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SECOND QUARTER REPORT

WORKING TOGETHER TO GROW OUR COMPANIES

TO OUR SHAREHOLDERS

Otter Tail Corporation delivered strong performance over the past quarter, resulting in record second quarter earnings. Electric segment earnings were up nearly \$1 million compared to the same quarter in 2004, with better than anticipated results in wholesale power markets.

The combined net earnings from continuing operations in our nonelectric segments were \$5.3 million, which is up over 70% from the second-quarter results of a year ago. The substantial increase in nonelectric operations is directly tied to improvements in the manufacturing and health services segments, along with continuing solid performance from the plastics segment.

The sale of Midwest Information Systems, which was completed during this past quarter, had a significant positive impact on the corporation's total earnings. Overall, we are pleased with our results in the first half of the year and we expect to remain firmly on track for 2005.

FINANCIAL RESULTS AS OF JUNE 30, 2005 |

Otter Tail Corporation announced the following financial results for the second quarter of 2005:

- Consolidated net income from continuing operations increased to \$11.0 million compared with \$7.8 million for the second quarter of 2004.
- The corporation recorded an \$11.9 million after-tax gain (\$0.41 per diluted share) on the sale of Midwest Information Systems, Inc. (MIS) to Arvig Enterprises, Inc.
- Total consolidated net income, which includes the results of discontinued operations, increased to \$22.3 million compared with \$8.0 million for the same period last year.
- Diluted earnings per share from continuing operations increased to \$0.37 compared with \$0.29 a year ago.
- Total diluted earnings per share, which includes the results of discontinued operations, increased to \$0.76 compared with \$0.30 for the second quarter of 2004.

In our second quarter earnings release distributed on August 1, 2005, we reaffirmed 2005 diluted earnings per share guidance from continuing operations in the range of \$1.50 to \$1.70 and also reaffirmed earnings guidance from total operations in the range of \$1.80 to \$2.00.

OPERATIONAL RESULTS

Operational results in each of the following segments are for the quarter ending June 30, 2005. These results and the outlook references in each segment were announced in our second quarter earnings release on August 1, 2005.

ELECTRIC |

Otter Tail Power Company's net income rose to \$5.6 million, up 19% from the same period a year ago. This was primarily due to favorable results in wholesale power markets. Higher operating and maintenance expenses partly offset overall revenue increases. These higher expenses were due to increases in purchased power for retail customers, wage and benefit costs, a scheduled plant maintenance shutdown and storm damage repair costs.

We expect solid performance in this segment for 2005, although net income is anticipated to be lower than 2004 levels.

PLASTICS |

Net income for the plastics segment increased \$0.1 million from the same quarter a year ago, up to \$2.4 million. Plastics revenues increased even though overall sales of polyvinyl chloride (PVC) pipe were lower. This was achieved due to a higher average sales price per pound of PVC pipe sold.

We expect the plastics segment will perform well in 2005 due to ongoing strong demand for PVC pipe in the southwestern region of the country and sustained high PVC resin prices. Net income is expected to be similar to 2004 results.

MANUFACTURING |

Within the manufacturing segment, net income reached \$4.5 million, more than double the quarterly results from a year ago. All the companies in this segment increased revenues and net income results, with the largest increases produced by DMI Industries which builds wind towers and heavy metal fabricated products.

The 2005 extension of production tax credits for renewable energy sources helped drive tower demand, leading to increased production and sales activity. The manufacturing companies recovered more raw material costs, increased sales of higher-margin products, and continued to show improvements in productivity and capacity utilization.

These ongoing improvements, along with the strengthening economy and the extension of production tax credits for renewable energy, are expected to result in increased net income for this segment.

HEALTH SERVICES |

Net income in the health services segment increased to \$1.2 million, up \$1 million from the second quarter of 2004. Revenues were higher from scanning and other related services, as well as equipment sales and service. Growing scan counts, improved operating efficiencies in the imaging business and service cost reductions contributed to the improved results. The health services segment is expected to grow net income in 2005, with continued earnings improvement from the imaging business.

