \times \\ \text{years of} \\ \text{credited} \\ 10\% + \text{service} \\ \text{prior to} \\ \text{July 1,} \\ \text{1980}) \end{array} \right) \times \text{final average earnings}^*
 \end{aligned}$$

\* Final average earnings includes the highest consecutive 48 months of salary in the last 15 years of service for Retirement Plan A.

Mr. Hodnik is also entitled to a pension benefit under Retirement Plan B based on positions previously held with the Company. Retirement Plan B is a defined benefit pension plan that is intended to be tax-qualified and that covers the majority of our union employees. Mr. Hodnik's credited service under Retirement Plan B reflects the actual years that he was a participant in Retirement Plan B. The Retirement Plan B pension benefit is calculated as a life annuity using the following formula:

$$10\% + (1\% \times \text{years of credited service}) \times \text{final average earnings}^*$$

\* Final average earnings includes the highest consecutive 48 months of salary in the last ten years of service for Retirement Plan B.

The remaining terms of Retirement Plan B are substantially the same as Retirement Plan A (Retirement Plan A and Retirement Plan B are collectively referred to as the Retirement Plans).

Normal retirement age under the Retirement Plans is age 65 with at least five years of continuous service with the Company. NEOs become eligible for an unreduced early-retirement benefit at age 62 if they have at least 10 years of continuous service, or at age 58 if they have at least 40 years of continuous service. NEOs are first eligible for a reduced early-retirement benefit at age 50 with at least 10 years of continuous service. Early-retirement benefits are calculated by reducing the retirement benefit by 4 percent for each year and partial year between age 62 and the early-retirement benefit commencement age. Each NEO is currently eligible to receive early-retirement benefits.



The normal form of Retirement Plan A benefit payment for married participants is a life annuity with a 60 percent surviving spouse benefit. The normal form of Retirement Plan B benefit payment for married participants is a life annuity with a 50 percent surviving spouse benefit. The normal form of payment for single participants under either Retirement Plan A or Retirement Plan B is a life annuity. At normal retirement age, each optional form of benefit payment is the actuarial equivalent of the normal form of benefit payment for both Retirement Plans. The Retirement Plans do not provide for lump sum distributions unless the lump sum equivalent value is \$10,000 or less. Once pension benefit payments have commenced, the benefit adjusts in future years to reflect changes in cost of living, with a maximum adjustment of 3 percent per year.

The Tax Code limits both the annual earnings that may be considered in calculating benefits under the Retirement Plans and the annual benefit amount that the Retirement Plans may deliver to an NEO. The SERP plans are designed to provide supplemental pension benefits, paid out of general Company assets, to eligible executives including the NEOs, in amounts sufficient to maintain total pension benefits upon retirement at the level that would have been provided by our Retirement Plans if benefits were not restricted by the Tax Code.

The SERP formula is calculated as follows:

$$\begin{aligned}
 & \left( \begin{array}{l} \text{(years of} \\ \text{credited} \\ \text{service} \\ \text{from July 1,} \\ \text{1980} \\ \text{through} \\ \text{retirement} \\ \text{or} \\ \text{termination} \\ \text{date)} \end{array} \right) \times \text{SERP final average earnings}^* \\
 & \text{plus (for NEOs hired before July 1, 1980):} \\
 & \left( \begin{array}{l} \text{(1\% x} \\ \text{years of} \\ \text{credited} \\ \text{10\% + service} \\ \text{prior to} \\ \text{July 1,} \\ \text{1980)} \end{array} \right) \times \text{SERP final average earnings}^*
 \end{aligned}$$

\* SERP final average earnings includes the sum of the NEO's (i) annual salary in excess of the Tax Code limits imposed on Retirement Plan A and (ii) annual incentive awards over the highest consecutive 48-month period. The highest consecutive 48-month period for (i) and (ii) above can be different; both, however, must fall within the last 15 years of service.

The present value of each NEO's SERP pension benefit as of December 31, 2017, is shown in the Pension Benefits table on page 54. The 2017 increase in the SERP II pension benefit value for each NEO is included in column (f) of the Summary Compensation Table on page 47.

Each NEO has elected a date when his or her SERP retirement benefit payments will commence and has elected the form of benefit payment. The normal form of payment for SERP II is a 15-year annuity. The optional forms of payment for SERP II benefits are a life annuity or a lump sum, each of which is actuarially equivalent to the normal form of payment.

SERP II benefits vest and become payable only if the NEO (i) retires after reaching age 50 with 10 years of service, (ii) becomes disabled after reaching age 50 with 10 years of service, or (iii) reaches age 50 after becoming disabled with 10 years of service. Vested SERP II benefit payments commence upon the earlier of retirement or disability, or if a disability occurs prior to vesting, the earlier of attaining age 65 or the date of death. Payment of the SERP II benefits accrued after December 31, 2004 would be accelerated and paid as a lump sum upon a termination of employment in connection with a change in control.

