



SECOND QUARTER REPORT > 2007

> TO OUR SHAREHOLDERS

We are pleased with our strong quarterly results, which reflect record second quarter performance for revenues and net income from continuing operations. All segments, with the exception of plastics, showed earnings improvement over the same quarter a year ago. Although our plastics segment did not exceed the exceptional results from the prior year, this segment continues to perform at levels higher than anticipated.

Overall we expect continued solid performance across our companies for 2007 and reaffirm our earnings per share guidance to be within the range of \$1.60 to \$1.80.

FINANCIAL RESULTS AS OF JUNE 30, 2007

Otter Tail Corporation announced the following financial results for the quarter ended June 30, 2007:

- Record quarter revenues of \$305.8 million.
- Consolidated net income from continuing operations of \$16.1 million, a record for second quarter performance.
- Record net income of \$5.3 million in the manufacturing segment.
- Diluted earnings per share from continuing operations of \$0.53 compared with \$0.37 for the same period a year ago.

> OPERATIONAL RESULTS

Operational results in each of the following segments are for the quarter ended June 30, 2007. These results and outlook references for each segment were announced in our second quarter earnings release on August 6, 2007, which is posted on www.ottertail.com.

ELECTRIC

Net income in our electric segment increased to \$5.1 million compared with \$3.5 million for the same period a year ago. The additional earnings reflect increases in net revenues from energy trading activities, higher payments from other utilities for use of our transmission system and lower operating and maintenance expenses.

Second quarter net revenues from energy trading activities include \$1.7 million related to a revision of an estimated charge from the previous quarter. In May 2007, the Midwest Independent Transmission System Operator (MISO) issued its interpretation of a March 15, 2007 Federal Energy Regulatory Commission order related to MISO revenue sufficiency guarantee (RSG) charges on virtual supply transactions. As a result of the interpretation, a \$1.7 million estimated charge recorded in the first quarter of 2007 related to the RSG charges was revised to zero in the second quarter of 2007.

We expect earnings in the range of \$19.0 million to \$24.0 million in the electric segment for 2007, an increase from prior guidance of \$19.0 million to \$22.5 million.

PLASTICS

The plastics segment produced net income of \$3.4 million compared with \$5.0 million for the second quarter of 2006. The decrease in net income is due to a decline in profit margins and pounds of pipe sold between the quarters.

We expect the plastics segment's earnings performance to be in the range of \$6.0 million to \$8.5 million in 2007, an increase from prior guidance of \$5.5 million to \$8.0 million, because of stronger than expected performance in the first six months of 2007.

MANUFACTURING

Net income increased to \$5.3 million in the manufacturing segment, compared with \$4.2 million for the same quarter a year ago. At ShoreMaster, net income increased \$0.7 million between the quarters due to increased production at the Camdenton, Missouri location and higher residential sales during the peak selling season. DMI Industries recorded an increase of \$0.5 million in net income between the quarters as a result of ramped up production levels at the Fort Erie wind tower plant compared with initial start-up levels beginning in May 2006. At BTM Manufacturing, net income increased \$0.4 million between the quarters as increased volume and productivity efforts have improved results. At T.O. Plastics, increases in material costs and reduced overhead absorption through inventory reductions resulted in a \$0.4 million decrease in net income between the quarters.

Continued enhancements in productivity and capacity utilization, strong backlogs and an announced expansion of DMI's Fort Erie, Ontario facility that will increase production, are expected to result in increased net income in the manufacturing segment in 2007.

HEALTH SERVICES

Net income was \$0.7 million in the health services segment compared with \$0.5 million in the second quarter of 2006. A change in mix between the quarters from traditional dealership distribution of products to more commission-based revenues from manufacturer direct sales to customers resulted in an increase in gross profits in the health services segment between the quarters.

We expect moderate net income growth in the health services segment in 2007.

FOOD INGREDIENT PROCESSING

The food ingredient processing segment recorded net income of \$1.5 million compared with a net loss of \$1.4 million for the same period a year ago. The increase in net income was the result of an increase in pounds of product sold combined with an increase in the price per pound of product sold. The cost per pound of product sold decreased between the quarters.

We expect this segment to generate net income in the range of \$2.5 million to \$4.5 million in 2007, an increase from prior guidance of \$2.0 million to \$4.0 million.