FOOD INGREDIENT PROCESSING |

Our food ingredient processing segment, established with the acquisition of Idaho Pacific Holdings, Inc. in August 2004, recorded operating revenues of \$8.2 million and net income of \$0.2 million. Net income results were affected by lower than expected sales volumes, high energy costs, the increasing value of the Canadian dollar relative to the U.S. dollar and excess capacity in the flake market.

These influences are anticipated to continue in 2005. We expect this business to generate net income in the range of \$2.1 million to \$3.8 million in 2005.

OTHER BUSINESS OPERATIONS |

Other business operations had a net loss of \$2.9 million for the quarter, compared with a net loss of \$1.6 million from the same quarter in 2004. In addition to construction and transportation businesses, this segment contains unallocated corporate overhead expenses.

The net losses are mainly due to increases in our health insurance costs and other employee benefit costs that are not allocated to the other operating segments as well as independent auditor fees related to Sarbanes-Oxley requirements. This segment is expected to show results similar to 2004.

DISCONTINUED OPERATIONS |

Discontinued operations includes the operating results of Midwest Information Systems, Inc. (MIS), a telecommunications company located in Parkers Prairie, Minnesota; St. George Steel Fabrication, Inc. (SGS), a structural steel fabricator located in St. George, Utah; and Chassis Liner Corporation of Alexandria, Minnesota, a manufacturer of auto and truck frame-straightening equipment and accessories. The sales of MIS and SGS were completed in the second quarter of 2005. The pending sale of Chassis Liner was in the process of negotiation at the end of the second quarter.

In viewing results for the second quarter of 2005, discontinued operations consists of two components: net income (loss) from discontinued operations which was a loss of \$0.1 million and a net after-tax gain related to the sales of discontinued operations of \$11.5 million. Otter Tail Corporation recorded an \$11.9 million gain on the sale of MIS, offset slightly by an additional after-tax loss of \$0.2 million on the sale of SGS and estimated \$0.2 million loss on the sale of Chassis Liner.

These recent divestitures reflect our ongoing strategic assessment of the long-term fit of our individual businesses. It does not change our desire to be long-term owners or our view on diversification, which we believe provides growth opportunities and more balanced results over the long term.

BIG STONE II AGREEMENT REACHED |

At the end of June, Otter Tail Power Company jointly announced an agreement along with six other utilities to build a new 600-megawatt coal-based electric generating plant at the existing Big Stone Plant site near Milbank, South Dakota.

The groundwork for this major project has taken extensive effort and thorough planning, and it is exciting to have the consensus to move ahead. Pending approval of all necessary permits and financial conditions, construction of the plant is scheduled to start in 2007 with the target of making the plant operational in 2011.

ENERGY LEGISLATION BRINGS OPPORTUNITY |

The passage of a comprehensive energy bill late in July establishing a national energy policy was a much-welcomed outcome after several years of debate and finetuning. The bill includes reforms that will help secure a more reliable power grid, spur investment in updating infrastructure systems, increase the use of diverse fuel sources and clean energy technologies, and promote energy conservation.

The introduction of the new legislation is timely for us, as our electric utility begins the huge undertaking of building the Big Stone II plant and as we experience growing demand in our wind tower business. We are encouraged by the positive impact this legislation is expected to have on these and other Otter Tail operating companies.

A NEW ADDITION TO OUR MANAGEMENT TEAM |

I am pleased to share with you that Lori Talafous has joined our management team as vice president of human resources and strategy. We added this key position because we recognize our momentum as an organization comes from the talents, drive and commitment of the people within our companies and the strategic focus of their leadership teams. Lori's broad range of leadership and human resources experience will be invaluable as we work on enhancing our organizational effectiveness.

On behalf of Otter Tail Corporation and all of our 3,500 employees, we thank you for your ongoing support and investment. We are dedicated to delivering results that will continue to bring you dependable value.