In all other respects, the eligibility requirements for SERP retirement benefits and the calculation of SERP early retirement benefits are the same as Retirement Plan A's eligibility requirements and early retirement benefits discussed above. As of December 31, 2016, all NEOs have vested SERP retirement benefits.



## Non-Qualified Deferred Compensation—2017

(a)	(b)	(c)	(d)	(e)	(f)	(g)
Name	Plan Name	Executive Contributions in 2017 <sup>1</sup>	Company Contributions in 2017 <sup>2</sup>	Aggregate Earnings in 2017 <sup>3</sup>	Aggregate Withdrawals or Distributions in 2017	Aggregate Balance as of December 31, 2017 <sup>4</sup>
Alan R. Hodnik	SERP I	—	—	\$66,780	—	\$354,843
	SERP II	\$12,464	\$143,560	\$163,954	—	\$2,207,193
Robert J. Adams	SERP I	—	—	\$21,829	—	\$127,365
	SERP II	—	\$12,126	\$11,660	—	\$77,475
Bradley W. Oachs	SERP I	—	—	\$5,863	—	\$51,310
	SERP II	\$88,300	\$16,161	\$61,633	—	\$598,078
Deborah A. Amberg	SERP I	—	—	\$10,198	\$54,921	\$88,804
	SERP II	\$66,939	\$15,433	\$114,462	\$198,712	\$887,103
Bethany M. Owen	SERP I	—	—	\$12,505	—	\$75,869
	SERP II	—	—	\$21,799	—	\$136,638
Steven Q. DeVinck	SERP I	—	—	\$46	\$7,608	—
	SERP II	—	—	\$25,474	\$1,118,030	—

The amounts shown in column (c) include the following: (i) salary that was earned (as reported in column (c) of the Summary Compensation Table on page 47) and deferred in 2017: Mr. Hodnik—\$12,464, and Mr. Oachs—\$10,540, and (ii) incentive compensation that was earned in 2017 and deferred in 2018 (reported in column (f) of the Summary Compensation Table on page 47): Mr. Oachs—\$77,760, and Ms. Amberg—\$66,939.

The amounts shown in column (d) includes the following: (i) SERP annual make-up award that was earned in 2017 and automatically deferred in 2018 (reported in column (h) of the Summary Compensation Table on page 47): Mr. Hodnik—\$53,560, Mr. Adams—\$12,126, Mr. Oachs—\$16,161, and Ms. Amberg—\$15,433; and (ii) for Mr. Hodnik, the amount reflects \$90,000 of the 2017 annual incentive award that was automatically deferred in 2018 (reported in column (f) of the Summary Compensation Table on page 47).

The amounts in column (e) represent unrealized and realized earnings based on the crediting rates associated with the investment funds selected by each NEO.

The amounts in column (g) for the aggregate balance for the SERP II include compensation that was previously earned and reported in 2015 and 2016 in the Summary Compensation Table as follows: Mr. Hodnik—\$798,180, Mr. Oachs—\$150,279, Ms. Amberg—\$195,367, and Mr. DeVinck—\$440,591. These amounts have since been adjusted for investment performance (i.e., earnings and losses) and deferrals credited during 2017. The aggregate balances shown for the SERP I include compensation that was previously earned and reported in the Summary Compensation Table prior to 2009 and have since been adjusted for investment performance.

ALLETE provides a supplemental defined contribution benefit and a deferral account benefit to the NEOs. The SERP II supplemental defined contribution benefit provides a benefit that is substantially equal to the benefit the NEO would have been entitled to receive if the Tax Code did not impose limitations on the types and amounts of compensation that can be included in the benefit calculations under the ALLETE and Affiliated Companies Flexible Compensation Plan and the RSOP. Annually, each NEO may elect to defer to a SERP II deferral account, on a before-tax basis, some or all of his or her salary and annual incentive award. NEOs whose base salary is below the tax-qualified benefit plan's annual compensation limits may also elect to defer some or all of the SERP II defined contribution benefit. NEOs can select among different crediting rates to apply to deferral balances under the SERP Plans, which primarily match the investment options available to all employees under the RSOP. These investment options include mutual funds and similar investments. The NEOs may change their investment elections at any time. The amount of the 2017 SERP II defined contribution benefit received by each NEO is included in column (h) of the Summary Compensation Table on page 47. The aggregate amount each NEO elected to defer and the amount that the Company contributed to the SERP II in 2017 are shown in the Non-Qualified Deferred Compensation table above.



