

## **Corporate Governance Guidelines**

Approved February 6, 2018

Otter Tail Corporation is committed to accountability and good corporate governance. Accountability begins with the governance of the Corporation by the Board of Directors. These Corporate Governance Guidelines (the "Guidelines") have been adopted by the Board of Directors of the Corporation to assist Directors in the performance of their duties and the exercise of their responsibilities. The Board believes that good corporate governance is the starting point in insuring that Otter Tail Corporation is operated in an open, honest and ethical manner and in the best interest of our shareholders. These Guidelines represent the current view of the Corporation's Board of Directors on governance and should not be viewed as rigid restraints. Accordingly, these Guidelines are subject to modification from time to time by the Board of Directors.

### **Board Size**

Otter Tail Corporation is governed by a nine-member Board of Directors. The Bylaws of the Corporation, in conjunction with Minnesota law, permit the Board to increase the size of the Board of Directors, but it cannot be decreased without the approval of shareholders. Except for relatively short periods of time, Otter Tail Corporation has been governed by a Board consisting of nine Directors. It is the intent of the Board to continue this practice.

### **Board Independence**

The Board of Directors of Otter Tail Corporation shall have a substantial majority of independent Directors as that term is defined by the NASDAQ Listing Standards.

### **Board Composition**

The Corporate Governance Committee will review with the Board, on an annual basis, existing Directors' skills and qualifications and priorities for future Director candidates, in the context of the Board's overall composition. This assessment should consider factors including but not limited to diversity, business background, accomplishments, and industry experience.

The Board seeks to nominate and retain Directors from a wide variety of business and life experiences that will enable them to constructively review and guide management of the Corporation. The Corporate Governance Committee will recommend candidates for election to the Board in accordance with the policies and principles in its Charter and the criteria described herein and established by the Board. The Board will be responsible for recommending Director candidates for election by the shareholders.

### **Director Responsibilities**

The core responsibility of Directors is to exercise their business judgment in a manner that they reasonably believe to be in the best interest of the Corporation and our shareholders.

Serving on the Board of Directors involves a significant time commitment. Directors are expected to manage their commitments in order to permit them to devote adequate time and attention to the performance of their duties as members of the Board and its committees. Absent review and approval by the Chairs of the Board and the Corporate Governance Committee, a Director should not serve on more than three Boards of Directors of publicly traded companies. In addition, in order to avoid a conflict of interest, Directors will seek approval from the Chair of the Corporate Governance Committee before

accepting a Directorship with another company that he or she did not hold when most recently elected to the Board.

More specifically Directors should:

- Hold in confidence all matters involving the Corporation until such time as there has been public disclosure and should not use information for their personal benefit or the benefit of others;
- Attend all meetings of the Board and of the Committees on which they serve and the Annual Meeting of Shareholders;
- Carefully review Board materials;
- Maintain an active interest in the businesses of the Corporation, staying current with governmental and economic trends, markets and competition, strategies and financial performance;
- Build positive and effective working relationships with other Directors and members of management; and
- Exercise independent judgment and be willing to respectfully challenge the majority view.

### **Non-Executive Chair Responsibilities**

The Corporation has determined that under the present circumstances it is best served by having a Non-Executive Chair of the Board. In addition to providing leadership to the Board and chairing its meetings, the Chair serves as the principal liaison between the Board and the Chief Executive Officer and management. The Chair should strive to ensure that the respective roles of the Board and management are understood and respected, and that the collective team works for the benefit of the Corporation's shareholders.

More specifically, the Chair should:

- Work with the Chief Executive Officer and Corporate Secretary to develop a Board calendar and related agendas sufficient to permit the Board to meet its responsibilities in a manner that supports the operation of the Corporation;
- Confer with the Chief Executive Officer and Corporate Governance Committee regarding the composition of the Board's committees and their Chairs;
- Preside over Board meetings and the executive sessions of the Board and communicate to the Chief Executive Officer as appropriate the substance of the sessions that include only the independent Directors;
- Call meetings of the independent Directors;
- Act as the principle liaison between the Board, the Chief Executive Officer and the management team;
- Upon recommendation by the Corporate Governance Committee and with the Chief Executive Officer, interview prospective candidates for the Board of Directors; and
- Acting with the Corporate Governance Committee, participate in the evaluation of the Board and its Committees, the Directors, and the Chief Executive Officer.

The Directors will elect the Chair for one-year terms, which may be successive, unless the role is vacated for any reason prior to the expiration of the one-year term.

## **Board Terms**

Directors are elected to three-year rotating terms on the Board of Directors. A Director shall retire from his or her position on the Board at the time of first Annual Meeting of Shareholders following his or her 72nd birthday.

## **Director Meetings**

The Board of Directors typically meets five times per year in regular session. In addition, the Board of Directors has a planning retreat each year. As a part of its meeting and planning activity, the Board of Directors regularly meets in executive session both without management and without the non-independent Directors.

