ALLETE NYSE-ALE

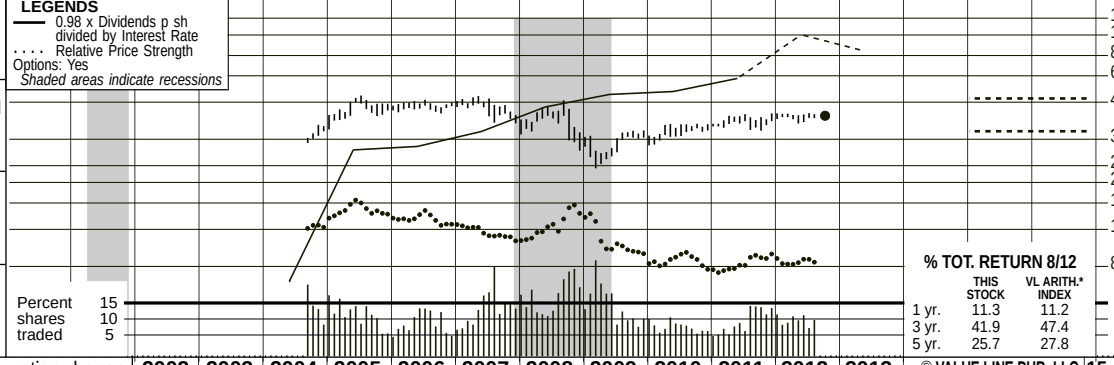
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
41.43	15.7	(Trailing: 19.3 Median: NMF)	1.03	4.5%	VALUE LINE

TIMELINESS 3 Lowered 8/12/11
SAFETY 2 New 10/1/04
TECHNICAL 3 Raised 5/11/12
BETA .70 (1.00 = Market)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
High:	37.5	51.7	49.3	51.3	49.0	35.3	37.9	42.5	42.6		
Low:	30.8	35.7	42.6	38.2	28.3	23.3	30.0	35.1	38.0		

Target Price Range 2015 | 2016 | 2017

LEGENDS
— 0.98 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded areas indicate recessions



2015-17 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+20%)	9%
Low	35	(-15%)	1%

Insider Decisions

	O	N	D	J	F	M	A	M	J
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	1	0	1	0	0	0	1
to Sell	0	1	1	1	2	1	1	2	2

Institutional Decisions

	4Q2011	1Q2012	2Q2012
to Buy	81	76	85
to Sell	52	65	58
Hld's(000)	22270	22589	22085

% TOT. RETURN 8/12

	THIS STOCK	VL ARITH.* INDEX
1 yr.	11.3	11.2
3 yr.	41.9	47.4
5 yr.	25.7	27.8

ALLETE, in its current configuration, began trading on September 21, 2004, the day after it spun off its automotive services business, ADESA (now KAR Auction Services, NYSE: KAR), to shareholders and effected a 1-for-3 reverse stock split. ALLETE shareholders received one share of ADESA for each ALLETE share held. Data for the "old" ALLETE are not shown because they are not comparable.