Each NEO has elected a date when benefit payments from his or her SERP I and SERP II deferral accounts will commence and has elected the form of benefit payment. Generally, SERP I and SERP II deferral account benefit payments will not begin earlier than the elected commencement date. However, for contributions made prior to January 1, 2005, the full SERP I deferral account balance will be paid prior to the scheduled commencement date to any NEO who is not retirement eligible under the pension plans to retire at the time he or she terminates employment with the Company. In addition, an NEO may request an early distribution of some or all of his or her SERP I deferral account balance upon a demonstrated severe financial need or, at any time prior to the elected commencement date, may elect an early withdrawal of contributions made to his or her account prior to January 1, 2005, subject to a 10 percent early withdrawal penalty.

An NEO is not allowed to elect to receive an early withdrawal of amounts contributed after December 31, 2004 to his or her SERP II deferral account, except that he or she may request early withdrawal in the event of an unforeseen emergency, which request is subject to the approval of the ECC. Contributions made to a SERP II deferral account after December 31, 2004, will be paid in full upon a termination of the NEO's employment in connection with a change in control.

An NEO may elect to receive his or her SERP deferral account balance in the form of either a lump sum payment or monthly installments over a 5-, 10-, or 15-year period, or a combination of both. An NEO who retires will receive a fixed 7.5 percent annual interest crediting rate on his or her deferral account balance until paid in full.

## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

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The CIC Severance Plan covers each NEO, except Mr. DeVinck who retired on May 31, 2017. Under the CIC Severance Plan, a change in control generally means any one of the following events:

- Acquisition of more than 50 percent of the total fair market value or total voting power of Common Stock by any person, entity, or group acting together;
- Acquisition in any 12-month period of 40 percent or more of the Company's assets by any person, entity, or group acting together;
- Acquisition in any 12-month period of 30 percent or more of the total voting power of Common Stock by any person, entity, or group acting together; or
- A majority of members of the Board is replaced during any 12-month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of appointment or election.

Each NEO is entitled to receive specified benefits in the event his or her employment is involuntarily terminated during the period beginning six months before and ending two years after a change in control. An involuntary termination is deemed to occur if (i) the Company terminates the employment of the NEO other than for cause, or (ii) the NEO resigns from his or her employment with good reason. Cause generally includes reasons such as failure to perform duties, willful misconduct, or felony convictions. Good reason generally means a material reduction in the NEO's responsibilities or authority; a material reduction in his or her supervisory responsibilities or authority; a material reduction in base salary, incentive compensation, or other benefits; a material breach by the Company of an agreement under which an NEO provides services; or reassignment to another geographic location more than 50 miles from the NEO's current job location.

Under the CIC Severance Plan, all NEOs would be entitled to receive a lump sum severance payment of 2.5 times their annual compensation as of December 31, 2017. Annual compensation includes base salary and an amount representing a target award under the annual incentive in effect for the year of termination. The CIC Severance Plan has a modified severance payment cap that limits payments to a level below the safe harbor amount provided by Tax Code Section 280G if the NEO would retain a greater after-tax amount than the after-tax amount that would be retained if the Company paid an unreduced benefit that was subject to the excise tax.

The AIP and LTIP also have change in control features. Under the AIP, in the event of a change in control (as defined in the AIP), any award earned as of the date of the change in control will be prorated based on the number of months in the performance year elapsed as of the date of the change in control. Under the LTIP, in the event of a change in control (as defined in the LTIP), restrictions in RSU grants would be deemed to have expired upon the change in control and a prorated number of the RSUs would immediately vest, unless the RSU grants were fully assumed by the successor corporation. If the RSU grants were fully assumed, a prorated number of RSUs would immediately vest if the NEO's employment was terminated by the successor corporation for reasons other than cause within 18 months of the change in control. If a change in control were to occur, PSAs would immediately pay out on a prorated basis at the greater of target level or the level earned based on then-current actual TSR ranking.

As a condition of receiving payments under the CIC Severance Plan, participants must sign a waiver of potential claims against the Company and must agree not to disclose confidential information, engage in any business in competition with the Company for a period of one year, recruit any employee or Director of the Company for employment for a period of two years, or publicly criticize the Company.

## Estimated Potential Payments Upon Termination Associated with a Change in Control

The table below illustrates the value that would have been received by the NEO if a change in control had occurred on December 31, 2017, and if, as a result, the NEO's employment had been terminated on the same date. Information for Mr. DeVinck is not included because he retired on May 31, 2017.

