



2017 YEAR END EARNINGS CONFERENCE CALL  
February 13, 2018

# FORWARD-LOOKING STATEMENTS

Except for historical information, all other information provided in this presentation consists of “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These “forward-looking statements” are subject to risks and uncertainties which could cause actual results to differ materially from those projected, anticipated, or implied. The most significant of these risks and uncertainties are discussed or identified in Otter Tail Corporation’s public filings made with the Securities and Exchange Commission. Otter Tail Corporation undertakes no obligation to publicly update or revise any forward-looking statements.

These presentations may include measures of financial performance and presentations of financial information that are not defined by generally accepted accounting principles (GAAP). Management believes that presenting diluted earnings per share from continuing operations in total and by segment on a Non-GAAP basis by excluding the impact of the 2017 tax reform tax rate reduction on deferred tax values from diluted earnings per share from continuing operations in total and by segment will assist investors in making an evaluation of our performance against prior periods on a comparable basis. Management understands that there are material limitations on the use of non-GAAP measures. Non-GAAP measures are not substitutes for GAAP measures for the purpose of analyzing financial performance. These non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. This information should not be construed as an alternative to the reported results, which have been determined in accordance with GAAP.

## MANAGEMENT TEAM



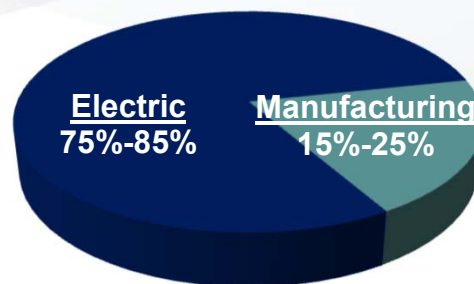
- > Chuck MacFarlane, President and Chief Executive Officer
- > Kevin Moug, Senior Vice President and Chief Financial Officer



### Target earnings contributions

#### Electric

- ❑ Competitive low cost operations
- ❑ Constructive regulatory environment
- ❑ Attractive rate base growth



#### Manufacturing

- ❑ Long-term growth potential
- ❑ Capacity utilization
- ❑ Diversification

# 2017 HIGHLIGHTS

## Financial Summary

	2017	2016
Operating Revenues	\$849.3	\$803.5
Diluted EPS – Continuing Operations	\$1.81	\$1.60
Impact of Tax Reform	<u>.05</u>	<u>.00</u>
Adjusted Diluted EPS – Continuing Operations*	\$1.86	\$1.60

\* Adjusted Diluted Earnings Per Share from Continuing Operations for 2017 excludes the impact of tax reform

## 2017 Highlights/ 2018 Initiatives

### 2017 Highlights:

- Consolidated Return on Equity of 10.6%
- High Customer Satisfaction Scores for Otter Tail Power Company
- Minnesota Rate Case completed. ND Rate Case filed with Interim Rates Approved
- Continued success on large Transmission & Generation projects
- Excellent operational performance from Plastics Segment during hurricanes resulted in record earnings from Plastics Segment. Impact from the hurricanes was approximately \$3.4 million in earnings or \$.09 per share.
- Improved financial performance at BTM Manufacturing

### 2018 Initiatives:

- Deliver on 2018 guidance of \$1.80 - \$1.95 per share
- Successful North Dakota Rate Case outcome
- Continue to improve profitability at BTM through operational excellence
- Continue to execute on large OTP Transmission & Generation projects

