



ELECTRIC

PLASTICS

MANUFACTURING

HEALTH SERVICES

FOOD INGREDIENT
PROCESSING

OTHER BUSINESSES

TO OUR SHAREHOLDERS

I am pleased to report that 2006 was a good year for Otter Tail Corporation. Growth in our nonelectric businesses drove a record year in consolidated revenues and we also produced solid results in net income. Our 2006 results again illustrate the value of our diversification strategy. As in any year, some of our companies achieved better results than others. Our core business, Otter Tail Power Company, delivered sound performance despite challenges that reduced earnings. As we expected, the earnings from wholesale energy trading were significantly lower than the record levels of a year ago as the wholesale market gained efficiencies in its second year of operation. Our nonelectric operations delivered record revenues and earnings from continuing operations, with continued exceptional performance from our plastics segment and strong results within our manufacturing segment and our construction companies.

Looking ahead, we anticipate 2007 diluted earnings per share from continuing operations to be in the range of \$1.60 to \$1.80.

CONSOLIDATED 2006 AND 4TH QUARTER RESULTS

Otter Tail Corporation's consolidated financial results for the year ended December 31, 2006, are as follows:

- Consolidated revenues grew 12.5% to \$1.1 billion in 2006.
- Consolidated net income from continuing operations was \$50.7 million for 2006 compared to a record of \$53.9 million in 2005.
- Diluted earnings per share from continuing operations were \$1.69 for 2006 compared with \$1.81 for 2005.
- Total diluted earnings per share were \$1.70 for 2006 compared with \$2.11 for 2005, which included a net gain of 34 cents per share from the sale of businesses.

Consolidated results for the fourth quarter of 2006 are as follows:

- Revenues were \$286.7 million compared with \$258.8 million for the same period a year ago.
- Operating income was \$24.1 million compared with \$23.2 million for the fourth quarter of 2005.
- Net income was \$11.3 million compared with \$12.7 million in the fourth quarter of 2005, with decreases in net income in the electric and plastics segments offsetting increases in net income in all other segments between the quarters.
- Diluted earnings per share were 37 cents compared with 42 cents for the fourth quarter of 2005.

For more information on our financial results, please see our 2006 earnings release posted on www.ottetail.com. The information is also available in our 2006 annual report, which will be mailed to shareholders in early March.

DIVIDEND INCREASE ANNOUNCED FOR 2007

I am pleased to announce our Board of Directors has increased our dividend payment for the 32nd consecutive year. The increase brings the annual indicated dividend rate to \$1.17 per share, a two-cent increase over the 2006 rate. The quarterly dividend of 29.25 cents per share of common stock is payable March 10, 2007 to shareholders of record on February 15, 2007. The Board also declared quarterly dividends on the corporation's four series of preferred stock, payable March 1, 2007 to shareholders of record on February 15, 2007.

2006 OPERATIONAL RESULTS

Operational results in each of the following segments are for the year ended December 31, 2006. These results and the 2007 expectations were announced in our 2006 earnings release on February 5, 2007.

ELECTRIC

Otter Tail Power Company rallied with a sound performance for the year despite challenges which included expected lower earnings in wholesale energy trading due to market efficiencies, lower margins on wholesale energy virtual transactions and rail delivery issues which restricted coal supply at two of its three power plants for several months. Net income in the electric segment decreased to \$24.2 million in 2006 compared with \$37.3 million in 2005.

PLASTICS

Our plastics segment had an outstanding year, keeping pace with demand for PVC pipe used in municipal and wastewater systems. This segment set records in revenues and net income for a second consecutive year. Net income increased to \$14.3 million in 2006 compared with \$13.9 million in 2005.

