

# OTTR 10-K 12/31/2001

## Section 1: 10-K (ANNUAL REPORT)

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One) (X) Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended DECEMBER 31, 2001 OR

( ) Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-368

OTTER TAIL CORPORATION  
(Exact name of registrant as specified in its charter)

MINNESOTA 41-0462685  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

215 S. CASCADE ST., BOX 496, FERGUS FALLS, MN 56538-0496  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (218) 739-8200

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
| NONE                | NONE                                      |

Securities registered pursuant to Section 12(g) of the Act:

COMMON SHARES, PAR VALUE \$5.00 PER SHARE  
PREFERRED SHARE PURCHASE RIGHTS  
CUMULATIVE PREFERRED SHARES, WITHOUT PAR VALUE  
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. (Yes X No )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ( )

State the aggregate market value of the voting stock held by nonaffiliates of the registrant. \$705,515,968 AS OF MARCH 1, 2002

Indicate the number of shares outstanding of each of the registrant's classes of Common Stock, as of the latest practicable date: 24,671,429 COMMON SHARES (\$5 PAR VALUE) AS OF MARCH 1, 2002.

Documents Incorporated by Reference:

2001 ANNUAL REPORT TO SHAREHOLDERS-PORIONS INCORPORATED BY REFERENCE INTO PARTS I AND II

PROXY STATEMENT DATED MARCH 1, 2002-PORIONS INCORPORATED BY REFERENCE INTO PART III

Item 1. BUSINESS

(a) General Development of Business

Otter Tail Corporation was incorporated in 1907 under the laws of the State of Minnesota. The Company's principal executive office is located at 215 South Cascade Street, Box 496, Fergus Falls, Minnesota 56538-0496; its telephone number is (218) 739-8200. In 2001, the shareholders approved changing the corporate name from "Otter Tail Power Company" to "Otter Tail Corporation." The name Otter Tail Power Company continues to be used in connection with the electric utility.

Otter Tail Corporation and its subsidiaries (the Company) have operations in 48 states and 6 Canadian provinces. The businesses of the Company have been classified into five segments: Electric, Plastics, Manufacturing, Health Services and Other Business Operations.

- Electric (the Utility) includes the production, transmission, distribution and sale of electric energy in Minnesota, North Dakota and South Dakota. The electric utility operations have been the Company's primary business since incorporation. Since 1990, the Company has diversified and made significant investments in the other segments.
- Plastics consists of businesses producing polyvinyl chloride (PVC) pipe in the Upper Midwest and Southwest regions of the United States.
- Manufacturing consists of businesses in the following manufacturing activities: production of wind towers, frame-straightening equipment and accessories for the auto repair industry, custom plastic pallets, material and handling trays horticultural containers, fabrication of steel products, contract machining and metal parts stamping and fabrication. These businesses are located primarily in the Upper Midwest and Utah.
- Health Services consists of businesses involved in the sale of diagnostic medical equipment, supplies and accessories. These businesses also provide service maintenance, mobile diagnostic imaging, mobile positron emission tomography (PET) and nuclear medicine imaging, portable x-ray imaging and interim rental of diagnostic medical imaging equipment to various medical institutions located in 32 states.
- Other Business Operations consist of businesses in electrical and telephone construction contracting, transportation, telecommunications, entertainment and energy services and natural gas marketing as well as the portion of corporate administrative and general expenses that are not allocated to other segments. These businesses operate primarily in the Upper Midwest, except for the transportation company which operates in 48 states and 6 Canadian provinces.

Substantially all of the businesses except for the Utility, energy services and the natural gas marketing operation are owned by the Company's wholly-owned subsidiary Varistar Corporation (Varistar), with its principal executive offices in Fargo, North Dakota.