# BIG STONE AREA TRANSMISSION



 **Big Stone South  
-Ellendale**

 **Big Stone South  
-Brookings County  
(Complete)**

 **Brookings County  
-Hampton  
(Complete)**

# RATE BASE PROJECTS

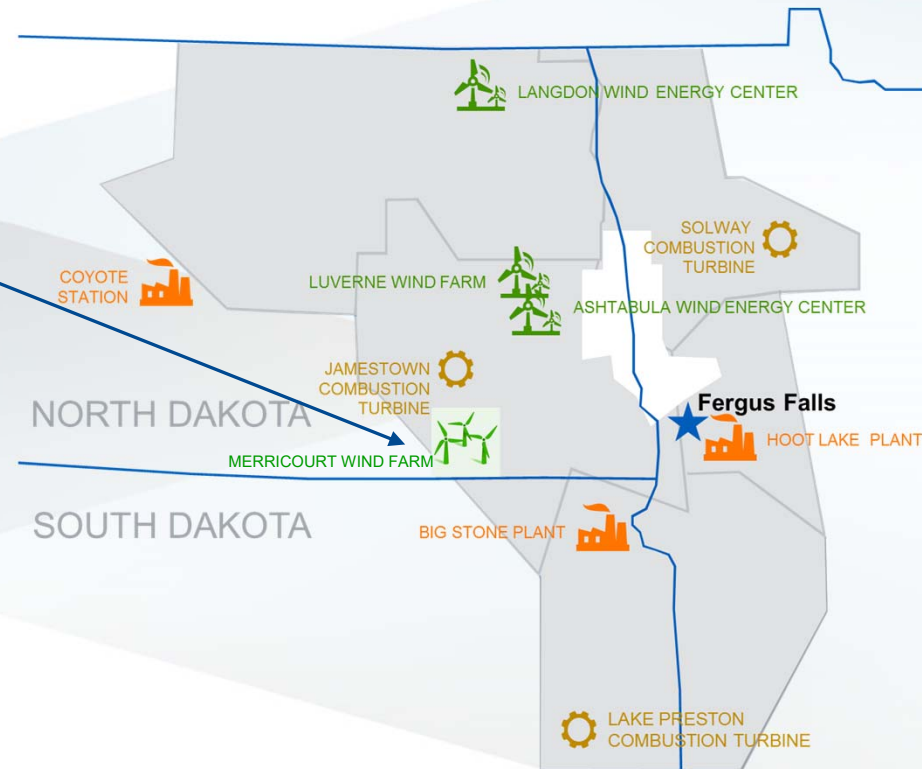


Project	Our investment			Recovery mechanisms
	(Millions)	In-service	Percent complete	
Fargo – St. Cloud (CapX2020)	\$81	2015	100%	Rider/Base Rates
Brookings Co. – Hampton (CapX2020)	\$26	2015	100%	Rider/Base Rates
Big Stone Plant AQCS	\$200	2015	100%	Rider/Base Rates
Big Stone South – Brookings Co. (CapX2020 and MVP)	\$73	2017	100%	Rider/Base Rates
Big Stone South – Ellendale (MVP)	\$127	2019	70%	Rider
Merricourt Wind Farm	\$270	2019	2%	Rider/General Rate Case
Solar investment	\$30	2021	0%	Rider/General Rate Case
Astoria Station (Hoot Lake Plant replacement): 250 MW natural gas simple-cycle combustion turbine	\$165	2021	2%	General rate case
Ashtabula III: option to buy 62.4 MW wind farm	\$50	Option to purchase 2023	NA	Rider/General Rate Case

# MERRICOURT WIND FARM

<b>Project</b>	<b>Merricourt Wind Farm</b>
<b>Description</b>	150 MWs
<b>Schedule</b>	2017-2019
<b>OTP cost</b>	\$270 million

- Merricourt**
- MN Resource Plan approved on March 16, 2017 allows for 200 MWs of wind by 2020.
  - Turnkey agreements have been signed with EDF.
  - ND PSC has issued revised site permit.
  - MISO interconnection process is ongoing.
  - Turbines qualify for safe harbor.
  - Reached settlement with ND PSC staff on Advanced Determination of Prudence.
  - Approved in Minnesota for rider recovery with a cost cap.
  - Anticipate a capacity factor greater than 50%.