MANUFACTURING

Our manufacturing companies generated significantly higher revenues and earnings due to momentum from DMI Industries, our wind tower manufacturer, and improved performance at BTD Manufacturing, our metal fabrication business. The manufacturing segment's net income increased to \$13.2 million in 2006 compared with \$7.6 million in 2005. DMI recorded increased revenue and net income as a result of higher production and sales of wind towers, which includes results from its new plant in Fort Erie, Ontario. At BTD, revenues decreased slightly while net income increased due to productivity improvements and a gain on the sale of excess equipment. At ShoreMaster, our waterfront equipment manufacturer, revenues increased due to pass through of higher aluminum costs while net income was unchanged between the years. T.O. Plastics, which manufactures thermoformed plastics and horticultural products, increased revenues but net income decreased as a result of a reduction in gross profit margins due to higher material and production costs.

HEALTH SERVICES

Although results in our health services segment fell short of expectations, a new leadership team now in place has set a good foundation for improved performance in the growing healthcare industry. The health services segment's revenues increased 9%, led by strong performance in the imaging business. Net income decreased to \$2.2 million in 2006, compared with \$4.0 million in 2005, mainly as a result of increases in equipment maintenance costs, unit rental costs and sublease costs.

FOOD INGREDIENT PROCESSING

Along with the dehydrated potato industry in general, our food ingredient processing segment was caught in a cycle of scarce and higher-cost raw materials, leading to disappointing results for the year. Although revenues increased, this segment reported a net loss of \$4.1 million in 2006 compared with net income of \$0.3 million in 2005. Net income results were impacted by the raw potato supply shortage from the 2005-2006 potato crops in Idaho and Prince Edward Island, which caused production to be curtailed. This supply shortage caused the processing plants to be operated at less than optimal levels in 2006 and also led to higher than expected raw product costs.

OTHER BUSINESS OPERATIONS

The other business operations segment, which includes results from our construction and transportation companies and unallocated corporate costs, recorded a 37% increase in revenues. Net income increased to \$0.9 million in 2006 compared with a net loss of \$9.3 million in 2005. Our construction companies produced significant turnarounds during the year, due to strong demand in commercial, industrial and renewable energy markets. Revenues from flatbed trucking operations were higher due to an 8.4% increase in miles driven combined with the pass through of higher fuel costs. The \$10.2 million change in net income includes a \$5.7 million increase in net income at the construction companies and \$4.5 million in lower corporate costs consisting of lower health insurance plan costs, improved claims experience in our captive insurance company and lower income tax expenses resulting from closed income tax returns.

DISCONTINUED OPERATIONS

Discontinued operations includes: OTESCO's gas marketing operations in 2006 and 2005 and the operations of Midwest Information Systems, Inc., Chassis Liner Corporation and St. George Steel Fabrication, Inc., in 2005. The \$0.4 million in net income from

discontinued operations in 2006 is mainly due to a \$0.3 million after-tax gain on the sale of OTESCO's gas marketing operations. The \$8.6 million net gain from discontinued operations in 2005 includes an after-tax gain on the combined sales and operating results of the aforementioned entities.

2007 EXPECTATIONS

Otter Tail Corporation anticipates 2007 diluted earnings per share from continuing operations to be in a range from \$1.60 to \$1.80. The following items contributed to the 2007 earnings guidance:

- We expect slightly improved performance in the electric segment in 2007.
- We expect the plastics segment's performance to return to more historical levels in 2007 following two strong years in 2005 and 2006.
- Continued enhancements in productivity and capacity utilization, strong backlogs and an announced expansion of DMI's Fort Erie, Ontario, facility that will increase the facility's production capacity by 30% (see page 4), are expected to result in increased net income in the manufacturing segment in 2007.
- We expect moderate net income growth in the health services segment in 2007.
- We expect our food ingredient processing business to generate net income in the range of \$2.0 million to \$4.0 million in 2007.
- The other business operations segment is expected to have lower earnings in 2007 compared with 2006 due to an expected return to more normal unallocated corporate cost levels. The construction companies are expected to have a strong 2007 given current backlogs.