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	© VALUE LINE PUB. LLC	15-17
--	--	25.30	24.50	25.23	27.33	24.57	21.57	25.34	24.75	*24.35*	*25.00*	Revenues per sh	*28.25*
--	--	2.97	3.85	4.14	4.42	4.23	3.57	4.35	4.91	*5.05*	*5.40*	"Cash Flow" per sh	*6.75*
--	--	1.35	2.48	2.77	3.08	2.82	1.89	2.19	2.65	*2.55*	*2.70*	Earnings per sh A	*3.75*
--	--	.30	1.25	1.45	1.64	1.72	1.76	1.76	1.78	*1.84*	*1.88*	Div'd Decl'd per sh B ■ †	*2.10*
--	--	2.12	1.95	3.37	6.82	9.24	9.05	6.95	6.38	*11.30*	*7.55*	Cap'l Spending per sh	*3.25*
--	--	21.23	20.03	21.90	24.11	25.37	26.41	27.26	28.78	*29.90*	*30.95*	Book Value per sh C	*35.00*
--	--	29.70	30.10	30.40	30.80	32.60	35.20	35.80	37.50	*39.00*	*40.00*	Common Shs Outst'g D	*41.50*
--	--	25.2	17.9	16.5	14.8	13.9	16.1	16.0	14.7	*Bold figures are*		Avg Ann'l P/E Ratio	*11.5*
--	--	1.33	.95	.89	.79	.84	1.07	1.02	.93	*Value Line*		Relative P/E Ratio	*.75*
--	--	.9%	2.8%	3.2%	3.6%	4.4%	5.8%	5.0%	4.6%	*estimates*		Avg Ann'l Div'd Yield	*4.8%*
--	--	751.4	737.4	767.1	841.7	801.0	759.1	907.0	928.2	*950*	*1000*	Revenues ($mill)	*1175*
--	--	38.5	68.0	77.3	87.6	82.5	61.0	75.3	93.8	*95.0*	*105*	Net Profit ($mill)	*150*
--	--	38.8%	28.4%	37.5%	34.8%	34.3%	33.7%	37.2%	27.6%	*25.0%*	*25.0%*	Income Tax Rate	*25.0%*
--	--	1.8%	.4%	1.4%	6.6%	5.8%	12.8%	8.9%	2.7%	*6.0%*	*5.0%*	AFUDC % to Net Profit	*2.0%*
--	--	38.2%	39.1%	35.1%	35.6%	41.6%	42.8%	44.2%	44.3%	*46.5%*	*48.0%*	Long-Term Debt Ratio	*44.0%*
--	--	61.8%	60.9%	64.9%	64.4%	58.4%	57.2%	55.8%	55.7%	*53.5%*	*52.0%*	Common Equity Ratio	*56.0%*
--	--	1020.7	990.6	1025.6	1153.5	1415.4	1625.3	1747.6	1937.2	*2185*	*2375*	Total Capital ($mill)	*2600*
--	--	883.1	860.4	921.6	1104.5	1387.3	1622.7	1805.6	1982.7	*2325*	*2515*	Net Plant ($mill)	*2825*
--	--	5.1%	8.0%	8.6%	8.6%	6.7%	4.8%	5.4%	6.0%	*5.5%*	*5.5%*	Return on Total Cap'l	*7.0%*
--	--	6.1%	11.3%	11.6%	11.8%	10.0%	6.6%	7.7%	8.7%	*8.5%*	*8.5%*	Return on Shr. Equity	*10.5%*
--	--	6.1%	11.3%	11.6%	11.8%	10.0%	6.6%	7.7%	8.7%	*8.5%*	*8.5%*	Return on Com Equity E	*10.5%*
--	--	4.7%	5.2%	5.0%	5.8%	3.9%	.5%	1.5%	2.9%	*2.5%*	*2.5%*	Retained to Com Eq	*4.5%*
--	--	23%	54%	57%	51%	61%	93%	81%	66%	*72%*	*70%*	All Div'ds to Net Prof	*57%*

CAPITAL STRUCTURE as of 6/30/12
Total Debt $875.8 mill. **Due in 5 Yrs** $221.0 mill.
LT Debt $808.4 mill. **LT Interest** $41.0 mill.
(LT interest earned: 3.6x)
Leases, Uncapitalized Annual rentals $10.9 mill.

Pension Assets-12/11 $432.4 mill. **Oblig.** $597.5 mill.

Pfd Stock None

Common Stock 38,288,789 shs.

MARKET CAP: $1.6 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2009	2010	2011
% Change Retail Sales (KWH)	-25.6	+29.1	+5.6
Avg. Indust. Use (MWH)	NA	NA	NA
Avg. Indust. Revs. per KWH (¢)	2.98	5.20	NA
Capacity at Peak (Mw)	1757	1812	NA
Peak Load, Winter (Mw) F	1414	1604	1599
Annual Load Factor (%)	81.2	79.0	NA
% Change Customers (avg.)	+1.4	+1.0	NA
Fixed Charge Cov. (%)	296	334	344