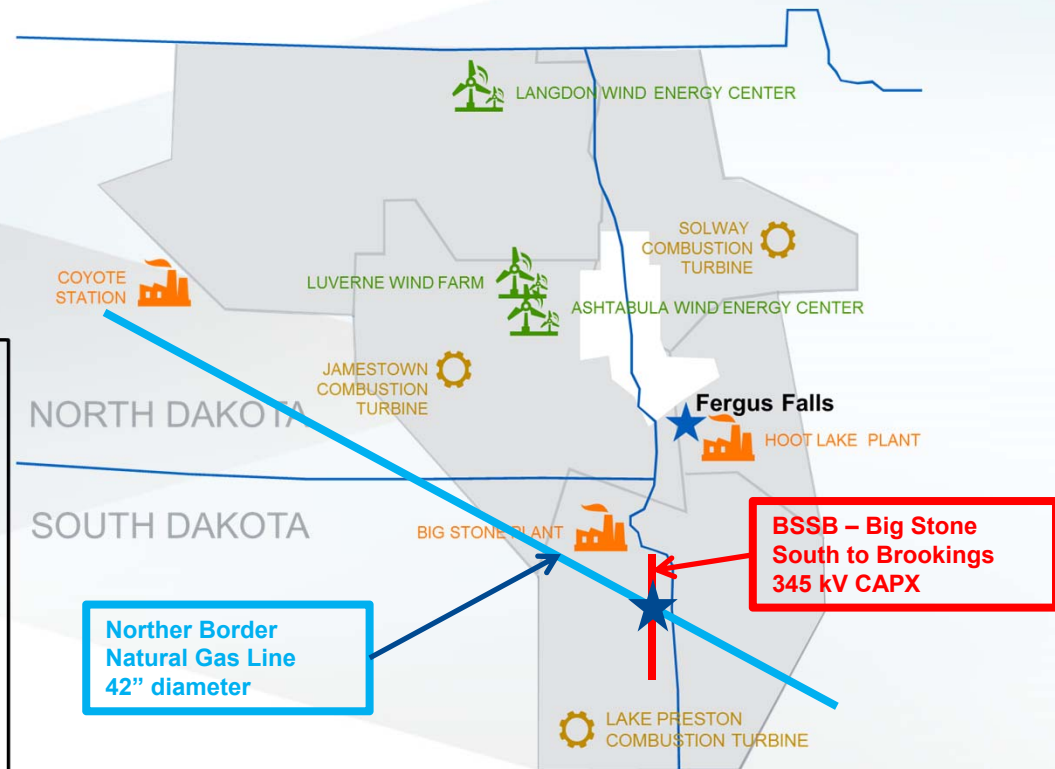




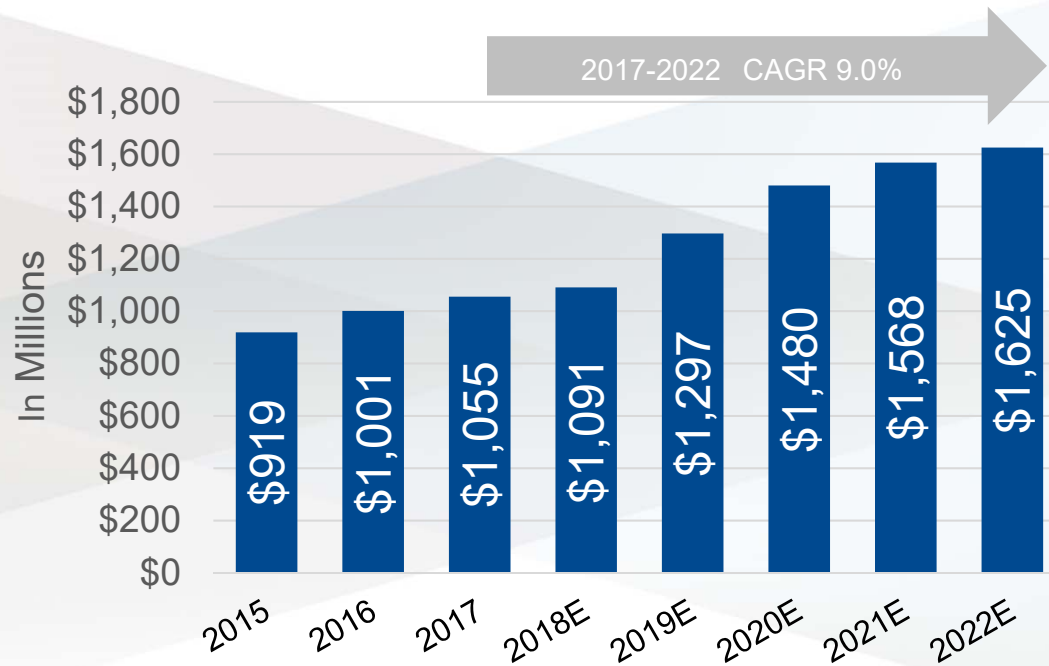
# ASTORIA STATION – NATURAL GAS PLANT

<b>Project</b>	<b>Astoria Station Natural Gas Plant</b>
<b>Description</b>	250 MW Simple Cycle
<b>Schedule</b>	2019 - 2021
<b>OTP cost</b>	\$165 million

- Astoria**
- Location intersects Big Stone–Brookings 345 KV line and Northern Border Pipeline.
  - MN Resource Plan approved on March 16, 2017.
  - Reached settlement with ND PSC staff on Advanced Determination of Prudence.
  - SD Permitting and site engineering progressing.
  - MISO interconnection process is ongoing.



# RATE BASE GROWTH CHART



Capital spending of \$901 million for 2018 to 2022 is divided among:

- Regional transmission projects
- Natural gas generation
- Renewable generation
- Ongoing system replacements

# REGULATORY FRAMEWORK

Riders	Minnesota	North Dakota	South Dakota
Wind projects	Rider Recovery/Rate Case	Rider Recovery/Rate Case	Rate Case
Transmission	Rider Recovery/Rate Case	Rider Recovery/Rate Case	Rider Recovery/Rate Case
Non-renewable Generation	Rate Case	In State Preference/ADP/Rate Case	Rate Stability Plan/Rate Case
Environmental	MN Plants and Outstate Plants with ADP: Rider Recovery/Rate Case	Rider Recovery/Rate Case	Rider Recovery/Rate Case
Fuel clause	Trued up annually	Trued up monthly	Trued up monthly
Rate cases	Forward-looking test years	Forward-looking test years	Historical test year with known-and-measurable post-test-year adjustments
Allowed ROE	9.41%	10.3% As requested in Nov. 2, 2017 rate case filing	8.5% Return on Rate Base

A constructive regulatory environment provides for timely recovery of capital and a fair economic return.

We recover approximately 35% of our five-year capital expenditures through riders.

## TAX REFORM – COMMISSION ACTIVITY

### ➤ Minnesota

- The Commission has opened a docket requiring filing by January 30 and February 14. No determinations have yet been made by the Commission.

### ➤ North Dakota

- The Commission has opened a docket requiring filings with impacts by February 15. Requires recognition of impacts starting January 1, 2018.

### ➤ South Dakota

- Opened docket requiring initial comments by February 1. Ordered rates to be subject to refund as of January 1, 2018, pending determination of impacts of the tax change.

### ➤ FERC

- Has not issued anything formal yet but has issued data requests on the issue in pending gas pipeline cases.