PLATFORM LEADERSHIP APPOINTMENTS

In 2006, we strengthened our operational management structure by moving to a platform leadership model. Platform leaders are responsible to Otter Tail Corporation for the strategic and operational performance of their respective companies. In addition, each platform leader has the dual role of corporate vice president and is involved in goal setting and strategy development for Otter Tail Corporation. We have appointed the following key executives to platform leader roles: Chuck MacFarlane – Electric Platform, Paul Wilson – Health Services Platform, Chuck Hoge – Manufacturing Platform, and Dick Nickel – Food Ingredient Processing Platform. Each has served either as the operating company leader or corporate liaison for these areas. Our plastics, construction and transportation businesses are aligned under the leadership of Shane Waslaski, formerly the CEO of Providian Consulting, who joined us at the start of 2007 to head the Infrastructure Products and Services Platform (see page 4).

At our 2007 Annual Meeting of Shareholders held in Fergus Falls on April 9, you will have the chance to meet our platform leaders, officers, board members and leaders of our operating companies. We will review the highlights of 2006, our expectations for the year ahead and how we continue to grow our companies to deliver value to our shareholders. We hope you will join us.

Sincerely,



John Erickson
President and CEO



Otter Tail Corporation common stock (NASDAQ: OTTR) reached a quarterly high of \$31.92 and a low of \$28.60 for the three months ended December 31, 2006.

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 and recovery of related costs; 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, 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; 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 December 31,

Twelve months ended December 31,

<i>(in thousands, except share and per-share amounts)</i>	2006	2005	2006	2005
Operating revenues				
Electric	\$ 78,706	\$ 79,582	\$ 306,014	\$ 312,985
Plastics	26,404	44,927	163,135	158,548
Manufacturing	85,256	61,121	311,811	244,311
Health services	34,710	34,216	135,051	123,991
Food ingredient processing	14,449	11,204	45,084	38,501
Other business operations	48,039	28,619	147,436	107,400
Intersegment eliminations	(863)	(870)	(3,577)	(3,867)
Total operating revenues	286,701	258,799	1,104,954	981,869
Operating expenses				
Production fuel	16,621	15,716	58,729	55,927
Purchased power - system use	13,291	14,091	58,281	58,828
Other electric operation and maintenance expenses	25,659	27,269	103,548	99,904
Cost of goods sold (excludes depreciation; included below)	161,832	129,513	611,737	502,407
Other nonelectric expenses	30,193	34,995	115,290	109,707
Depreciation and amortization	12,828	11,800	49,983	46,458
Property taxes - electric operations	2,160	2,227	9,589	10,043
Total operating expenses	262,584	235,611	1,007,157	883,274
Operating income (loss)				
Electric	14,453	14,169	50,111	63,886
Plastics	(339)	9,788	23,707	23,853
Manufacturing	7,785	2,784	27,578	16,728
Health services	1,845	1,777	4,538	7,637
Food ingredient processing	(1,036)	(577)	(5,828)	1,639
Other business operations	1,409	(4,753)	(2,309)	(15,148)
Total operating income	24,117	23,188	97,797	98,595
Other income and deductions				
	(2,587)	301	(440)	1,773
Interest charges	4,879	4,452	19,501	18,459
Income from continuing operations before income taxes	16,651	19,037	77,856	81,909
Income taxes - continuing operations	5,369	6,331	27,106	28,007
Net income from continuing operations	11,282	12,706	50,750	53,902
Discontinued operations				
(Loss) Income from discontinued operations net of taxes of \$0; (\$100); \$28 and (\$261) for the respective periods	—	(100)	26	(352)
Goodwill impairment loss	—	—	—	(1,003)
Net gain on disposition of discontinued operations - net of taxes of \$0; \$45; \$224 and \$5,831 for the respective periods	—	67	336	10,004
Net income from discontinued operations	—	(33)	362	8,649
Net income	11,282	12,673	51,112	62,551
Preferred dividend requirements	185	183	736	735
Earnings available for common shares	\$ 11,097	\$ 12,490	\$ 50,376	\$ 61,816
Average number of common shares outstanding—basic	29,444,655	29,360,609	29,394,033	29,222,621
Average number of common shares outstanding—diluted	29,730,680	29,555,101	29,664,375	29,347,710
Basic earnings per common share:				
Continuing operations (net of preferred dividend requirement)	\$.38	\$.43	\$ 1.70	\$ 1.82
Discontinued operations	\$ —	\$ —	\$.01	\$.30
	\$.38	\$.43	\$ 1.71	\$ 2.12
Diluted earnings per common share:				
Continuing operations (net of preferred dividend requirement)	\$.37	\$.42	\$ 1.69	\$ 1.81
Discontinued operations	\$ —	\$ —	\$.01	\$.30
	\$.37	\$.42	\$ 1.70	\$ 2.11
Dividends per common share	\$.2875	\$.2800	\$ 1.1500	\$ 1.1200