	Mr. Hodnik	Mr. Adams	Mr. Oachs	Ms. Amberg	Ms. Owen
Severance Payment <sup>1</sup>	\$2,208,483	\$880,956	\$1,070,024	\$982,897	\$854,790
Annual Incentive <sup>2</sup>	—	—	—	—	—
Performance Shares <sup>3</sup>	\$3,765,550	\$476,138	\$609,601	\$798,902	\$253,378
Unvested RSUs <sup>4</sup>	\$424,001	\$70,839	\$68,213	\$86,282	\$42,309
SERP II Pension <sup>5</sup>	—	—	—	—	—
SERP II Defined Contribution <sup>5</sup>	—	—	—	—	—
Benefits <sup>6</sup>	\$60,674	\$51,623	\$51,816	\$58,505	\$27,829
Outplacement Services <sup>7</sup>	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Total Payments <sup>8</sup>	\$6,483,708	\$1,504,556	\$1,824,654	\$1,951,586	\$1,203,306

The values for severance payments were calculated based on December 31, 2017, base salary, target annual incentive, and the applicable severance benefit multiple of salary. Under the CIC Severance Plan, if payments constitute "excess parachute payments" within the meaning of Tax Code Section 280G, the payments would be reduced only if the executive would receive a greater net after-tax benefit than he or she otherwise would receive with no reduction in payments. The amounts shown above reflect a reduction of \$184,544 for Mr. Adams and \$17,214 for Ms. Amberg.

<sup>2</sup> The performance period ended on December 31, 2017. Therefore, no benefit acceleration would have occurred under this scenario.

<sup>3</sup> Outstanding performance shares for the 2015-2017, 2016-2018, and 2017-2019 performance periods would accelerate under this scenario. Under the LTIP, if a change in control occurs, performance shares would be paid on a prorated basis based on the greater of actual performance or target as of December 31, 2017. The award values shown assume performance shares would be prorated and paid at 160 percent of target for the 2015-2017 performance period, 200 percent of target for the 2016-2018 performance period, and 163.1 percent of target for the 2017-2019 performance period, through

December 31, 2017. Award values were based on the \$74.36 closing price of Common Stock on December 29, 2017.

<sup>4</sup> The award values for RSUs were calculated and prorated as of the date of the change in control using \$74.36, the closing price of Common Stock on December 29, 2017.

<sup>5</sup> The CIC Severance Plan does not provide for any additional age or service credit for supplemental executive retirement benefits.

The values for benefit payments were based on the applicable severance multiplier times the sum of (i) medical, dental, and basic group term life insurance benefit premiums, and (ii) Company contributions under the Flexible Compensation Plan.

The Company will pay outplacement service providers directly up to the amount shown for the cost of outplacement services provided to the NEOs. No amount will be paid unless the NEOs choose to utilize outplacement services within the time frame specified in the CIC Severance Plan.

<sup>8</sup> The CIC Severance Plan provides that if payments are delayed as a result of Tax Code Section 409A, interest is required to be paid at the short-term applicable federal rate. The amounts shown exclude interest.

## Estimated Potential Payments Upon Termination Due to Retirement, Disability, or Death

NEOs would become entitled to a prorated PSA after their retirement, disability, or death if TSR performance goals are achieved at the conclusion of the three-year performance period. The LTIP also provides for immediate, accelerated vesting of RSUs, on a prorated basis, upon an NEO's retirement, disability, or death. The following table illustrates the value the NEOs, except Mr. DeVinck, would have received in connection with accelerated vesting and payments triggered by a retirement, disability, or death, had the event occurred on December 31, 2017. The amounts shown for Mr. DeVinck reflect what he received, or is eligible to receive, in connection with his retirement on May 31, 2017.

	Mr. Hodnik	Mr. Adams	Mr. Oachs	Ms. Amberg	Ms. Owen	Mr. DeVinck
Annual Incentive <sup>1</sup>	—	—	—	—	—	—
Performance Shares <sup>2</sup>	\$3,765,550	\$476,138	\$609,601	\$798,902	\$253,377	\$497,448
Unvested RSUs <sup>3</sup>	\$424,001	\$70,839	\$68,213	\$86,282	\$42,309	\$123,045
Total Payments	\$3,765,550	\$476,138	\$609,601	\$798,902	\$253,377	\$497,448

<sup>1</sup> Because the performance period ended on December 31, 2017, no acceleration of benefits would have occurred.

Outstanding performance shares for the performance periods 2015-2017, 2016-2018, and 2017-2019 would be earned on a prorated basis under this scenario if TSR performance goals were achieved at the conclusion of each three-year performance period. The award values shown assume performance shares would have been earned based on TSR performance of

160 percent of target for the 2015-2017 performance period, 200 percent of target for the 2016-2018 performance period, and 163.1 percent of target for the 2017-2019 performance period through December 31, 2017. Mr. DeVinck retired on

May 31, 2017, and was eligible to receive a prorated payment if the LTIP performance targets are achieved. Mr. DeVinck's grant for the 2015-2017 performance period was prorated at 29/36, his grant for the 2016-2018 performance period was prorated at 17/36, and his grant for the 2017-2019 performance period was prorated at 5/36. Award values were calculated using \$74.36, the closing share price on December 29, 2017, the last market day in fiscal year 2017.

<sup>3</sup> The award values for RSUs were calculated and prorated based on the \$74.36 closing share price on December 29, 2017. Mr. DeVinck's RSUs vested pro rata upon his retirement on May 31, 2017. Mr. DeVinck's 2015 grant was prorated at 29/36, his 2016 grant at 17/36, and his 2017 grant was prorated at 5/36. His valuation for income tax purposes was on December 19, 2017, at \$74.75 per share.