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The Company continues to investigate acquisitions of additional non-electric businesses and expects continued growth in this area. The following acquisitions were completed during 2001:

- On February 28, 2001 the Company acquired the stock of T.O. Plastics, Inc. with three facilities in Minnesota and one facility in South Carolina. T. O. Plastics, Inc. custom manufactures returnable pallets, material and handling trays and horticultural containers.
- The Company acquired the assets and operations of Interim Solutions and Sales, Inc. and Midwest Medical Diagnostics, Inc. on September 4, 2001. These companies are located in Minneapolis, Minnesota and provide mobile diagnostic imaging services on an interim basis for computed tomography and magnetic resonance imaging. In addition they offer fee-per-exam options as well as sales of previously owned diagnostic imaging equipment.

- On September 10, 2001 the Company acquired the assets and operations of Nuclear Imaging, Ltd. of Sioux Falls, South Dakota. This company provides mobile nuclear medicine, positron emission tomography and bone densitometry services to health care facilities in Iowa, Kansas, Minnesota, Nebraska, North Dakota, South Dakota and Wyoming.
- The Company acquired the stock of St. George Steel Fabrication, Inc. on September 28, 2001. St. George Steel is a fabricator of steel products engaged in custom and proprietary operations located in St. George, Utah.
- On November 1, 2001 the Company acquired the assets and operations of Titan Steel Corporation located in Salt Lake City, Utah. Titan is a fabricator of steel products engaged in custom operations.

For a discussion of the Company's results of operations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is incorporated by reference to pages 20 through 29 of the Company's 2001 Annual Report to Shareholders, filed as an Exhibit hereto.

(b) Financial Information About Industry Segments

The Company is engaged in businesses that have been classified into five segments: Electric, Plastics, Manufacturing, Health Services and Other Business Operations. Financial information about the Company's segments is incorporated by reference to note 2 of "Notes to Consolidated Financial Statements" on pages 38 through 40 of the Company's 2001 Annual Report to Shareholders, filed as an Exhibit hereto.

(c) Narrative Description of Business

ELECTRIC

General

The Company derived 47 percent of its consolidated operating revenues from the Electric segment in 2001; 45 percent in 2000; and 48 percent in 1999. In 2001 approximately 50.9 percent of retail electric revenues came from Minnesota, 41.2 percent from North Dakota and 7.9 percent from South Dakota, compared to 50.6 percent from Minnesota, 41.5 percent from North Dakota and 7.9 percent from South Dakota for 2000.

The territory served by the Utility is predominantly agricultural, including a part of the Red River Valley. Although there are relatively few

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large customers, sales to commercial and industrial customers are significant. By customer category, 26.6 percent of 2001 electric revenue was derived from commercial customers, 23.4 percent from residential customers, 15.4 percent from industrial customers and 34.6 percent from other sources, including municipalities, farms and wholesale sales. For 2000 electric revenue by category was: 28.9 percent from commercial customers, 26.1 percent from residential, 16.1 percent from industrial and 28.9 percent from other sources.

Wholesale sales increased from 38.3 percent of total kwh sales in 2000 to 44 percent of total 2001 kwh sales. The increase in wholesale sales is the result of the Utility's increased activity and involvement in wholesale markets. Activity in the short-term energy market is subject to change based on a number of factors and it is difficult to predict the quantity of wholesale power sales or prices for wholesale power in the future. However, the Company expects that market conditions for wholesale power transactions will be depressed during 2002.

The aggregate population of the Utility's retail electric service area is approximately 230,000. In this service area of 423 communities and adjacent rural areas and farms, approximately 130,900 people live in communities having a population of more than 1,000, according to the 2000 census. The only communities served which have a population in excess of 10,000 are Jamestown, North Dakota (15,527); Fergus Falls, Minnesota (13,471); and Bemidji, Minnesota (11,917). As of December 31, 2001, the Utility serves 126,618 customers. This is a decrease of 132 customers from December 31, 2000.