OTHER BUSINESS OPERATIONS

Other business operations had net income of \$43,000 compared with a net loss of \$0.7 million in the second quarter of 2006. Construction activity increased between the quarters, and net losses also decreased as a result of a reduction in corporate insurance costs and claims in the second quarter of 2007 compared with the second quarter of 2006.

We anticipate this segment will have lower earnings in 2007 compared with 2006 due to an expected return to more normal corporate cost levels. The construction companies are expected to have a strong 2007 given current backlogs.

> ENERGY PROJECTS UPDATE

INCREASING WIND, TRANSMISSION AND BASELOAD RESOURCES

In last quarter's report, I mentioned two major projects we have in development that will strengthen our wind energy commitment, both from a manufacturing standpoint and a delivery standpoint. On page 4 of this report, we include progress updates on the expansion of DMI Industries to a third wind tower plant location and on the construction of the Langdon Wind Energy Center, to date the largest wind farm in North Dakota. Otter Tail Power Company has an ownership stake in this wind farm, which is rapidly taking shape on the northern prairie.

As we increase our investments in renewable energy production, we are also pursuing other substantial energy projects. Otter Tail Power Company is a participating utility in CapX 2020 (short for Capacity Expansion by year 2020), which proposes an integrated plan for new transmission lines to meet the escalating demand for electricity. In coordination with 10 other regional utilities, our power company is working on a major upgrade to transmission infrastructure for Minnesota and regions within adjoining states.

The Minnesota transmission grid serves a critical reliability role and is linked with other interconnected transmission systems throughout the entire eastern United States. The CapX 2020 utilities have filed a Certificate of Need with the Minnesota Public Utilities Commission for three 345-kilovolt projects in the first phase. These lines cover more than 600 miles in total. A separate application will be filed for a smaller 230-kilovolt line later this year. Project approval and permits will also be sought from regulatory commissions in North Dakota, South Dakota and Wisconsin. This collaborative project will ensure that our transmitting infrastructure can support anticipated increases in demand for electricity and also allow us to tap into vast wind energy resources as they are developed in the southern and western parts of Minnesota and the Dakotas.

In addition, the region needs baseload generation. Big Stone II, a proposed 630-megawatt electric generating station, is another key component of our energy future. Otter Tail Power Company is working with six other regional power suppliers to construct Big Stone II adjacent to the existing Big Stone plant in Milbank, South Dakota. The new coal-fired plant will be both highly efficient and environmentally responsible, using proven pollution-control technology to more effectively control the levels of carbon dioxide, mercury and other emissions. As a baseload facility, Big Stone II will be able to operate around the clock providing a reliable source of electricity for 2.3 million people.

Progress is being made on a state-by-state basis. In July, the South Dakota Water Management Board unanimously approved a permit to appropriate groundwater, which can be used along with surface water, to operate Big Stone II. South Dakota already has granted the surface water, solid waste and site permits. Administrative law judges recommended in August that the Minnesota Public Utilities Commission approve the Big Stone transmission Certificate of Need and route permit, an encouraging step forward. A prudence decision on the project is also forthcoming from the North Dakota Public Service Commission.

The process of bringing the plant from the planning stages to reality is lengthy, complicated and, at times, controversial. But we remain committed because of our certainty that Big Stone II is an essential part of the resource mix required to meet our region's energy needs. All of these energy projects—from taking ownership in a major wind farm operation, to expanding the production of wind towers, to adding substantial transmission that allows for new energy sources and finally, to developing a reliable baseload plant with stricter environmental controls—are part of the big picture of keeping clean and cost-effective electricity readily available.

> DMI HONORED BY WIND ENERGY ASSOCIATION

The premier wind energy development association in the United States honored DMI Industries with its 2007 Commercial Achievement Award. The American Wind Energy Association (AWEA) presented the award to DMI in June at its annual wind energy conference and exhibition in Los Angeles. The award recognizes AWEA member companies for their efforts to increase wind-turbine manufacturing, products and services in the United States. DMI was honored for investments in its wind tower manufacturing facility in West Fargo, North Dakota, and acquisition of a facility in Oklahoma.