## Estimated Additional Payments Due to Long-Term Disability

Typically, ALLETE employees, including the NEOs, who become disabled may continue to be treated as employees while on long-term disability, for certain purposes, including remaining eligible to earn retirement plan contributions and credited service for purposes of calculating the SERP II benefit until the earlier of voluntary resignation or reaching normal retirement age. The following table sets forth the estimated additional SERP II benefit that would have been earned by each NEO, except Mr. DeVinck who retired on May 31, 2017, if he or she had gone on long-term disability on December 31, 2017.

	Mr. Hodnik	Mr. Adams	Mr. Oachs	Ms. Amberg	Ms. Owen
Additional SERP II Benefit <sup>1</sup>	—	\$51,826	—	\$128,274	\$55,783

The amounts shown represent the difference between the discounted net present values of the annual annuity payments to which the NEOs would be entitled upon a long-term disability occurring on December 31, 2017, and a termination of employment at normal retirement age. The following assumptions were used to calculate the amounts shown above: each NEO became disabled on December 31, 2017, and remained on disability until reaching normal retirement age; discount rate of 3.86 percent; cost of living adjustment of 2.5 percent; and female spouses are assumed to be three years younger than male spouses.

NEOs do not receive any other enhancements to their retirement benefits upon termination of employment other than in connection with a change in control or becoming disabled as described above. Vested retirement benefits become payable upon termination of employment as discussed in the Pension Benefits Discussion starting on page 55. The SERP deferral account benefits become payable upon termination of employment as described following the Non-Qualified Deferred Compensation table beginning on page 57.

## DIRECTOR COMPENSATION

The following table sets forth the non-employee Director compensation earned in 2017:

## Director Compensation—2017

(a)	(b)	(c)	(d)
Name	Fees Earned or Stock Paid in Cash <sup>1</sup>	Awards <sup>1, 2</sup>	Total
Kathryn W. Dindo	\$81,000	\$77,000	\$158,000
Sidney W. Emery, Jr.	\$72,000	\$77,000	\$149,000
George G. Goldfarb	\$71,000	\$77,000	\$148,000
James S. Haines, Jr.	\$82,000	\$77,000	\$159,000
James J. Hoolihan	\$74,500	\$77,000	\$151,500
Heidi E. Jimmerson	\$87,000	\$77,000	\$164,000
Madeleine W. Ludlow	\$77,000	\$77,000	\$154,000
Douglas C. Neve	\$75,500	\$77,000	\$152,500
Robert P. Powers	\$28,965	\$64,167	\$93,132
Leonard C. Rodman	\$78,500	\$77,000	\$155,500

<sup>1</sup> Mr. Haines, Ms. Jimmerson, and Mr. Neve elected to defer their 2017 stock retainer fees, as did Mr. Powers, who was elected to the Board on August 23, 2017. Mr. Goldfarb and Mr. Rodman elected to defer all Director retainer fees (stock and cash);

Ms. Jimmerson elected to defer \$71,280 of her cash retainer fees. These amounts were deferred under the Deferral Plan II. Not included in the table are Mr. Hodnik, who received no additional compensation in connection with his Board service, and Ms. Nestegard, who was elected to the Board on January 16, 2018.

For all Directors except Mr. Powers, the amounts shown in column (c) reflect the grant date fair value of the annual stock retainer paid on June 1, 2017. On that date, each Director received 1,112.878 shares of Common Stock valued <sup>2</sup> based on a share price of \$69.19 (the five-day average closing price, including the date that is ten calendar days prior to June 1, 2017). On September 27, 2017, Mr. Powers received a prorated stock retainer of 820.441 shares valued based on a share price of \$78.21 (the five-day average closing price, including the date that is ten calendar days prior to September 27, 2017).

The ECC has primary responsibility for developing and evaluating the non-employee Director compensation programs. The Board approves the non-employee Director compensation programs. Employee Directors receive no additional compensation for their services as Directors. Accordingly, Mr. Hodnik received no additional compensation as a Director or Board Chair.

Under the terms of the ALLETE Director Stock Plan, ALLETE pays each non-employee Director an annual retainer fee, a portion of which is paid in cash and a portion of which is paid in Common Stock as set forth below:

## Non-Employee Director Retainer

## Fees—2017

	Cash	Stock
Lead Director	\$87,000	\$77,000
All Other Directors	\$62,000	\$77,000

In addition, the Company pays each non-employee Director, other than the Lead Director, an annual cash retainer fee for each committee and chair assignment as set forth below:



## Non-Employee Committee Retainer Fees—2017

	Member Fee	Chair (Includes Member Fee)
Audit Committee	\$9,000	\$19,000
Compensation Committee	\$7,500	\$15,000
Corporate Governance Committee	\$7,500	\$12,500

Committee retainer fees are prorated based on the actual term of service per year.