Capability and Demand

At December 31, 2001, the Utility had base load net plant capability totaling 563,200 kw, consisting of 252,575 kw from the jointly-owned Big Stone Plant (constituting the Utility's 53.9 percent share of the plant's total capability), 155,375 kw from the Hoot Lake Plant (owned solely by the Utility),

149,450 kw from the jointly-owned Coyote Station (constituting the Utility's 35 percent share of the station's total capability), and, under contract, 5,800 kw from a co-generation plant near Bemidji, Minnesota. In addition to its base load capability, the Utility has combustion turbine and small diesel units, used chiefly for peaking and standby purposes, with a total capability of 93,078 kw, and hydroelectric capability of 4,365 kw. During 2001, the Utility generated about 85 percent of its retail kwh sales and purchased the balance.

The Utility has made arrangements to help meet its future base load requirements and continues to investigate other means for meeting such requirements. The Utility plans to install a gas-fired combustion turbine to be operational by June 1, 2003. The unit will generate between 40,000 and 50,000 kw. The Utility has an agreement with another utility for the annual exchange of 75,000 kw of seasonal capacity which runs through October 2004. The Utility has an agreement to purchase 50,000 kw of year-round capacity which extends through April 30, 2005 and another agreement to purchase 50,000 kw of year-round capacity through April 30, 2010 from another utility. The Utility also has seasonal capacity agreements to purchase 50,000 kw for the summer 2002. The Utility has a direct control load management system, which provides some flexibility to the Utility to effect reductions of peak load. The Utility, in addition, offers rates to customers which encourage off-peak usage.

The Utility traditionally experiences its peak system demand during the winter season. For the year ended December 31, 2001, the Utility experienced a system peak demand of 630,262 kw on February 16, 2001. The highest sixty-minute peak demand ever was 642,826 kw on December 14, 2000. The Utility's capability of meeting system demand at the time of the peak in February 2001, including power purchase agreements, its own generating capacity and reserve requirements computed in accordance with accepted industry practice, amounted to 837,020 kw. The Utility's additional capacity available under power purchase contracts (as

described above), combined with generating capability and load management control capabilities, is expected to meet 2002 system demand, including industry reserve requirements.

Fuel Supply

Coal is the principal fuel burned at the Big Stone, Coyote and Hoot Lake generating plants. Coyote, a mine-mouth facility, burns North Dakota lignite coal. Hoot Lake and Big Stone plants burn western subbituminous coal. The following table shows, for 2001, the sources of energy used to generate the Utility's net output of electricity:

| Sources                  | Net Kilowatt<br>Hours<br>Generated<br>(Thousands) | % of Total<br>Kilowatt<br>Hours<br>Generated |
|--------------------------|---|--|
| -----                    | -----   | -----  |
| Subbituminous Coal ..... | 2,663,298   | 70.7%  |
| Lignite Coal .....       | 1,075,545   | 28.6   |
| Hydro .....              | 23,531  | .6   |
| Oil .....                | 2,891   | .1   |
|                          | -----   | -----  |
| Total .....              | 3,765,265   | 100.0%                                       |
|                          | =====   | =====  |

The Utility has a primary coal supply agreement with RAG Coal West, Inc. for the supply of Wyoming subbituminous coal to Big Stone Plant for 2002-2004. Purchases are made for the supply of subbituminous coal for the Hoot Lake Plant under a contract with Kennecott Coal Sales Company expiring June 30, 2004. A lignite coal contract with Dakota Westmoreland Corporation for the Coyote Station expires in 2016, with a 15-year renewal option subject to certain contingencies.

It is the Utility's practice to maintain minimum 30-day inventory (at full output) of coal at the Big Stone Plant, a 20-day inventory at the Coyote Station and a 10-day inventory at the Hoot Lake Plant.

The Utility has two coal transportation agreements with The Burlington Northern and Santa Fe Railway Company. The first agreement is for transportation services to the Big Stone Plant which ran through 2001. Effective January 1, 2002 transportation services to the Big Stone Plant are being provided under a common carrier rate. A complaint in regards to this rate has been filed with the Surface Transportation Board. The second agreement is for Hoot Lake Plant which

expires in mid-2004. No coal transportation agreement is needed for the Coyote Station due to its location next to a coal mine.

