

**Otter Tail Corporation**  
**Executive Compensation Policy**  
**December 18, 2018**

**PURPOSE**

The purpose of the Otter Tail Corporation Executive Compensation Policy is to describe the Corporation's overall compensation philosophy for Corporate executives, to provide a guideline for determining how well the Corporation's executive wage practices conform to actual objectives and to provide general guidelines for compensation programs in the future.

**OVERALL PHILOSOPHY**

Otter Tail Corporation believes that strong, effective leadership is the cornerstone to its continued growth and success in the future. This requires the ability to attract, retain and motivate highly qualified executives; executives with the competencies needed to excel in a rapidly changing marketplace, to understand the issues relating to a diverse group of companies in several different industries, and to continually motivate their employees.

The Corporation's mission for its people is to provide "an environment of opportunity with accountability; where people are valued and empowered to do their best work." It is the responsibility of the Corporate executives to provide the leadership and resources necessary for the Corporation and its operating companies to make this mission a reality.

Consistent with the Corporation's mission, executive compensation should focus on rewarding results achieved in alignment with the moderate risk appetite of the Corporation. Consistently good results achieved through strategic planning, risk management, talent development and operational excellence are indicative of the management attributes linked to the Corporation's success. The Corporation intends to provide fair and equitable compensation for executives combining base pay, annual cash incentives, stock-based long-term incentives and competitive benefits. Annual incentive plans, designed to reward executives for the Corporation's current year financial success, will recognize the executive's responsibility for meeting the Corporation's overall financial performance goals, as well as those of the operating companies. Stock-based incentives will focus on long-term performance by aligning the executives' long-term financial interests with the Corporation's shareholders. Stock ownership guidelines will ensure that the executives remain focused on long-term shareholder value.

Executive compensation will be determined according to the following guidelines:

- ***Total Direct Compensation:*** Total compensation opportunities, including base pay, annual incentives and long-term incentives will be competitive with similarly sized organizations in the utility and general industry sector with a bias towards the utility sector. Target will be near median to reflect Otter Tail Corporation's belief in and commitment to strong, effective leadership. The mix of pay (base, annual incentive and long-term incentive) as compared to competitive norms will be weighted toward pay at risk as opposed to guaranteed pay to reflect the Corporation's belief in pay for performance. Although target will be an important measure, the actual compensation of an individual executive must also take into consideration tenure, performance, experience and skillset and be balanced with current business climates and market implications.

- **Base Pay:** Base pay will be set after considering market data for similar jobs in the utility and general industry sector. An individual executive's base pay will also take into consideration tenure, performance, experience and skillset and reflect the level of compensation at risk under the Corporation's annual incentive plans. Base pay changes are effective January 1 of each year.
- **Annual Incentives:** Annual incentives will be an integral part of the executive's total compensation package. The goal of the annual incentive is to reflect Return on Equity and related Earnings per Share that investors would expect given the mix of businesses, related risks and regulation. Actual incentive payments will be defined consistent with the Corporation's Executive Annual Incentive Plan, with performance targets determined by the Compensation Committee annually. As with base pay, the annual incentive opportunity may be adjusted to reflect the overall level of pay at risk deemed appropriate for the position. The Executive Annual Incentive Plan is approved by the Compensation Committee by April, but applies to the Calendar year for which it is approved.
- **Long-term Incentives:** Long-term stock-based incentives will be used to provide the executive with a substantial stake in the long-term success of the Corporation – thus linking the executives' long-term financial interests with the Corporation's shareholders. To ensure the executives continue to have a long-term stake in the financial success of the Corporation, stock ownership guidelines will apply as described later in this policy. Stock-based incentives are typically granted in February of each year.
- **Benefits:** Consistent with the need and desire to encourage continued long service with the Corporation, retirement plans will be an important component of each executive's benefit package. Executives will be eligible for health, dental, life, vacation and other traditional benefits provided to non-executive employees of Otter Tail Corporation and will be eligible for certain nonqualified plan benefits.