Sincerely,



John Erickson
President and CEO



Otter Tail Corporation common stock (NASDAQ: OTTR) reached a quarterly high of \$27.77 and a low of \$24.02 for the three months ended June 30, 2005.

FORWARD LOOKING STATEMENTS |

Forward-looking statements in this shareholder report are made under the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to a number of factors including, but not limited to, government regulations and actions; weather conditions; implementation of MISO Day 2 electric markets; federal and state environmental regulations; diversification efforts; competition; economic uncertainty; impact of volatile financial markets on access to capital markets, borrowing costs and pension plan expenses; the availability of off-grade potato supplies; foreign currency changes between Canada and the United States; natural gas prices; suppliers of PVC resin; dealership arrangements and other agreements with Philips Medical; and other factors discussed from time to time in reports the corporation files with the Securities and Exchange Commission.

CONSOLIDATED STATEMENTS OF INCOME

Three months ended June 30,

Six months ended June 30,

<i>(In thousands, except share and per-share amounts) (not audited)</i>	2005	2004	2005	2004
Operating revenues				
Electric	\$ 74,150	\$ 60,449	\$ 147,633	\$ 133,304
Plastics	36,004	32,636	68,159	59,072
Manufacturing	67,858	50,399	123,387	92,213
Health services	31,324	26,597	59,122	52,273
Food ingredient processing	8,234	—	17,489	—
Other business operations	39,707	33,906	74,604	67,421
Intersegment eliminations	(899)	(530)	(1,883)	(1,243)
Total operating revenues	256,378	203,457	488,511	403,040
Operating expenses				
Production fuel	10,549	11,193	25,726	25,790
Purchased power - system use	19,904	9,903	31,442	20,825
Other electric operation and maintenance expenses	25,334	22,202	49,252	43,479
Cost of goods sold (excludes depreciation; included below)	140,042	110,941	263,676	213,958
Other nonelectric expenses	25,720	21,259	48,461	41,831
Depreciation and amortization	11,553	10,529	22,938	21,036
Property taxes - electric operations	2,408	2,359	5,081	4,848
Total operating expenses	235,510	188,386	446,576	371,767
Operating income (loss)				
Electric	9,852	8,777	23,929	26,411
Plastics	4,252	4,032	8,890	5,321
Manufacturing	8,662	4,206	11,205	5,254
Health services	2,247	532	3,773	956
Food ingredient processing	456	—	1,658	—
Other business operations	(4,601)	(2,476)	(7,520)	(6,669)
Total operating income	20,868	15,071	41,935	31,273
Other income	215	755	409	766
Interest charges	4,841	4,324	9,407	8,709
Income from continuing operations before income taxes	16,242	11,502	32,937	23,330
Income taxes - continuing operations	5,275	3,694	10,920	7,264
Income from continuing operations	10,967	7,808	22,017	16,066
Discontinued operations				
(Loss) income from discontinued operations - net of taxes of (\$96); \$149; \$237 and \$153 for the respective periods	(149)	224	348	225
Net gain on disposition of discontinued operations - net of taxes of \$6,820 and \$5,769 for the three and six months ended June 30, 2005	11,486	—	9,910	—
Net income from discontinued operations	11,337	224	10,258	225
Net income	22,304	8,032	32,275	16,291
Preferred dividend requirements	183	184	367	368
Earnings available for common shares	\$ 22,121	\$ 7,848	\$ 31,908	\$ 15,923
Average number of common shares outstanding—basic	29,158,140	25,891,440	29,142,118	25,842,241
Average number of common shares outstanding—diluted	29,263,643	26,013,519	29,244,698	25,969,648
Basic earnings per common share				
Continuing operations (net of preferred dividend requirement)	\$.37	\$.29	\$.74	\$.61
Discontinued operations	\$.39	\$.01	\$.35	\$.01
	\$.76	\$.30	\$ 1.09	\$.62
Diluted earnings per common share				
Continuing operations (net of preferred dividend requirement)	\$.37	\$.29	\$.74	\$.60
Discontinued operations	\$.39	\$.01	\$.35	\$.01
	\$.76	\$.30	\$ 1.09	\$.61
Dividends per common share	\$.28	\$.275	\$.56	\$.55