CONSOLIDATED BALANCE SHEETS

<i>(in thousands)</i>	December 31, 2006	December 31, 2005	December 31, 2006	December 31, 2005
ASSETS			LIABILITIES AND EQUITY	
Current assets			Current liabilities	
Cash and cash equivalents	\$ 6,791	\$ 5,430	Short-term debt	\$ 38,900
Accounts receivable, net	145,276	129,586	Current maturities of long-term debt	3,125
Inventories	103,002	88,677	Accounts payable	120,195
Deferred income taxes	8,069	6,871	Income taxes payable	2,383
Accrued utility revenues	23,931	22,892	Other accrued taxes	11,509
Costs and estimated earnings in excess of billings	38,384	21,542	Other accrued liabilities	39,148
Other	9,611	16,476	Liabilities of discontinued operations	197
Assets of discontinued operations	289	13,701	Total current liabilities	215,457
Total current assets	335,353	305,175	Pension benefit liability	44,035
Investments and other assets			Other postretirement benefits liability	32,254
Goodwill—net	29,946	33,824	Other noncurrent liabilities	18,866
Goodwill—net	98,110	98,110	Deferred credits	
Other intangibles—net	20,080	21,160	Deferred income taxes	112,740
Deferred debits	56,552	26,136	Deferred investment tax credit	8,181
Plant			Regulatory liabilities	63,875
Electric plant in service	930,689	910,766	Other	281
Nonelectric operations	239,269	228,548	Total deferred credits	185,077
Total plant	1,169,958	1,139,314	Capitalization	
Less accumulated depreciation and amortization	479,557	459,438	Long-term debt, net of current maturities	255,436
Plant—net of accumulated depreciation and amortization	690,401	679,876	Class B stock options of subsidiary	1,255
Construction work in progress	28,208	17,215	Cumulative preferred shares	15,500
Net plant	718,609	697,091	Common shares	147,609
Total	\$ 1,258,650	\$ 1,181,496	Premium on common shares	99,223
			Unearned compensation	—
			Retained earnings	245,005
			Accumulated other comprehensive loss	(1,067)
			Total common equity	490,770
			Total capitalization	762,961
			Total	\$ 1,258,650
				\$ 1,181,496

SHANE WASLASKI APPOINTED VICE PRESIDENT



Shane Waslaski,
Vice President

Otter Tail Corporation has named Shane Waslaski as vice president for the Infrastructure Products and Services Platform. As platform leader, he oversees strategic and operational performance for Otter Tail's plastics, construction and transportation companies located in Fargo, N.D.; Moorhead, Minn.; Kansas City, Mo.; and Phoenix, Ariz.

"We are pleased to add Shane Waslaski to our platform management team," said Lauris Molbert, COO and executive vice president of Otter Tail Corporation. "Numerous

organizations have benefited from his direction on how to improve business strategy, operational effectiveness, financial performance and other key areas. He has exceptional leadership capabilities and the ability to competently steer strategy for diverse operations."

Previously, Waslaski was the owner of Providian Consulting, LLC, a healthcare and corporate consulting firm in Fargo. Prior to founding Providian, he was COO and director of operations for the Family Healthcare Center in Fargo. He also worked in strategic management for Children's Hospitals and Clinics in Minneapolis and St. Paul, as well as for the Towers Perrin consulting firm in Minneapolis.