# YEAR ENDED DECEMBER 31, 2017 COMPARED WITH YEAR ENDED DECEMBER 31, 2016



		YTD EPS 2016 vs. YTD EPS 2017				Consolidated
		Electric	Manufacturing	Plastics	Corporate	
<b>2016 Diluted EPS from continuing operations</b>		\$1.29	\$0.15	\$0.27	(\$0.11)	\$1.60
Electric	Change in final rates compared to interim rate increase, net of refund	(0.03)				(0.03)
	Weather	0.03				0.03
	Decrease in MN CIP revenues and incentives	(0.05)				(0.05)
	Net increase in MISO transmission tariff revenues	0.08				0.08
	Change in estimate reducing unbilled revenues	(0.03)				(0.03)
	Tax rate change on deferred taxes	(0.02)				(0.02)
	Impact of increased common shares outstanding	(0.03)				(0.03)
Manufacturing	Increase in gross margins		0.06			0.06
	Decrease in interest expense		0.03			0.03
	Increase in O&M expenses		(0.03)			(0.03)
	Tax rate change on deferred taxes		0.07			0.07
Plastics	Impact from Gulf Coast hurricanes			0.09		0.09
	Improved business operations due to higher lbs. sold and increased sales prices			0.11		0.11
	Tax rate change on deferred taxes			0.08		0.08
	Impact of increased common shares outstanding			(0.01)		(0.01)
Corporate	Excess tax benefit- 2014 performance shares				0.02	0.02
	Decrease in O&M expenses				0.02	0.02
	Tax rate change on deferred taxes				(0.18)	(0.18)
<b>2017 Diluted EPS from continuing operations</b>		\$1.24	\$0.28	\$0.54	(\$0.25)	\$1.81

# TAX REFORM IMPACT TO 2017 FINANCIALS

	Impact to	Impact to Balance Sheet	
	Income Statement	Deferred Tax Liability	Regulatory Liability*
Revaluation of net deferred income tax liabilities <i>(in thousands)</i>	Income Tax Benefit (Expense)		
Electric	(\$458)	(\$147,400)	\$147,858
Manufacturing	\$2,637	(\$2,637)	
Plastics	\$3,263	(\$3,263)	
Corporate	(\$7,198)	\$7,198	
Otter Tail Corporation Consolidated Impacts	(\$1,756)	(\$146,102)	\$147,858

\* Regulatory liability will generally be amortized over the underlying asset's remaining useful life per IRS rules. The Company recognized the income tax effects of tax reform in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118. Current estimates may be revised and are subject to change.

# TAX REFORM IMPACTS

- Tax Cuts and Jobs Act signed into law on December 22, 2017
  - Legislation reduced corporate tax rate from 35 percent to 21 percent
  - Required revaluation of deferred taxes as of December 22 at new lower corporate tax rate
    - ✓ Majority of revaluation relates to regulated utilities and creates approximately \$148 million regulatory liability
      - Regulatory liability will generally be amortized over remaining life of related assets
    - ✓ Results in one-time, non-cash, increase in income tax expense of approximately \$1.8 million in 2017
  - Tax reform benefits utility customers
    - ✓ Benefits for customers due primarily to lower corporate tax rate
    - ✓ Utility cash flows could be negatively impacted up to \$15 million annually for next several years
  - Otter Tail Corporation expects to maintain deductibility of interest expense
    - We only have \$80 million in long term debt at the parent which was used solely to finance our manufacturing companies. No debt at the parent has been pushed down to the utility in the form of equity.