The Lead Director receives her respective cash retainer and the Director stock retainer fee, but does not receive any other committee or chair retainers. Directors may elect to receive all or part of the cash portions of their retainer fees in Common Stock.

The Company provides a deferral account benefit to the Directors under the terms of the Deferral Plans. On December 31, 2004, the Company froze Deferral Plan I with respect to all deferrals. Effective January 1, 2005, the Company established Deferral Plan II to comply with Section 409A of the Tax Code. Deferral Plan II governs all cash retainers initially deferred after December 31, 2004. On May 1, 2009, the Board amended Deferral Plan II to permit Directors to elect to defer their stock retainers.

Annually, each Director may elect to defer to a Deferral Plan II cash account some or all of his or her cash retainer fees. Directors can select among different investment crediting rates to apply to deferral cash account balances under the Deferral Plans. These investment options include mutual funds and similar investments. The Directors may change their investment elections at any time. Annually, each Director may elect to defer to a Deferral Plan II stock account some or all of his or her stock retainer fees. Deferred stock retainer fees are credited to a Director's stock account which mirrors the performance of our Common Stock and is credited with dividend equivalents equal to cash dividends that are declared and paid on our Common Stock.

Each Director elects a date when benefit payments from his or her Deferral Plan I and Deferral Plan II accounts will commence and the form of benefit payment. Generally, Deferral Plan I and Deferral Plan II account benefit payments will not begin earlier than the elected commencement date. Directors may, however, request an early distribution of some or all contributions made to his or her Deferral Plan I account prior to January 1, 2005, subject to a 10 percent early withdrawal penalty.

A Director is not allowed to elect to receive an early withdrawal of amounts contributed to his or her Deferral Plan II account after January 1, 2005, except that he or she may request early withdrawal in the event of an unforeseen emergency, which request is subject to the approval of the ECC.

A Director may elect to receive his or her Deferral Plan cash and stock account balances in the form of either a lump sum payment or annual installments over a 5-, 10-, or 15-year period, or a combination of both. A Director's Deferral Plan cash account balance will be credited or debited with notional gains or losses until the balance has been paid in full. A Director will receive dividend equivalents on his or her Deferral Plan II stock account balance until paid in full.

ITEM NO. 3—RATIFICATION OF THE SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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The Audit Committee has selected PricewaterhouseCoopers as the Company's independent registered public accounting firm for the year 2018. PricewaterhouseCoopers has acted in this capacity since October 1963.

While the Audit Committee is responsible for the selection, retention, evaluation of independence and performance, approval of fees and retention terms, oversight, and termination (when appropriate) of the Company's principal independent accountants, the Audit Committee and Board request that shareholders ratify the selection of PricewaterhouseCoopers as the Company's independent registered public accounting firm as a matter of good corporate practice. The Audit Committee is not required to take any action as a result of the outcome of this vote, but will take it into consideration. Even if the selection is ratified by shareholders, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

A representative of PricewaterhouseCoopers is expected to be present at the 2018 Annual Meeting. The representative will have an opportunity to make a statement if he or she so desires and will be available to respond to appropriate questions.

The Board recommends a vote "FOR" ratifying the selection of PricewaterhouseCoopers as the Company's independent registered public accounting firm for 2018.

## AUDIT COMMITTEE REPORT

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The Audit Committee is comprised of six non-employee Directors, each of whom has been determined by the Board to be “independent” under ALLETE's Corporate Governance Guidelines, and within the meaning of the rules of both the NYSE and the SEC. The Board has also determined that each member of the Audit Committee is financially literate and that Ms. Dindo, Mr. Goldfarb, and Mr. Neve are each an “audit committee financial expert” within the meaning of the rules of the SEC. The Audit Committee operates pursuant to a written charter that was revised in January 2018. The Audit Committee charter is available on the Company's website at [www.allete.com/governance](http://www.allete.com/governance). The Audit Committee assists in the Board's oversight of the integrity of the Company's financial reports, compliance with legal and regulatory requirements, the qualifications and independence of the independent registered public accounting firm, both the internal and external audit processes, and internal controls over financial reporting. The Audit Committee reviews and recommends to the Board that the audited financial statements be included in the Annual Report .

During 2017, the Audit Committee met and held separate discussions with members of management and the Company's independent registered public accounting firm, PricewaterhouseCoopers, regarding certain audit activities and with the Company's director of internal audit regarding the plans for and results of selected internal audits. The Audit Committee reviewed the quarterly financial statements. It reviewed with management and the independent registered public accounting firm the effectiveness of internal controls over financial reporting and the Company's compliance with laws and regulations.