DMI ANNOUNCES 30% EXPANSION IN 2007 AT CANADIAN WIND TOWER PLANT

DMI Industries, an Otter Tail company based in West Fargo, N.D., has announced an expansion to its wind tower manufacturing facility in Fort Erie, Ontario. The two-phase expansion will increase the facility's production capacity by 30% and allow DMI to manufacture larger tower sections at that location. The Fort Erie plant is the only manufacturing facility in Ontario dedicated entirely to wind tower manufacturing. DMI also has a plant in West Fargo.

"Demand for high-quality wind towers in the region continues to grow rapidly, and our Fort Erie team is performing exceptionally," said DMI President Lars Møller. "This expansion will give the team the additional high-tech equipment they need to manipulate thicker steel in building the next-generation, heavier tower section designs." The expansion's first phase, which will be complete in April 2007, includes construction to accommodate new plate-processing equipment. The second phase will enlarge the facility for a second, larger plate roller, as well as additional welding equipment, blast and paint booths.

DMI acquired the Fort Erie plant in October 2005, refurbished it for wind tower production and began filling orders from the site in May 2006. With its two plants, DMI has one of the largest tower manufacturing capacities in North America. For more information, visit www.dmiindustries.com.

AUTOMATIC WITHDRAWAL FOR DIVIDEND REINVESTMENT

Otter Tail Corporation offers Automatic Withdrawal Service that allows shareholders to easily transfer funds from checking or savings into the Dividend Reinvestment Plan each month. Since the service is automatic, it is a safe and convenient process for buying additional shares of stock without the inconvenience of preparing and mailing checks, which can get delayed in the regular mail. Funds are withdrawn on or about the 15th day of each month. Online forms are available at www.ottertail.com, under the *Investors* section of our website. You may also contact Shareholder Services for the forms.

SPOTLIGHT ON OTTER TAIL COMPANIES

The following profiles on Otter Tail companies are now on the corporate website: www.ottertail.com. Each month, a new Spotlight article is posted on the home page. All of these articles are available on the website under the News link.

MIDWEST CONSTRUCTION SERVICES

Midwest Construction Services, Moorhead, Minn., grew up as a commercial and industrial electric construction business. Today, Midwest and its operating companies deliver a powerful bundle of capabilities that can meet all of a customer's electrical needs.



Paul Bruhn, Midwest
Construction President

NORTHERN PIPE PRODUCTS

Three things keep Northern Pipe Products competitive in the highly commoditized pipe industry: solid values, flexibility and self-direction. The Fargo, N.D., company treats customers with respect, supplies pipe in a wide range of sizes, and maintains an environment that keeps motivated people on the line.



Wayne Voorhees,
Northern Pipe President

DIVIDEND REINVESTMENT PLAN ENHANCED

Otter Tail Corporation recently amended the Automatic Dividend Reinvestment and Stock Purchase Plan with several enhancements to make it even more attractive to investors. The reinvestment program is designed to be a convenient way for shareholders to build up equity in the corporation without having to incur brokerage fees. Currently, nearly 80% of eligible shareholders are enrolled in the plan.

Under the amended plan, optional cash investments can be up to \$10,000 per month, which is double the previous cap of \$5,000. The number of shares that can be sold through the plan also increased, from 25 to 30 shares. All investments and sales are done on the first working day of the month. If participants in the plan elect to sell more than 30 shares, or would prefer to sell them at a different time, a stock certificate is issued for the requested shares which can then be sold through a stock broker.

In addition, residents of Arizona, Florida, Minnesota, North Dakota, South Dakota, and Texas can now make their initial investment directly through the corporation. Residents outside of those states will need to make their initial purchase through a broker to be eligible for the plan.

Shareholders currently enrolled in the plan can take advantage of the new features without making any changes to their existing enrollment. A prospectus is enclosed for participants enrolled in the plan. If you are not enrolled in the plan and would like to receive more information, please contact the Shareholder Services Department.



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