The average cost of coal consumed (including handling charges to the plant sites) per million BTU for each of the three years 2001, 2000 and 1999 was \$1.014, \$.994 and \$.956, respectively.

The Utility is permitted by the State of South Dakota to burn some alternative fuels, including tire derived fuel, at the Big Stone Plant. The quantity of alternative fuel burned at the Big Stone Plant is insignificant when compared to the total annual coal consumption at the Big Stone Plant.

General Regulation

The Utility is subject to regulation of rates and other matters in each of the three states in which it operates and by the federal government for certain interstate operations. A breakdown of electric rate regulation by each jurisdiction is as follows:

| Rates<br>-----                     | Regulation<br>-----                     | Year Ended<br>December 31, 2001<br>----- |                            |
|------------------------------------|---|--|----------------------------|
|                                    |   | % of<br>Electric<br>Revenues<br>-----    | % of kwh<br>Sales<br>----- |
| MN retail sales                    | MN Public Utilities<br>Commission       | 33.8%                                    | 29.3%                      |
| ND retail sales                    | ND Public Service<br>Commission         | 27.4                                     | 22.4                       |
| SD retail sales                    | SD Public Utilities<br>Commission       | 5.3                                      | 4.3                        |
| Transmission & sales<br>for resale | Federal Energy Regulatory<br>Commission | 33.5<br>-----                            | 44.0<br>-----              |
|                                    |   | 100.0%                                   | 100.0%                     |
|                                    |   | =====                                    | =====                      |

The Utility has approved tariffs in all three states which it serves for lower rates for residential demand control and controlled service, in Minnesota and North Dakota for real-time pricing, and in North Dakota and South Dakota for bulk interruptible rates. Each of these special rates is designed to improve efficient use of the Utility facilities, while encouraging use of cost-effective electricity instead of other fuels and giving customers more control over the size of their electric bill. In addition, in all three states, the Utility has approved tariffs which allow qualifying customers to release and sell energy back to the Utility when wholesale energy prices make such transactions desirable.

The majority of the Utility's electric retail rate schedules now in effect provide for adjustments in rates based on the cost of fuel delivered to the Utility's generating plants, as well as for adjustments based on the cost of electric energy purchased by the Company. Such adjustments are presently based on a two-month moving average in Minnesota and under FERC, a three-month moving average in South Dakota, and a four-month moving average in North Dakota and are applied to the next billing after becoming applicable.

The following summarizes the material regulations of each jurisdiction applicable to the Utility's electric operations, as well as the specific electric rate proceedings during the last three years with the Minnesota Public Utilities Commission (MPUC), the North Dakota Public Service Commission (NDPSC), the South Dakota Public Utilities Commission (SDPUC) and the Federal Energy Regulatory Commission (FERC):

Minnesota: Under the Minnesota Public Utilities Act, the Utility is subject to the jurisdiction of the MPUC with respect to rates, issuance of securities, depreciation rates, public utility services, construction of major utility facilities, establishment of exclusive assigned service areas, contracts and arrangements with subsidiaries and other affiliated interests, and other matters. The MPUC has the authority to assess the need for large energy

facilities and to issue or deny certificates of need, after public hearings, within six months of an application to construct such a facility. The Utility has not had a significant rate proceeding before the MPUC since July 1987.

The Department of Commerce (DOC) is responsible for investigating all matters subject to the jurisdiction of the DOC or the MPUC, and for the

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enforcement of MPUC orders. Among other things, the DOC is authorized to collect and analyze data on energy and the consumption of energy, develop recommendations as to energy policies for the governor and the legislature of Minnesota and evaluate policies governing the establishment of rates and prices for energy as related to energy conservation. The DOC acts as a state advocate in matters heard before the MPUC. The DOC also has the power, in the event of energy shortage or for a long-term basis, to prepare and adopt regulations to conserve and allocate energy.