The Audit Committee received and reviewed the written disclosures and letter from PricewaterhouseCoopers specified by applicable requirements of the Public Company Accounting Oversight Board (PCAOB) regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence and discussed the firm's independence with the independent registered public accounting firm. The Audit Committee has received written material addressing PricewaterhouseCoopers' internal quality control procedures and other matters, as required by the NYSE listing standards.

The Audit Committee has: (i) reviewed and discussed the Company's Consolidated Financial Statements for the year ended December 31, 2017, with the Company's management and with the Company's independent registered public accounting firm; (ii) met with management to discuss all quarterly and annual financial reports prior to their issuance and to discuss significant accounting issues and management judgments; and (iii) discussed with the Company's independent registered public accounting firm the matters required to be discussed under the rules adopted by the PCAOB. Management represented to the Audit Committee that the Company's Consolidated Financial Statements were prepared in accordance with accounting principles generally accepted in the United States of America.

Based on the above-mentioned review and discussions, the Audit Committee recommended to the Board that the audited financial statements be included in the 2017 Annual Report on Form 10-K.

## Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has pre-approval policies and procedures related to the provision of audit and non-audit services by the independent registered public accounting firm. Under these procedures, the Audit Committee pre-approves both the type of services to be provided by the independent registered public accounting firm and the estimated fees related to these services. During the pre-approval process, the Audit Committee considers the impact of the types of services and the related fees on the independence of the independent registered public accounting firm. The services and fees must be deemed compatible with the maintenance of the independence of the independent registered public accounting firm, including compliance with the SEC's rules and regulations.

The Audit Committee will, as necessary, consider and, if appropriate, pre-approve the provision of additional audit and non-audit services by the independent registered public accounting firm that were not encompassed by the Audit Committee's annual pre-approval and that are not prohibited by law. The Audit Committee has delegated to the Chair of the Audit Committee the authority to pre-approve, on a case-by-case basis, these additional audit and non-audit services, provided that the Chair shall promptly report any decisions to pre-approve such services to the Audit Committee.

## Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by PricewaterhouseCoopers for the audit of the Company's annual financial statements for the years ended December 31, 2017 and December 31, 2016, and fees billed for other services rendered by PricewaterhouseCoopers during those periods. All audit and non-audit services and fees for 2017 and 2016 were pre-approved by the Audit Committee. The Company has considered and determined that the provision of the non-audit services noted below is compatible with maintaining PricewaterhouseCoopers' independence.

	2017	2016
Audit Fees <sup>1</sup>	\$1,980,700	\$1,997,700
Audit-Related Fees	—	—
Tax Fees <sup>2</sup>	35,596	207,302
All Other Fees <sup>3</sup>	2,700	3,250
Total	\$2,018,996	\$2,208,252

Audit fees were comprised of audit work performed on the integrated audit of the Consolidated Financial

<sup>1</sup> Statements, as well as work generally only the independent registered public accounting firm can reasonably be expected to provide, such as required regulatory audits, subsidiary audits, accounting consultations, and services in connection with securities offerings.

<sup>2</sup> Tax fees were comprised of tax consultation and planning services.

<sup>3</sup> Other fees were comprised of license and maintenance fees for accounting research software.

March 22, 2018

Audit Committee

Kathryn W. Dindo, Chair

George G. Goldfarb

Susan K. Nestegard

Douglas C. Neve

Leonard C. Rodman

Heidi E. Jimmerson, ex officio



OTHER BUSINESS \_\_\_\_\_

The Board knows of no other business to be presented at the 2017 Annual Meeting. However, if any other matters properly come before the Annual Meeting, it is the intention of the persons named in the proxy form to vote the Common Stock represented thereby pursuant to the proxies in accordance with their judgment in such matters.

All shareholders are respectfully asked to vote their proxies so that the necessary vote may be present at the Annual Meeting.

Shareholder Proposals for the 2019 Annual Meeting

All proposals from shareholders to be considered for inclusion in the Proxy Statement relating to the Annual Meeting scheduled for May 7, 2019, must be received by the Secretary of ALLETE at 30 West Superior Street, Duluth, MN 55802-2093 not later than November 22, 2018. The Company's Bylaws provide that for business to be properly brought before an annual meeting by a shareholder, the shareholder must have delivered timely notice to the Company's Secretary. To be timely, advance notice for business to be brought before an Annual Meeting generally must be received not less than 90 days nor more than 120 days prior to the anniversary of the immediately preceding Annual Meeting. Therefore, for the Annual Meeting scheduled for May 7, 2019, ALLETE must receive a shareholder's notice between January 8, 2019, and February 7, 2019. A shareholder's notice must also comply with the informational and other requirements set forth in the Company's Bylaws. The persons to be named as proxies in the proxy card relating to the 2019 Annual Meeting may have the discretion to vote their proxies in accordance with their judgment on any matter as to which ALLETE did not have notice in accordance with the advance notice provisions in the Company's Bylaws, without discussion of such matter in the Proxy Statement relating to the 2019 Annual Meeting.