CONSOLIDATED BALANCE SHEETS

<i>(In thousands) (not audited)</i>	June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
ASSETS			LIABILITIES AND EQUITY	
Current assets			Current liabilities	
Cash and cash equivalents	\$ 16,179	\$ —	Short-term debt	\$ 78,000
Accounts receivable, net	129,866	126,013	Current maturities of long-term debt	4,834
Inventories	95,808	72,504	Accounts payable	75,294
Deferred income taxes	4,875	4,852	Income taxes payable	19,311
Accrued utility revenues	19,699	15,344	Other accrued taxes	9,535
Costs and estimated earnings in excess of billings	25,120	18,145	Other accrued liabilities	27,859
Other	16,545	7,800	Liabilities from discontinued operations	1,835
Assets held for sale from discontinued operations	9,938	30,937	Total current liabilities	216,668
Total current assets	318,030	275,595	Pension benefit liability	18,652
Investments and other assets	45,985	42,650	Other postretirement benefits liability	25,957
Goodwill—net	97,970	92,196	Other noncurrent liabilities	13,719
Other intangibles—net	21,549	19,600	Deferred credits	
Deferred debits	23,874	23,983	Deferred income taxes	119,084
Plant			Deferred investment tax credit	9,901
Electric plant in service	894,398	890,200	Regulatory liabilities	58,020
Nonelectric operations	216,045	208,311	Other	4,587
Total plant	1,110,443	1,098,511	Total deferred credits	191,592
Less accumulated depreciation and amortization	449,240	436,856	Capitalization	
Plant—net of accumulated depreciation and amortization	661,203	661,655	Long-term debt, net of current maturities	259,615
Construction work in progress	22,920	18,469	Class B stock options of subsidiary	1,271
Net plant	684,123	680,124	Class B stock of subsidiary	728
Total	\$ 1,191,531	\$ 1,134,148	Cumulative preferred shares	15,500
			Common shares	145,854
			Premium on common shares	91,233
			Unearned compensation	(2,351)
			Retained earnings	215,011
			Accumulated other comprehensive loss	(1,918)
			Total common equity	447,829
			Total capitalization	724,943
			Total	\$ 1,191,531
				\$ 1,134,148

BIG STONE II PROJECT MOVES AHEAD

Officials from Otter Tail Power Company and six other utilities jointly announced on June 30 an agreement to build a new electric generating plant on the site of the existing Big Stone Plant near Milbank, South Dakota. Construction of the plant is contingent on the approval of all necessary permits and financial conditions.

Otter Tail Power Company is the lead developer for this project, dubbed Big Stone II. The participating utilities plan to build a 600-megawatt coal-based generating unit to serve their existing and future customer loads. Construction is scheduled to start in the spring of 2007 with plant operation projected to begin in the spring of 2011.

According to Ward Uggerud, the power company's senior vice president of supply, the decision to build a second unit at Big Stone is a timely and responsible one. "Big Stone II will help these companies fulfill their commitment to meet their customers' energy needs in an environmentally responsible and economical manner," he said. Independent market analysts estimate energy consumption in the region will increase by approximately 15% during the next decade. Studies also indicate that the Mid-continent Area Power Pool, which covers upper midwestern states and central provinces in Canada, could experience an energy shortfall by 2007.

Subject to a final design and regulatory approval, emissions-control equipment likely would include selective catalytic reduction to lower nitrogen oxide emissions and a fabric filter (baghouse) for particulate collection, followed by a wet scrubber for sulfur dioxide removal. The proposed emissions-control technologies are configured to provide the greatest mercury emission reductions.