Under Minnesota law, every regulated public utility that furnishes electric service must make annual investments and expenditures in energy conservation improvements, or make a contribution to the state's energy and conservation account, in an amount equal to at least 1.5 percent of its gross operating revenues from service provided in Minnesota. The DOC may require the utility to make investments and expenditures in energy conservation improvements whenever it finds that the improvement will result in energy savings at a total cost to the utility less than the cost to the utility to produce or purchase an equivalent amount of a new supply of energy. Such DOC orders are appealable to the MPUC. Investments made pursuant to such orders generally are recoverable costs in rate cases, even though ownership of the improvement may belong to the property owner rather than the utility. Since 1995, the Utility has recovered demand-side management related costs not included in base rates, under Minnesota's Conservation Improvement Programs, through the use of an annual recovery mechanism approved by the MPUC.

The MPUC requires the submission of a 15-year advance integrated resource plan by utilities serving at least 10,000 customers, either directly or indirectly, and having at least 100 megawatts of load. The MPUC's findings and orders with respect to these submissions are binding for jurisdictional utilities. Typically, the filings are submitted every two years. The Utility's most recent plan was submitted to the MPUC in 1999, and was approved, without modifications, early in 2000. The MPUC also granted the Utility a one-year waiver in submitting its next integrated resource plan, which will be completed in 2002.

The Minnesota legislature has enacted a statute that favors conservation over the addition of new resources. In addition, it has mandated the use of renewable resources where new supplies are needed, unless the utility proves that a renewable energy facility is not in the public interest. It has effectively prohibited the building of new nuclear facilities. The environmental externality law requires the MPUC, to the extent practicable, to quantify the environmental costs of each type of generation, and to use such monetized values in evaluating resource plans. The MPUC must disallow any nonrenewable rate base additions (whether within or outside of the state) or any rate recovery therefrom, and may not approve any nonrenewable energy facility in an integrated resource plan, unless the utility proves that a renewable energy facility is not in the public interest. The state has prioritized the acceptability of new generation with wind and solar ranked first and coal and nuclear ranked fifth, the lowest ranking.

Pursuant to the Minnesota Power Plant Siting Act, the Minnesota Environmental Quality Board (EQB) has been granted the authority to regulate the siting in Minnesota of large electric power generating facilities in an orderly manner compatible with environmental preservation and the efficient use of resources. To that end, the EQB is empowered, after study, evaluation, and hearings, to select or designate in Minnesota sites for new electric power generating plants (50,000 kw or more) and routes for transmission lines (100 kv or more) and to certify such sites and routes as to environmental compatibility.

The Minnesota Legislature passed an energy bill in 2001. Its primary focus was to streamline the siting and routing processes for the construction of new electric generation and transmission projects. The bill also added to utility requirements for renewable energy and energy conservation.

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North Dakota: The Utility is subject to the jurisdiction of the NDPSC with respect to rates, services, certain issuances of securities and other matters. The NDPSC periodically performs audits of gas and electric utilities over which it has rate setting jurisdiction to determine the reasonableness of overall rate levels. In the past, these audits have occasionally resulted in

settlement agreements adjusting rate levels. The North Dakota Energy Conversion and Transmission Facility Siting Act grants the NDPSC the authority to approve sites in North Dakota for large electric generating facilities and high voltage transmission lines. This Act is similar to the Minnesota Power Plant Siting Act described above and affects new electric power generating plants of 50,000 kw or more and new transmission lines of more than 115 kv. The Utility is required to submit a ten-year plan to the NDPSC annually.

