



FIRST QUARTER REPORT > 2007

> TO OUR SHAREHOLDERS

Our first quarter operating results for 2007—while lower than last year's exceptional results—were close to our internal expectations. We are pleased to reach record revenues for the first quarter and are satisfied with net income results. We reaffirmed our 2007 diluted earnings per share guidance to be within the range of \$1.60 to \$1.80.

FINANCIAL RESULTS AS OF MARCH 31, 2007

Otter Tail Corporation (NASDAQ: OTTR) announced financial results for the first quarter of 2007:

- Record first quarter revenues of \$301 million.
- Consolidated net income from continuing operations was \$10.4 million compared with \$14.9 million for the first quarter of 2006.
- Diluted earnings per share from continuing operations were \$0.34 compared with \$0.50 a year ago.

> OPERATIONAL RESULTS

Operational results in each of the following segments are for the quarter ended March 31, 2007. These results and outlook references for each segment were announced in our first quarter earnings release on May 7, 2007, which is posted on www.ottertail.com.

ELECTRIC

Our electric segment earnings were down, in part from nonrecurring items affecting wholesale energy marketing results. Net income in our electric segment was \$5.9 million, a decrease from \$9.5 million a year ago. Electric operating and maintenance expenses increased between the quarters, which also affected net income. We expect earnings in the range of \$19.0 million to \$22.5 million in the electric segment in 2007.

PLASTICS

Although earnings from our plastics companies were lower than the prior year, this segment continues to perform at levels higher than anticipated. Our plastics segment produced net income of \$2.8 million compared with \$4.6 million for the first quarter a year ago. The decrease reflects the effect of falling resin prices for PVC and polyethylene pipe compared with the same period a year ago. We expect plastics segment earnings performance to be in the range of \$5.5 million to \$8.0 million in 2007 because of stronger than expected first quarter results.

MANUFACTURING

Our manufacturing segment increased net income to \$2.5 million compared with \$2.2 million for the first quarter in 2006. Net income increases at both DMI Industries and BTM Manufacturing contributed to this segment's increase in net income between the quarters, more than offsetting reductions in net income at T.O. Plastics and ShoreMaster resulting from higher operating expenses. Continued enhancements in productivity and capacity utilization, strong backlogs and an announced expansion of DMI's

Fort Erie, Ontario facility are expected to result in increased net income in the manufacturing segment in 2007.

HEALTH SERVICES

Net income in our health services segment increased to \$0.9 million compared with \$0.3 million a year ago, related to increased revenue from equipment sales and servicing, scanning and other related services. We expect moderate net income growth in the health services segment in 2007.

FOOD INGREDIENT PROCESSING

Our food ingredient processing segment recorded net income of \$0.4 million compared with a net loss of \$1.0 million for the first quarter of 2006. A 70.3% increase in pounds of product sold combined with pricing increases contributed to the turnaround. We expect our food ingredient processing business to generate net income in the range of \$2.0 million to \$4.0 million in 2007.

OTHER BUSINESS OPERATIONS

Other business operations had a net loss of \$2.3 million compared with a net loss of \$0.7 million for the same period a year ago. The increase in net losses was due to an after-tax increase in corporate expenses, mainly related to higher labor and professional service costs, and lower profit margins on completed projects at our construction companies. This segment is anticipated to have lower earnings in 2007 due to an expected return to more normal unallocated corporate cost levels.

> WIND ENERGY DEVELOPMENTS AT OTTER TAIL COMPANIES

Wind energy is becoming increasingly important in our nation's energy future, and we are pleased to take part in building that future. In March, Otter Tail Power Company and Minnkota Power Cooperative jointly announced an agreement with FPL Energy to develop the Langdon Wind Project, which will be the largest wind farm in North Dakota. Otter Tail Power Company will own 40.5 megawatts of the farm's installed capacity, and will purchase the energy from an additional 19.5 megawatts of installed capacity annually for a 25-year period.

Additionally, DMI Industries announced plans in early May to add a third wind tower production facility, which will give our company one of the largest annual tower fabrication capacities in North America. If approvals and permits are obtained, the Tulsa, Oklahoma-based plant is expected to be operational in 2008.

> OTTR ON DIVIDEND ACHIEVER LIST

Otter Tail Corporation has again been recognized as a Mergent Dividend Achiever in 2007. Each year, Mergent recognizes outstanding records of dividend increases. We have increased dividends for 32 consecutive years and remain committed to working hard to deliver dependable dividends and long-term performance.