## **Committees**

The Board of Directors operates with three standing committees. They are an Audit Committee, a Compensation Committee and a Corporate Governance Committee. All of the members of those Committees are “independent” under NASDAQ Listing Standards and under applicable law. Each Committee has a Charter which is reviewed and adopted annually. They can be found on the Corporation's website. The Board of Directors may from time to time create special committees for limited purposes and duration.

## **Access to Management and Independent Advisors**

Directors have direct access to the executive management team of Otter Tail Corporation, generally through the Chief Executive Officer. However, Directors may also access individual executive officers related to their areas of expertise. The Board and its committees have the ability to obtain independent advisors at the expense of the Corporation as they deem necessary.

## **Director Compensation**

Compensation for the Directors is determined by the Compensation Committee of the Board of Directors and ratified by the Board of Directors. The Compensation Committee consists solely of independent Directors. The Committee will periodically retain an outside consultant to assess the competitiveness of compensation provided to the Directors. Any such consultants shall be retained taking into consideration effectiveness and the independence considerations described in the written Charter of the Compensation Committee.

Because the Corporation believes that Directors should have a stake in the outcome of the Corporation, Director compensation includes both cash and equity components. It is expected that Directors will meet Board-approved stock ownership guidelines.

## **Chief Executive Officer Performance Evaluation**

The Directors will be responsible for evaluating the performance of the Chief Executive Officer. This evaluation will be conducted annually at the direction of the Corporate Governance Committee, and the Board and Governance Chairs will communicate the results to the Chief Executive Officer. The evaluation is a factor to be used by the Compensation Committee in determining the compensation of the Chief Executive Officer. The evaluation will include the performance of the business, accomplishment of annual goals and long-term strategic objectives and the development of management.

## **Director Onboarding**

The Corporation is committed to providing appropriate orientation for new Directors. This orientation includes meetings with management, written material on the Corporation's organization and governance, recent Board minutes, recent filings with the Securities and Exchange Commission, strategic and operating plan information, corporate structure and organizational information and information about the Corporation's products and services and the industries in which the Corporation operates. As a part of this orientation, Directors should plan to attend the EEI/AGA Director training courses which are utility specific.

## **Director Education**

The Corporation will provide Directors with regular updates on corporate governance practices and the legal obligations for Board members. Directors should participate in additional educational opportunities that will enhance their effectiveness on the Board. It is expected that Directors will attend one external educational experience per year. The Corporation will reimburse Directors as appropriate for these educational experiences.

## **Director Resignation Policy**

When a Director retires or experiences a change in employer or other material changes in his or her professional roles and responsibilities held at the time of election to the Board, the Director shall submit for consideration by the Board a letter of resignation as Director to take effect at the pleasure of the Board. The Corporate Governance Committee shall meet to consider such resignation and shall make a recommendation to the Board. The Board may determine whether to accept the resignation depending on the Director's new status and such other factors as the Board deems appropriate. When a Director candidate standing for election in an uncontested election receives a greater number of votes "withheld" from his or her election than votes "for" such election, the Director shall submit promptly following certification of the shareholder vote for consideration by the Board a letter of resignation as Director to take effect at the pleasure of the Board. The Corporate Governance Committee shall meet to consider such resignation and shall make a recommendation to the Board. The Board may determine whether to accept the resignation depending on such factors as the Board deems appropriate, and shall publicly disclose its decision within 90 days from the date of the certification of the election results. A Director tendering his or her resignation shall not participate in the consideration of that resignation by either the Corporate Governance Committee or the Board.

## **Succession Planning**

A central duty of the Board of Directors is to select a Chief Executive Officer and to oversee the Chief Executive Officer and executive management team in the competent and ethical operation of the Corporation. Working with the executive management team, the Board of Directors plans for the succession of the Chief Executive Officer and other executive officers of the Corporation. As a result, the Corporation has a plan in place to address contingencies such as the departure, death, or disability of the Chief Executive Officer or a member of the executive management team so that in the event of an untimely departure, the Corporation can facilitate the transition of both on an interim and long-term basis.

## **Board Evaluation**

The Board of Directors annually evaluates its role and performance on behalf of the shareholders. As a part of the process, each Director performs a self-evaluation on his or her contribution to the Board and

his or her ability to do so in the future. The members of each standing committee will conduct an assessment, annually, of the performance of that committee.

### **Code of Conduct**

The Corporation has adopted a Code of Conduct which applies to all Directors, officers and employees of the Corporation and its subsidiaries. The Audit Committee of the Board of Directors reviews the Code of Conduct annually and recommends proposed changes to the Board of Directors. The Audit Committee has oversight responsibility for the administration of the Code of Conduct by management of the Corporation.

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