The recognition is well deserved as DMI has seen exciting growth and, through its expansions, will have one of the largest wind tower manufacturing capacities in North America. We are pleased with DMI's progress and find it a perfect example of our vision of growing great companies.

On behalf of all the 12 companies within Otter Tail Corporation, we will continue to be diligent in maintaining a strong and reliable investment for our shareholders. Thank you for your confidence in our organization.

Sincerely,



John Erickson
President and CEO



Otter Tail Corporation common stock (NASDAQ: OTTR) reached a quarterly high of \$37.06 and a low of \$30.22 for the three months ended June 30, 2007.

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, federal and state legislation, regulations and actions; rate case outcomes; weather conditions; MISO Day 2 electric markets; recovery of costs through the Fuel Clause Adjustment; electric wholesale trading activities; reduced coal shipments to power plants due to rail transportation bottlenecks; delays or changes in plans related to construction of a new electric generating plant; continuation of production tax credits; federal and state environmental regulations; diversification efforts; competition; economic uncertainty; impact of volatile financial markets on access to capital markets, changes in debt ratings, 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; supply and cost of PVC resin; price and availability of raw materials for manufacturing; changes in rates or method of third-party reimbursements for diagnostic imaging services; dealership arrangements and other agreements with Phillips Medical; inability to properly bid or perform on construction projects; 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,	
	2007	2006	2007	2006
<i>(in thousands, except share and per-share amounts) (not audited)</i>				
Operating revenues				
Electric	\$ 70,572	\$ 73,518	\$ 160,552	\$ 156,102
Plastics	39,525	52,685	77,344	90,790
Manufacturing	104,786	81,631	191,011	149,888
Health services	32,452	32,833	65,415	64,909
Food ingredient processing	18,403	9,811	37,898	19,161
Other business operations	41,260	30,379	77,056	58,658
Intersegment eliminations	(1,154)	(953)	(2,311)	(1,797)
Total operating revenues	305,844	279,904	606,965	537,711
Operating expenses				
Production fuel	14,077	11,456	30,502	26,262
Purchased power - system use	11,021	17,664	37,032	36,400
Other electric operation and maintenance expenses	26,651	28,049	53,526	51,456
Cost of goods sold (excludes depreciation; included below)	176,973	156,363	341,632	288,757
Other nonelectric expenses	31,377	29,306	62,135	55,554
Depreciation and amortization	12,947	12,379	26,040	24,603
Property taxes - electric operations	2,527	2,551	5,053	5,169
Total operating expenses	275,573	257,768	555,920	488,201
Operating income (loss)				
Electric	10,046	7,351	21,519	24,011
Plastics	6,001	8,507	10,868	16,254
Manufacturing	11,207	8,775	17,145	13,849
Health services	1,471	1,161	3,283	1,944
Food ingredient processing	2,304	(1,618)	3,085	(3,190)
Other business operations	(758)	(2,040)	(4,855)	(3,358)
Total operating income	30,271	22,136	51,045	49,510
Other income	340	659	613	1,087
Interest charges	5,026	5,100	9,894	9,544
Income from continuing operations before income taxes	25,585	17,695	41,764	41,053
Income taxes - continuing operations	9,482	6,558	15,253	15,061
Net income from continuing operations	16,103	11,137	26,511	25,992
Discontinued operations				
(Loss) income from discontinued operations net of taxes of \$0; (\$41); \$0 and \$28 for the respective periods	—	(79)	—	26
Net gain on disposition of discontinued operations - net of taxes of \$0; \$224; \$0 and \$224 for the respective periods	—	336	—	336
Net income from discontinued operations	—	257	—	362
Net income	16,103	11,394	26,511	26,354
Preferred dividend requirements	184	184	368	368
Earnings available for common shares	\$ 15,919	\$ 11,210	\$ 26,143	\$ 25,986
Average number of common shares outstanding—basic	29,685,745	29,392,963	29,594,499	29,359,474
Average number of common shares outstanding—diluted	29,940,868	29,766,040	29,843,953	29,751,718
Basic earnings per common share:				
Continuing operations (net of preferred dividend requirement)	\$.54	\$.37	\$.88	\$.87
Discontinued operations	—	.01	—	.01
	\$.54	\$.38	\$.88	\$.88
Diluted earnings per common share:				
Continuing operations (net of preferred dividend requirement)	\$.53	\$.37	\$.88	\$.86
Discontinued operations	—	.01	—	.01
	\$.53	\$.38	\$.88	\$.87
Dividends per common share	\$.2925	\$.2875	\$.5850	\$.5750