John Erickson
President and CEO

CONSOLIDATED STATEMENTS OF INCOME

Three months ended March 31,

(in thousands, except share and per-share amounts) (not audited)

	2007	2006
Operating revenues		
Electric	\$ 89,980	\$ 82,584
Plastics	37,819	38,105
Manufacturing	86,225	68,257
Health services	32,963	32,076
Food ingredient processing	19,495	9,350
Other business operations	35,796	28,279
Intersegment eliminations	(1,157)	(844)
Total operating revenues	301,121	257,807
Operating expenses		
Production fuel	16,425	14,806
Purchased power - system use	26,011	18,736
Other electric operation and maintenance expenses	26,875	23,407
Cost of goods sold (excludes depreciation; included below)	164,659	132,394
Other nonelectric expenses	30,758	26,248
Depreciation and amortization	13,093	12,224
Property taxes - electric operations	2,526	2,618
Total operating expenses	280,347	230,433
Operating income (loss)		
Electric	11,473	16,660
Plastics	4,867	7,747
Manufacturing	5,938	5,074
Health services	1,812	783
Food ingredient processing	781	(1,572)
Other business operations	(4,097)	(1,318)
Total operating income	20,774	27,374
Other income and deductions		428
Interest charges	4,868	4,444
Income from continuing operations before income taxes	16,179	23,358
Income taxes - continuing operations	5,771	8,503
Net income from continuing operations	10,408	14,855
Net income from discontinued operations		
net of taxes of \$0 and \$69 for the respective periods	—	105
Net income	10,408	14,960
Preferred dividend requirements	184	184
Earnings available for common shares	\$ 10,224	\$ 14,776
Average number of common shares outstanding—basic	29,503,252	29,325,986
Average number of common shares outstanding—diluted	29,756,904	29,676,117
Basic earnings per common share:		
Continuing operations (net of preferred dividend requirement)	\$.35	\$.50
Discontinued operations	\$ —	\$ —
	\$.35	\$.50
Diluted earnings per common share:		
Continuing operations (net of preferred dividend requirement)	\$.34	\$.50
Discontinued operations	\$ —	\$ —
	\$.34	\$.50
Dividends per common share	\$.2925	\$.2875



Otter Tail Corporation common stock (NASDAQ: OTTR) reached a quarterly high of \$35.00 and a low of \$31.06 for the three months ended March 31, 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 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; 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 Philips 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 BALANCE SHEETS

(in thousands) (not audited)

	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006
ASSETS			LIABILITIES AND EQUITY	
Current assets			Current liabilities	
Cash and cash equivalents	\$ —	\$ 6,791	Short-term debt	\$ 74,100
Accounts receivable, net	162,033	145,276	Current maturities of long-term debt	3,114
Inventories	100,570	103,002	Accounts payable	122,219
Deferred income taxes	8,179	8,069	Income taxes payable	6,076
Accrued utility revenues	28,676	23,931	Other accrued taxes	11,202
Costs and estimated earnings in excess of billings	48,227	38,384	Other accrued liabilities	34,173
Other	16,929	9,611	Liabilities of discontinued operations	197
Assets of discontinued operations	289	289	Total current liabilities	251,081
Total current assets	364,903	335,353	Pensions benefit liability	42,915
Investments and other assets			Other postretirement benefits liability	32,764
Goodwill—net	31,241	29,946	Other noncurrent liabilities	20,122
Other intangibles—net	98,110	98,110	Deferred credits	
Deferred debits	20,858	20,080	Deferred income taxes	112,136
Plant			Deferred investment tax credit	7,896
Electric plant in service	936,575	930,689	Regulatory liabilities	62,995
Nonelectric operations	242,745	239,269	Other	1,204
Total plant	1,179,320	1,169,958	Total deferred credits	184,231
Less accumulated depreciation and amortization	488,769	479,557	Capitalization	
Plant—net of accumulated depreciation and amortization	690,551	690,401	Long-term debt, net of current maturities	254,804
Construction work in progress	37,603	28,208	Class B stock options of subsidiary	1,255
Net plant	728,154	718,609	Cumulative preferred shares	15,500
Total	\$ 1,298,437	\$ 1,258,650	Common shares	148,251
			Premium on common shares	101,985
			Retained earnings	246,467
			Accumulated other comprehensive loss	(938)
			Total common equity	495,765
			Total capitalization	767,324
			Total	\$ 1,298,437
				\$ 1,258,650