# Q4 EPS 2017 VS. Q4 EPS 2016



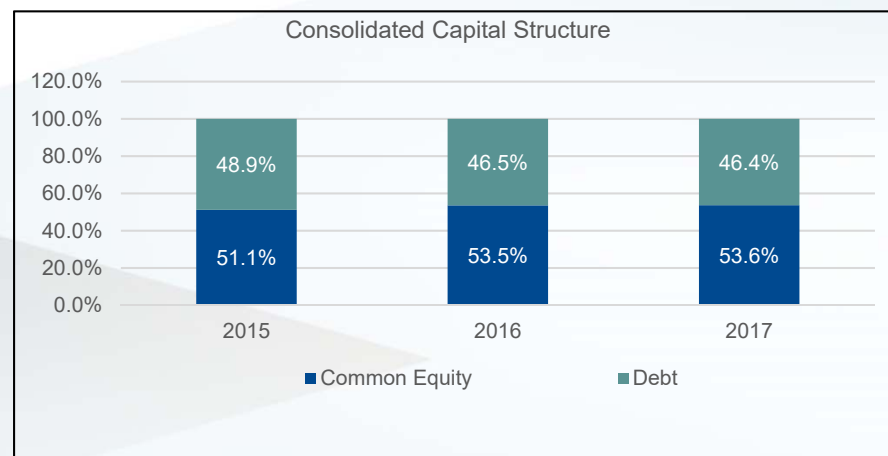
		Q4 EPS 2016 vs. Q4 EPS 2017				
		Electric	Manufacturing	Plastics	Corporate	Consolidated
<b>Q4 '16 Diluted EPS from continuing operations</b>		\$0.39	(\$0.01)	\$0.07	(\$0.01)	\$0.44
Electric	Change in final rates compared to interim rates	(0.02)				(0.02)
	Net increase in MISO transmission tariff revenues	0.06				0.06
	Decrease in MN CIP revenues and incentives	(0.05)				(0.05)
	Weather	0.02				0.02
	Increased sales to residential and industrial customers	0.01				0.01
	Change in estimate reducing unbilled revenues	(0.03)				(0.03)
	Net increase in O&M	(0.04)				(0.04)
	Tax rate change on deferred taxes	(0.02)				(0.02)
Manufacturing	Increase in gross margins		0.05			0.05
	Increase in O&M expenses		(0.01)			(0.01)
	Decrease in interest expense		0.01			0.01
		Tax rate change on deferred taxes		0.07		
Plastics	Impact on quarter from Gulf Coast hurricanes			0.05		0.05
	Improved business operations due to higher lbs. sold and increased sales prices			0.01		0.01
		Tax rate change on deferred taxes			0.08	
Corporate	Tax rate change on deferred taxes				(0.18)	(0.18)
<b>Q4 '17 Diluted EPS from continuing operations</b>		\$0.32	\$0.11	\$0.21	(\$0.19)	\$0.45



# LIQUIDITY, CAP STRUCTURE AND CREDIT RATINGS



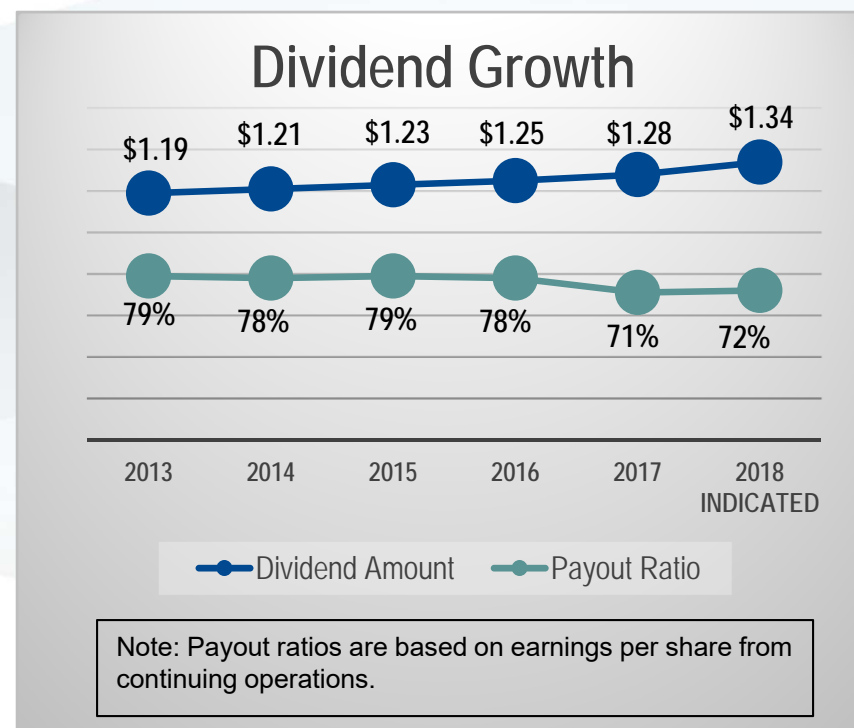
	OTP	OTC
<i>Line of Credit Facilities</i>	\$ 170,000,000	\$ 130,000,000
<i>Outstanding Borrowings</i>	112,370,691	
<i>Letters of Credit</i>	300,000	-
<b>Unused Amount at 12/31/17</b>	<b>\$ 57,329,309</b>	<b>\$ 130,000,000</b>
<b>Unused Amount at 12/31/16</b>	<b>\$ 127,066,722</b>	<b>\$ 130,000,000</b>
<b>Expiration Date</b>	<b>October 31, 2022</b>	<b>October 31, 2022</b>