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '09-'11 to '15-'17
Revenues	--	-1.0%	*3.0%*
"Cash Flow"	--	3.0%	*8.0%*
Earnings	--	.5%	*9.0%*
Dividends	--	12.0%	*3.0%*
Book Value	--	5.5%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2009	199.6	164.7	178.8	216.0	759.1
2010	233.6	211.2	224.1	238.1	907.0
2011	242.2	219.9	226.9	239.2	928.2
2012	240.0	216.4	*243.6*	*250*	*950*
2013	*255*	*235*	*250*	*260*	*1000*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2009	.55	.29	.49	.56	1.89
2010	.68	.57	.56	.38	2.19
2011	1.07	.48	.57	.53	2.65
2012	.66	.39	*.80*	*.70*	*2.55*
2013	*.75*	*.50*	*.75*	*.70*	*2.70*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ † Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2008	.43	.43	.43	.43	1.72
2009	.44	.44	.44	.44	1.76
2010	.44	.44	.44	.44	1.76
2011	.445	.445	.445	.445	1.78
2012	.46	.46	.46		

BUSINESS: ALLETE, Inc. is the parent company of Minnesota Power, which supplies electricity to 146,000 customers in northeastern MN, & Superior Water, Light & Power in northwestern WI. Electric revenue breakdown: taconite mining/processing, 24%; paper/wood products, 9%; other industrial, 10%; residential, 13%; commercial, 14%; wholesale, 13% other, 17%. Has real estate operation in FL. Discont. water-utility ops. in '01. Spun off automotive remarketing operation in '04. Generating sources: coal & lignite, 60%; hydro, 3%; other, 2%; purchased, 35%. '11 deprec. rate: 3.0%. Has 1,400 employees. Chairman, President & CEO: Alan R. Hodnik. Inc.: MN. Address: 30 West Superior St., Duluth, MN 55802-2093. Tel.: 218-279-5000. Internet: www.allete.com.

ALLETE's earnings are likely to be much better in the second half of 2012 than they were in the first half. The company's main utility subsidiary, Minnesota Power, gets current cost recovery for about half of its capital expenditures. This includes the two wind projects that are under construction. Each will provide 105 megawatts of capacity at an expected cost of $160 million. The bulk of the capital spending will be in the second half of 2012, and this will be reflected in the bottom line. In addition, this year Minnesota Power's operating and maintenance expenses were skewed towards the first half. Our 2012 earnings estimate is at the midpoint of ALLETE's targeted range of $2.45-$2.65 a share. (Note: If the Minnesota commission grants the utility a pension tracking mechanism that it requested, that would likely prompt management to raise its guidance.) Earnings will probably fall short of last year's tally because ALLETE recorded tax benefits of $0.26 a share in the first half of 2011.

We estimate that profits will advance in 2013. We assume a return to normal weather conditions in the first quarter; a mild winter in 2012 cost the company about $0.05 a share. A full year of income from the aforementioned wind projects will be a plus, too. We estimate a 6% earnings increase, to $2.70 a share.

ALLETE has some avenues for further earnings growth by mid-decade. Minnesota Power's mining customers are running at full capacity. Some of them have projects in various stages of development. This should boost the utility's load in the next few years. Minnesota Power has proposed a $350 million-$400 million environmental upgrade to a coal-fired unit, for which it needs the approval of the state commission. And there are significant opportunities for transmission investment, both on the utility's own and through its 8% equity interest in American Transmission Company.

This stock's dividend yield is slightly above average for a utility. We project strong earnings growth, and moderate dividend growth, over the 3- to 5-year period, but total return potential over that time frame is only about equal to the industry average.

Paul E. Debbas, CFA *September 21, 2012*

(A) Diluted EPS. Excl. nonrec. gain (loss): '04, 2¢; '05, ($1.84); gain (losses) on disc. ops.: '04, $2.57, '05, (16¢); '06, (2¢); loss from accounting change: '04, 27¢. Next egs. report due late Oct. (B) Div'ds historically paid in early Mar., June, Sept. and Dec. ■ Div'd reinvestment plan avail. † Shareholder investment plan avail. (C) Incl. deferred chgs. In '11: $9.22/sh. (D) In mill. (E) Rate base: Original cost deprec. Rate allowed on com. eq. in '10: 10.38%; earned on avg. com. eq., '11: 9.1%. Regulatory Climate: Average. (F) Summer peak in '10.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	75

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