By order of the Board of Directors,

/s/ Bethany M. Owen

Bethany M. Owen

Senior Vice President, Chief Legal and Administrative Officer, and Secretary

March 22, 2018

Duluth, Minnesota

ALLETE, INC.  
ANNUAL MEETING OF SHAREHOLDERS  
Tuesday, May 8, 2018  
10:30 a.m. CDT  
Duluth Entertainment Convention Center  
Lake Superior Ballroom  
350 Harbor Drive  
Duluth, MN

ALLETE, Inc.  
30 West Superior Street  
Duluth, MN 55802-2093 proxy

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This proxy is solicited by the Board of Directors for use at the Annual Meeting of Shareholders on May 8, 2018. Alan R. Hodnik and Bethany M. Owen, or either of them, with power of substitution, are hereby appointed proxies of the undersigned to vote all shares of ALLETE, Inc. common stock owned by the undersigned at the Annual Meeting of Shareholders to be held in the Lake Superior Ballroom of the Duluth Entertainment Convention Center, 350 Harbor Drive, Duluth, Minnesota, at 10:30 a.m. CDT on Tuesday, May 8, 2018 or any adjournments or postponements thereof, with respect to the election of Directors, an advisory vote to approve executive compensation, ratification of the selection of an independent registered public accounting firm, and any other matters as may properly come before the meeting.

This proxy confers authority to vote each proposal listed on the other side unless otherwise indicated. If no choice is specified, the proxy will be voted FOR each nominee in Item 1, FOR Item 2, and FOR Item 3. If any other business is transacted at said meeting, this proxy shall be voted in the discretion of the proxies. This proxy is solicited on behalf of ALLETE, Inc., and may be revoked prior to its exercise. Please complete, sign, date and return this Proxy Card using the enclosed envelope. Alternatively, authorize the above-named proxies to vote the shares represented on this Proxy Card online or by phone as described below. Shares cannot be voted unless these instructions are followed, or other specific arrangements are made to have the shares represented at the meeting. By responding promptly, you may help save the costs of additional proxy solicitations.

Important Notice Regarding the Availability of Proxy Materials for the  
Shareholder Meeting to be held on May 8, 2018:

The Proxy Statement and 2017 Annual Report on Form 10-K are available at  
[www.proxypush.com/ale](http://www.proxypush.com/ale)

Vote by Internet, Telephone or Mail.

Internet and Telephone Voting Available

24 Hours a Day, 7 Days a Week

Your phone or Internet vote authorizes the named proxies to vote your shares  
in the same manner as if you marked, signed and returned your proxy card.

:	(	*
INTERNET	PHONE	MAIL
<a href="http://www.proxypush.com/ale">www.proxypush.com/ale</a>	1-866-883-3382	

Use the Internet to vote your proxy  
until 12:00 p.m. (CDT) on  
May 7, 2018

Use a touch-tone telephone to  
vote your proxy until 12:00 p.m.  
(CDT) on May 7, 2018.

Mark, sign and date your proxy  
card and return it in the  
postage-paid envelope provided.

If you vote your proxy by Internet or by telephone, you do NOT need to mail back your Proxy Card.

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Shareowner Services  
P.O. Box 64945  
St. Paul, MN 55164-0945

Address Change? Mark box, sign, and indicate changes below:

TO VOTE BY INTERNET OR TELEPHONE, SEE REVERSE SIDE OF THIS PROXY CARD.

TO VOTE BY MAIL AS THE BOARD OF DIRECTORS RECOMMENDS ON ALL ITEMS BELOW, SIMPLY SIGN, DATE, AND RETURN THIS PROXY CARD.

The Board of Directors recommends a vote FOR each nominee in Item 1, FOR Item 2, and FOR Item 3.

1. Election of directors:

	FOR	AGAINST	ABSTAIN		FOR	AGAINST	ABSTAIN
a. Kathryn W. Dindo	"	"	"	g. Heidi E. Jimmerson	"	"	"
b. Sidney W. Emery, Jr.	"	"	"	h. Madeleine W. Ludlow	"	"	"
ø Please fold here - Do not separate ø							
c. George G. Goldfarb	"	"	"	i. Susan K. Nestegard	"	"	"
d. James S. Haines, Jr.	"	"	"	j. Douglas C. Neve	"	"	"
e. Alan R. Hodnik	"	"	"	k. Robert P. Powers	"	"	"
f. James J. Hoolihan	"	"	"	l. Leonard C. Rodman	"	"	"

2. Advisory vote to approve executive compensation. "For" "Against" "Abstain"

3. Ratification of the appointment of PricewaterhouseCoopers LLP as ALLETE's independent registered public accounting firm for 2018. "For" "Against" "Abstain"

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED AS THE BOARD RECOMMENDS.

Date \_\_\_\_\_

Signature(s) in Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.