On December 29, 2000, the NDPSC approved a performance-based ratemaking (PBR) plan that links allowed earnings in North Dakota to seven performance standards in the areas of price, electric service reliability, customer satisfaction and employee safety. The PBR plan is in place for 2001 through 2005, unless suspended or terminated by the NDPSC or the Utility. This PBR plan provides the opportunity for the utility to raise its allowed rate of return and shares income with customers when earnings exceed the allowed return. In 2001 the Utility recorded an estimated \$334,000 refund to North Dakota customers based on 2001 earnings and the Utility's 2001 performance relative to the defined standards of the performance-based ratemaking plan.

On October 6, 1999, the NDPSC approved a settlement agreement following an audit of the Utility's electric operations in North Dakota. The effect of this settlement decreased 1999 earnings by approximately \$441,000 after taxes or \$0.02 per share. As part of the settlement the Utility was required to refund to North Dakota customers during 2000 any 1999 regulated electric operations earnings from North Dakota over a 12.5 percent return on equity. The amount of this refund was insignificant.

South Dakota: The South Dakota Public Utilities Act subjects the Utility to the jurisdiction of the SDPUC with respect to rates, public utility services, establishment of assigned service areas, and other matters. The Utility is currently exempt from the jurisdiction of the SDPUC with respect to the issuance of securities. Under the South Dakota Energy Facility Permit Act, the SDPUC has the authority to approve sites in South Dakota for large energy conversion facilities (100,000 kw or more) and transmission lines of 115 kv or more. There have been no significant rate proceedings in South Dakota since November 1987.

FERC: Wholesale power sales and transmission rates are subject to the jurisdiction of the FERC under the Federal Power Act of 1935, as amended (FPA). The FERC is an independent agency which has jurisdiction over rates for sales for resale, transmission and sale of electric energy in interstate commerce, interconnection of facilities, and accounting policies and practices. Filed rates are effective after a one-day suspension period, subject to ultimate approval by the FERC. The Utility is a member of the Mid-Continent Area Power Pool (MAPP), which operates in parts of eight states in the Upper Midwest and in three provinces in Canada. Power pool sales are conducted continuously through MAPP in accordance with schedules filed by MAPP with the FERC. Additional MAPP functions include a regional reliability council that maintains generation reserve sharing requirements.

In December 1999 the FERC issued Order No. 2000. This order required public utilities that own, operate or control interstate transmission to file by October 15, 2000, a proposal for a regional transmission organization (RTO) or a description of any effort made to participate in an RTO, the reasons for not participating and any plans for further work toward participation. The goal is to consolidate control of the transmission industry into a new structure of independent regional grid operators.

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The Utility agreed in October 2001 to join the Indianapolis-based Midwest Independent System Operator (MISO) RTO. In December 2001, the MISO received FERC approval as a regional transmission organization. The MISO began operational control of the Utility's transmission facilities above 100 kv on February 1, 2002. The Utility continues to own and maintain its transmission assets as before. As the Utility transitions to the full operation of the MISO there could be short-term negative impacts on wholesale power transactions.

Other: The Utility is subject to various federal and state laws, including the Federal Public Utility Regulatory Policies Act and the Energy Policy Act of 1992, and energy reform legislation that is currently pending before the United States Congress, which are intended to promote the conservation of energy and the development and use of alternative energy sources.

The Utility is unable to predict the impact on its operations resulting from future regulatory activities by any of the above agencies, from any future legislation or from any future tax that may be imposed upon the source or use of energy.

#### Deregulation and Legislation

The United States Congress ended its 2001 legislative session without taking action on proposed electric industry restructuring legislation. There was

no legislative action regarding electric retail choice during 2001 in any of the states where the electric utility serves, and no major electricity legislation is expected in 2002 state legislative sessions. The Company does not expect retail competition to come to the States of Minnesota, North Dakota or South Dakota in the foreseeable future unless there is a federal effort to accomplish this.

#### Competition

Electric sales are subject to competition in some areas from municipally owned systems, rural electric cooperatives and, in certain respects, from on-site generators and cogenerators. Electricity also competes with other forms of energy. The degree of competition may vary from time to time depending on relative costs and supplies of other forms of energy. The Utility may also face competition as the restructuring of the electric industry evolves.