"Big Stone II is a great example of utilities working together to solve their mutual need for baseload energy," said Mark Rolfes, project manager. "The project has created a unique relationship among our companies, which include cooperatives, investor-owned utilities, and municipals." The other utilities participating in the project are Central Minnesota Municipal Power Agency, Great River Energy, Heartland Consumers Power District, Missouri River Energy Services, Montana-Dakota Utilities Co. and Southern Minnesota Municipal Power Agency.

SHOREMASTER ACQUIRES FLORIDA-BASED SOUTHEAST FLOATING DOCKS

ShoreMaster, Inc., Otter Tail's waterfront equipment manufacturer based in Fergus Falls, Minnesota, acquired Southeast Floating Docks, Inc., of St. Augustine, Florida, on May 31. Southeast Floating Docks is a leading manufacturer of concrete floating dock systems for marinas. The company had revenues of \$4.5 million in 2004 and employs 23 at its St. Augustine plant.

In addition to its Fergus Falls operations, ShoreMaster has plant locations in Camdenton, Missouri, and Adelanto, California. With a network of dealers throughout the United States and Canada, ShoreMaster is a leading builder of residential boatlifts, docks and other waterfront equipment, and also custom builds floating dock systems for marinas worldwide.

President Erik Ahlgren says the acquisition is a perfect complement to ShoreMaster's extensive product lines. "We are able to offer a wider range of products in order to provide our customers the best solution for their waterfront needs," he said. "We now have locations on both coasts, as well as in the upper Midwest and the south-central region of the country, allowing us to more effectively reach customers from these national vantage points."

TALAFOUS APPOINTED VICE PRESIDENT



Lori Talafous
Vice President
Human Resources/Strategy

Otter Tail Corporation has named Lori Talafous as vice president of human resources and strategy. She will lead corporate human resources strategies and programs, including organizational development and benefits plans. In addition, she will assist with strategic planning processes and leadership development programs for Otter Tail's operating companies.

"I am excited to join the high-caliber team at Otter Tail Corporation," Talafous said. "We are committed to building the organizational and individual capabilities that drive remarkable performance and deliver long-term value to all of our stakeholders. I look forward to working with the Otter Tail companies on strengthening the practices that produce effective results for this business strategy."

Previously, Talafous was the vice president of human resources for GEM Group, a global marketing communications, sports and entertainment agency based in Minneapolis. Prior to that, she held key human resources roles within Frito-Lay, Gage Marketing Services and Northwest Airlines.

"We are extremely pleased to add Lori Talafous to our executive team," said Lauris Molbert, COO and executive vice president of Otter Tail Corporation. "She brings excellent leadership experience from the human resources and strategy perspectives."

SHAREHOLDER ANNOUNCEMENTS

DIVIDEND REINVESTMENT PLAN

Are you currently receiving a dividend check and would prefer to have it reinvested? Otter Tail Corporation offers to shareholders of record a plan to reinvest their dividends as well as the option of investing on a monthly basis anywhere from \$10 up to a maximum of \$5,000. Automatic withdrawal is available for those shareholders who want their funds withdrawn from their checking or savings accounts. No fees or brokerage service charges are assessed to plan participants. Shareholders may also sell up to 25 shares per month with no fees charged. The plan is designed as a convenient, affordable way to build up equity in the corporation. Currently, we have over 74% of our eligible shareholders enrolled in the plan. If you would like more information, or would like to sign up for the plan, please contact Shareholder Services.

ELECTRONIC DIVIDEND DEPOSIT

If you are currently receiving a dividend check in the mail, you might want to consider electronic deposit. Electronic deposit is safe, convenient and reliable. Your funds are automatically deposited into your checking or savings account on the payable date and you don't have to worry about postal delays or the possibility of theft. A confirmation notice showing the amount deposited into your account as well as our quarterly report will be mailed directly to you. If you are interested in receiving more information about this service or would like an enrollment form, please contact Shareholder Services.

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