CONSOLIDATED BALANCE SHEETS

	June 30, 2007		December 31, 2006	
	<i>(in thousands) (not audited)</i>			
ASSETS				
Current assets				
Cash and cash equivalents	\$ —	\$ 6,791	\$ 93,956	\$ 38,900
Accounts receivable, net	171,875	145,276	3,096	3,125
Inventories	98,791	103,002	105,256	120,195
Deferred income taxes	8,219	8,069	14,237	2,383
Accrued utility revenues	17,793	23,931	8,688	11,509
Costs and estimated earnings in excess of billings	41,555	38,384	38,117	39,148
Other	20,858	9,611	—	197
Assets of discontinued operations	—	289	—	—
Total current assets	359,091	335,353	263,350	215,457
Investments and other assets	31,113	29,946	43,599	44,035
Goodwill—net	99,158	98,110	32,990	32,254
Other intangibles—net	20,941	20,080	22,175	18,866
Deferred debits	52,747	56,552	—	—
Plant				
Electric plant in service	940,043	930,689	112,906	112,740
Nonelectric operations	248,983	239,269	7,612	8,181
Total plant	1,189,026	1,169,958	64,155	63,875
Less accumulated depreciation and amortization	496,841	479,557	997	281
Plant—net of accumulated depreciation and amortization	692,185	690,401	185,670	185,077
Construction work in progress	71,506	28,208	—	—
Net plant	763,691	718,609	—	—
Total	\$ 1,326,741	\$ 1,258,650	\$ 1,326,741	\$ 1,258,650
LIABILITIES AND EQUITY				
Current liabilities				
Short-term debt	\$ —	\$ —	\$ 93,956	\$ 38,900
Current maturities of long-term debt	—	—	3,096	3,125
Accounts payable	—	—	105,256	120,195
Income taxes payable	—	—	14,237	2,383
Other accrued taxes	—	—	8,688	11,509
Other accrued liabilities	—	—	38,117	39,148
Liabilities of discontinued operations	—	—	—	197
Total current liabilities	—	—	263,350	215,457
Pensions benefit liability	—	—	43,599	44,035
Other postretirement benefits liability	—	—	32,990	32,254
Other noncurrent liabilities	—	—	22,175	18,866
Deferred credits				
Deferred income taxes	—	—	112,906	112,740
Deferred investment tax credit	—	—	7,612	8,181
Regulatory liabilities	—	—	64,155	63,875
Other	—	—	997	281
Total deferred credits	—	—	185,670	185,077
Capitalization				
Long-term debt, net of current maturities	—	—	254,140	255,436
Class B stock options of subsidiary	—	—	1,255	1,255
Cumulative preferred shares	—	—	15,500	15,500
Common shares	—	—	148,800	147,609
Premium on common shares	—	—	105,525	99,223
Retained earnings	—	—	253,686	245,005
Accumulated other comprehensive income (loss)	—	—	51	(1,067)
Total common equity	—	—	508,062	490,770
Total capitalization	—	—	778,957	762,961
Total	\$ 1,326,741	\$ 1,258,650	\$ 1,326,741	\$ 1,258,650



› **OTTER TAIL POWER COMPANY TAKES STAKE IN NORTH DAKOTA'S LARGEST WIND FARM**

Situated just a few miles south of the U.S.-Canadian border outside of Langdon, North Dakota, the state's largest wind farm is taking shape. When the project is complete, 106 turbines will grace the horizon, each with a generating capacity of 1.5 megawatts. The Langdon Wind Energy Center is in development by Otter Tail Power Company of Fergus Falls, Minnesota; Minnkota Power Cooperative of Grand Forks, North Dakota; and FPL Energy of Florida, the world's largest wind developer.

The wind farm is sized for 159 megawatts at peak output, enough to power 48,000 homes according to FPL estimates. Otter Tail Power Company will own 27 turbines and will purchase the energy from an additional 13 turbines, bringing its generating capacity from the farm to 60 megawatts. Minnkota will purchase the remaining installed capacity. FPL Energy will build and operate the wind energy center and own the other turbines.