<b>Otter Tail Corporation</b>	<b>Moody's</b>	<b>Fitch</b>	<b>S&amp;P</b>	<b>Otter Tail Power Company</b>	<b>Moody's</b>	<b>Fitch</b>	<b>S&amp;P</b>
Corporate Credit/Long-term Issuer Default Rating	Baa2	BBB-	BBB	Corporate Credit/Long-term Issuer Default Rating	A3	BBB	BBB
Senior Unsecured Debt	NA	BBB-	NA	Senior Unsecured Debt	NA	BBB+	BBB
Outlook	Stable	Stable	Positive	Outlook	Stable	Stable	Positive

# HISTORY OF DIVIDEND GROWTH

- > Consecutive annual dividends without interruption paid since 1938
- > Indicated increase of .06/share (4.7%)
- > Increase is higher than our historical dividend growth rate.
- > Due to the positive impact to earnings from the "Tax Cuts & Jobs Act"
- > Strong balance sheet, liquidity, cash generation profile and our commitment to enhancing shareholder returns.



# CAPITAL EXPENDITURES



<i>(in millions)</i>	2017	2018	2019	2020	2021	2022	Total
<b>Capital Expenditures:</b>							
<u>Electric Segment:</u>							
Renewables and Natural Gas Generation		\$ 1	\$ 308	\$ 102	\$ 50	\$ 1	\$ 462
Transformative Technology and Infrastructure		--	22	32	43	39	136
Transmission		45	12	9	7	7	80
Other		49	40	42	45	47	223
<b>Total Electric Segment</b>	<b>\$ 119</b>	<b>\$ 95</b>	<b>\$ 382</b>	<b>\$ 185</b>	<b>\$ 145</b>	<b>\$ 94</b>	<b>\$ 901</b>
Manufacturing and Plastics Segments	14	15	14	15	14	14	72
<b>Total Capital Expenditures</b>	<b>\$ 133</b>	<b>\$ 110</b>	<b>\$ 396</b>	<b>\$ 200</b>	<b>\$ 159</b>	<b>\$ 108</b>	<b>\$ 973</b>
<b>Total Electric Utility Average Rate Base</b>	<b>\$ 1,055</b>	<b>\$1,091</b>	<b>\$1,297</b>	<b>\$1,480</b>	<b>\$1,568</b>	<b>\$1,625</b>	