## STOCK OWNERSHIP GUIDELINES

It is the Corporation's policy that Corporate executives have a meaningful ownership stake in the Corporation to demonstrate a strong commitment to the organization's long-term success. The following stock ownership guidelines apply to executive officers:

Provision	Definition	
Ownership Guideline	<b>Executive</b>	<b>Multiple of Base Pay</b>
	President and CEO	5 times
	CFO	2 times
	President, Utility	2 times
	President, Varistar	2 times
	Corporate Secretary and General Counsel	1 times
	Head of Human Resources	1 times
Years to Comply	5 Years from date of hire, promotion or increased holding requirement, whichever is later	
Stock Included	All ownership including restricted stock shares (vested and non-vested), restricted stock units (vested and non-vested), Employee Stock Ownership Plan shares, Employee Stock Purchase Plan shares, Dividend	

	Reinvestment Plan shares or other direct ownership for which the executive has dividend and voting rights. Ownership does not include vested or non-vested stock options.
Determination of Ownership	Annually at time of Proxy publication
Review of Required Share Level	Every year
Holding Requirement	For all equity awards granted on or after June 22, 2016, each executive shall hold 100% of shares received (net of tax) upon the grant or vesting, as applicable, of the shares, until the applicable ownership guideline has been met. In the event a change in stock price causes an executive to fall below the ownership guideline, the executive may not sell shares until compliance is again achieved. In the event an executive has complied with the holding requirements but does not reach the ownership guidelines within the prescribed timeframe, the executive shall continue to be subject to the holding requirements until the ownership guideline is met.

The value of an executive’s stock ownership guideline is based on his or her then-current salary and the value of the executive’s holdings is based on the closing price of a share of the Corporation’s common stock, each determined at the time of Proxy publication. The Compensation Committee may grant waivers of the ownership guideline or holding requirements in circumstances where an executive wishes to sell shares due to special needs or circumstances. The Compensation Committee will make the final decision whether to grant the request after considering the purpose of these Executive Stock Ownership Guidelines and the personal circumstances of the executive.

**EMPLOYMENT AND SEVERANCE AGREEMENTS**

The Corporation may enter into an Employment Agreement or Severance Agreement with each Corporate executive on terms consistent with the needs of the employee and the Corporation and subject to approval of the Compensation Committee. The primary intent of the agreement will be to provide certainty for the executives and the Corporation upon the occurrence of certain events described in the agreement, in particular the departure of the executive. The terms and conditions of the agreement will be similar for each executive, but will allow for differences based on the needs of the Corporation. Change-in-control protection will be provided under the Corporation’s Change in Control Severance Agreement.

**COMPENSATION REVIEW**

The Compensation Committee of the Board of Directors will review and set compensation for the Corporate executives annually.

**RECOUPMENT POLICY**

To reflect sound corporate governance, the Corporation has adopted a recoupment policy for executive officers which allows for the recovery of the following compensation elements:

- Amounts paid under the Annual Incentive Plan, including any discretionary amounts that were paid with respect to any fiscal year that is restated.

- Awards under the 2014 Stock Incentive Plan or any successor plan that were issued and/or paid with respect to any fiscal year that is restated.

This policy applies in the event there is an accounting restatement due to the material noncompliance under any financial reporting requirements which results in performance based compensation that would have been a lower amount if it had been calculated based on such restated results. The Corporation will seek reimbursement from current and former executive officers for the three-year period preceding the date that the Corporation determines it is required to restate financial statements. The amount of reimbursement will be the excess, if any, over the amount actually paid to the affected executive officer and the amount which should have been paid based upon the restated results. The Compensation Committee will be responsible for approving the amounts to be recouped and the individuals subject to the recoupment.

This policy will be disclosed on the Corporation's website, to executive employees of the Corporation who receive performance-based awards and in the Corporation's proxy statement for its annual meeting of shareholders.

This policy will be modified to the extent that the Securities and Exchange Commission issues guidance that requires changes in order for the Corporation's securities to continue to be listed on NASDAQ.

#### **POLICY REVIEW**

The Otter Tail Corporation Executive Compensation Policy will be reviewed by the Compensation Committee of the Board of Directors on an annual basis. Changes will be made as needed to ensure the policy remains aligned with the Corporation's business needs.

FOR THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS:

  
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James Stake, Compensation Committee Chair

December 18, 2018  
Date