Otter Tail Power Company President Chuck MacFarlane said the wind farm will be a cornerstone of existing renewable sources in the company's balanced energy resource mix and more wind projects are planned. "We've had excellent progress and expect the Langdon wind farm will be up and running within our targeted timeframe of year-end 2007 to early 2008," he said. "We are also identifying future wind projects to reach the 160 megawatts of wind energy called for in our resource plan."

The two regional utilities are upgrading 35 miles of existing 41.6-kilovolt transmission line to 115 kilovolts between the communities of Langdon and Hensel to deliver the wind-generated electricity into the high-voltage transmission network. Otter Tail Power Company provides electricity and energy services to more than 250,000 people in Minnesota, North Dakota, and South Dakota. To learn more, visit www.otpc.com.

› **BTD ACQUIRES PRO ENGINEERING**

BTD Manufacturing, Inc., Detroit Lakes, Minnesota, acquired Pro Engineering of Minneapolis in May. "Pro Engineering brings a tradition of great customer service and adds to our expertise in metal stamping," said Paul Gintner, president and CEO of BTD Manufacturing. "Bringing our two organizations together will make us stronger and put us in a great position to serve our combined customers."

In business since 1973, Pro Engineering specializes in providing metal stampings to its customers in the Midwest. The company has 29 employees at its Minneapolis site. As a complete one-stop shop, BTD offers design, engineering, prototyping and short-run functions, metal stamping, robotic and hand welding, spot welding, finishing machining, riveting, assembly, plating, heat treating and special packaging. With this acquisition, BTD now employs nearly 450 staff in total across its Minnesota locations in Detroit Lakes, Lakeville and Minneapolis. For more information, visit www.btdmfg.com.

› **DMI INDUSTRIES EXPANDS INTO OKLAHOMA**

DMI Industries has selected a plant site in Tulsa, Oklahoma for its third fully dedicated wind tower manufacturing facility. With existing plants located in West Fargo, North Dakota, and Fort Erie, Ontario, DMI will have one of the largest annual tower fabrication capacities in North America when the newest site is operational in early 2008. DMI's annual combined tower production will support more than 3,000 megawatts of installed wind project capacity, based on today's tower and turbine technologies and designs.

The facility features one-half million square feet of production space. DMI has begun hiring and eventually expects to employ up to 450 people in Tulsa. The Oklahoma facility is the second new plant for DMI in less than three years. The company acquired its Fort Erie, Ontario facility in 2005 and expanded it in 2007 to increase production capacity by 30%.

DMI President Lars Møller said the additional plants are a strategic response to continental and global growth in wind development. "DMI has achieved success in Canada and across the northern tier of the United States thanks to strong demand," he said. "We plan to do the same things in Oklahoma and the south central United States that enabled that success."

In addition to strengthening DMI's strategic position in North America, the Oklahoma plant will give the company the ability to produce and deliver off-shore wind towers, which are larger than their land-based counterparts. It also allows DMI to more easily ship to expanding European and South American markets. The enhanced reach results from the Oklahoma plant's proximity to the Port of Catoosa on the Arkansas River, which provides access to the Mississippi River. From there, DMI can ship towers by barge either north to the Midwest or south to the Gulf of Mexico.

"Demand for domestically produced wind towers is increasing rapidly," Møller said. "With closer proximity to projects, we'll lower the cost of delivery to site and overall cost of wind energy development." To learn more, visit www.dmiindustries.com.

› **SPOTLIGHT ON OTTER TAIL COMPANIES**

The following profiles on Otter Tail companies are now on www.ottertail.com. Spotlight articles on all Otter Tail companies are available on the website under the News link.

IDAHO PACIFIC HOLDINGS

For the three companies of Idaho Pacific Holdings Inc., success in the dehydration industry is more about what they put into the potatoes—and the business—than what they take out.



Dick Nickel, IPH CEO

FOLEY COMPANY

Foley Company, a Kansas City-based specialty construction firm, designs and builds large-scale mechanical systems, the critical inner workings that keep plant and building operations running smoothly.



Chris Callegari, Foley President



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