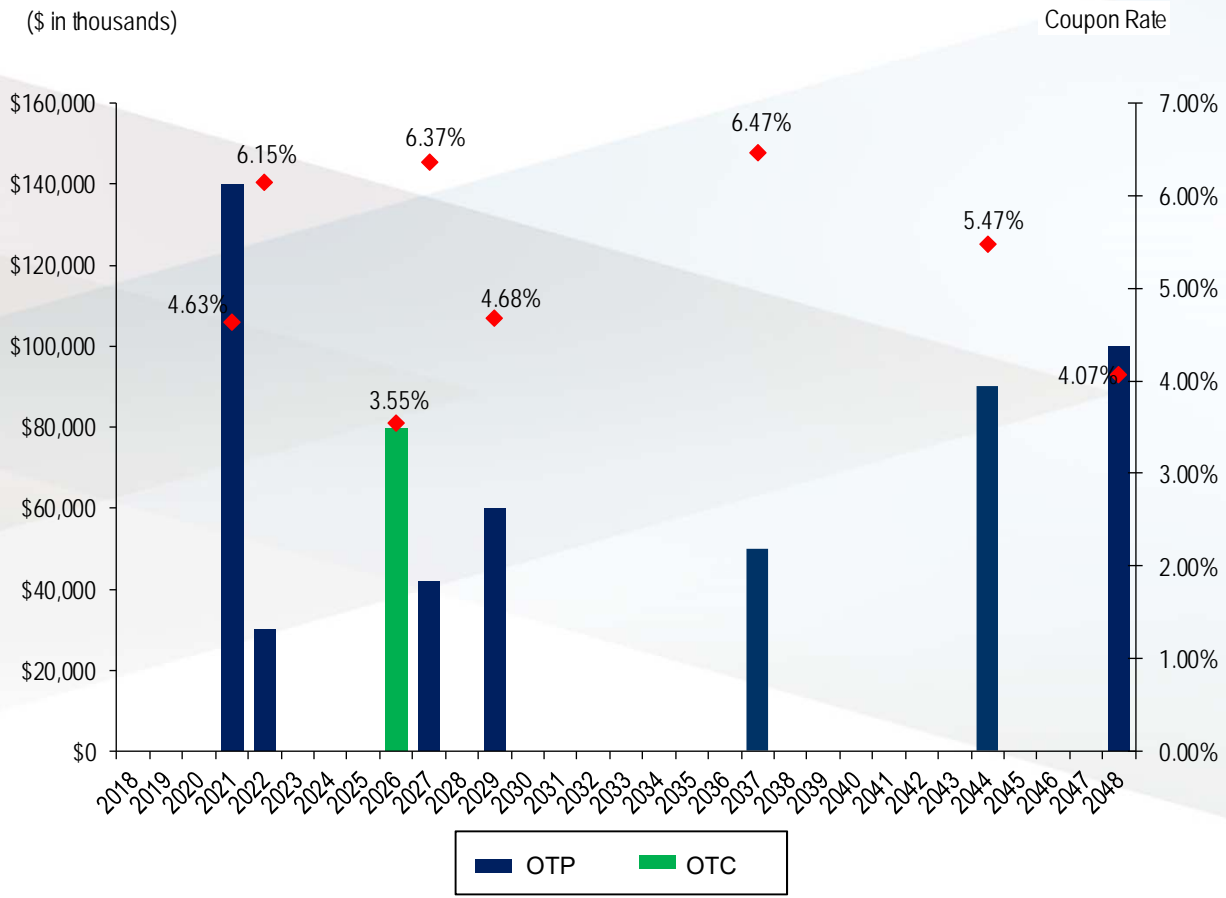
## 2018 EARNINGS GUIDANCE



	2017 EPS by Segment			2018 EPS Guidance	
	GAAP-Basis	Impact of Tax Reform	Before Impact of Tax Reform	Low	High
Electric	\$1.24	\$0.02	\$1.26	\$1.34	\$1.37
Manufacturing	\$0.28	(\$0.07)	\$0.21	\$0.26	\$0.30
Plastics	\$0.54	(\$0.08)	\$0.46	\$0.36	\$0.40
Corporate	(\$0.25)	\$0.18	(\$0.07)	(\$0.16)	(\$0.12)
<b>Total – Continuing Operations</b>	<b>\$1.81</b>	<b>\$0.05</b>	<b>\$1.86</b>	<b>\$1.80</b>	<b>\$1.95</b>
<b>Return on Equity</b>	10.6%		10.8%	10.1%	10.9%



# BOND MATURITY SCHEDULE



# INVESTMENT HIGHLIGHTS

Strong and stable regulated electric operations provide cash flow to support dividends

Manufacturing businesses provide above average earnings growth potential

Strong dividend yield

Strong returns on equity

**Balanced Growth and Income Strategy**

**Stable and Growing Utility Base**

Competitive, low cost integrated electric operations

Regulated rate base capex over the next 5 years will drive growth

- Investment opportunity in generation, transmission and renewables

Platform of companies enhances OTTR's earnings growth

Organic growth opportunities exist

Utilization of existing capacity

Operational excellence

**Successful Manufacturing Businesses**

**Investment Grade Credit Quality**

Investment grade senior unsecured credit ratings

Company is committed to maintaining investment grade credit ratings and will manage its operations in a way that reflects this commitment