The Company believes the Utility is well positioned to be successful in a more competitive environment. The Utility's generation capacity appears poised for competition due to unit heat rate improvements. A comparison of the Utility's electric retail rates to the rates of other investor-owned utilities, cooperatives and municipals in the states the Utility serves indicates that the Utility's rates are competitive. In addition, the Utility would attempt more flexible pricing strategies under an open, competitive environment. Legislative and regulatory activity could affect operations in the future. The Utility cannot predict the timing or substance of any future legislation or regulation.

#### Environmental Regulation

Impact of Environmental Laws: The Utility's existing generating plants are subject to stringent federal and state standards and regulations regarding, among other things, air, water and solid waste pollution. The Utility estimates it has expended in the five years ended December 31, 2001, approximately \$1.9 million for environmental control facilities. Included in the 2002-2006 construction budget are approximately \$8.2 million for environmental equipment for existing and new facilities, including \$2.9 million for 2002.

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Air Quality: Pursuant to the Federal Clean Air Act of 1970 as amended (the Act), the United States Environmental Protection Agency (EPA) has promulgated national primary and secondary standards for certain air pollutants.

All primary fuel burned by the Utility's steam generating plants is North Dakota lignite or western subbituminous coal. Electrostatic precipitators have been installed at the principal units at the Hoot Lake Plant and at the Big Stone Plant. A fabric filter to collect particulates from stack gases has been installed on a smaller unit at Hoot Lake Plant. As a result, the units at the Big Stone Plant and the Hoot Lake Plant currently meet all presently applicable federal and state air quality and emission standards.

The Utility is planning to further improve the fine particulate emissions control at Big Stone Plant by replacing a major portion of the plant's electrostatic precipitator in the third quarter of 2002. The replacement technology will be an Advanced Hybrid Particulate Collector technology that will be installed as part of a demonstration project co-funded by the Department of Energy's National Energy Technology Laboratory Power Plant Improvement Initiative. The technology is designed to capture at least 99.99% of the fly ash particulates emitted from the boiler. The Energy Department cost share is \$6.5 million for the \$13.4 million project. The Utility's share of the project is approximately \$2.9 million with the remaining portion funded by the Big Stone Plant co-owners and other industry participants.

The Coyote Station is substantially the same design as the Big Stone Plant, except for site-related items and the inclusion of sulfur dioxide removal equipment. The removal equipment--referred to as a dry scrubber--consists of a spray dryer, followed by a fabric filter, and is designed to desulfurize hot gases from the stack without producing sludge, an unwanted by-product of a conventional wet scrubber system. The Coyote Station is currently operating within all presently applicable federal and state air quality and emission standards.

The Act, in addressing acid deposition, imposed requirements on power plants in an effort to reduce national emissions of sulfur dioxide (SO<sub>2</sub>) and nitrogen oxides (NO<sub>x</sub>).

The national SO<sub>2</sub> emission reduction goals are achieved through a new market-based system under which power plants are allocated "emissions allowances" that will require plants to either reduce their emissions or acquire allowances from others to achieve compliance. Each allowance is an authorization to emit one ton of sulfur dioxide. Sulfur dioxide emission requirements are currently being met by all of the Utility's generating facilities.

The national NO<sub>x</sub> emission reduction goals are to be achieved by imposing mandatory emissions standards on individual sources. All of the



Utility's generating facilities met the NOx standards during 2001. Hoot Lake Plant unit 2 is governed by the phase one early opt-in provision until January 1, 2008. The remaining generating units meet the NOx emission regulations that were adopted by the EPA in December 1996.

The Act calls for EPA studies of the effects of emissions of listed pollutants by electric steam generating plants. The EPA has completed the studies and sent reports to Congress. The Act required that the EPA make a finding as to whether regulation of emissions of hazardous air pollutants from fossil fuel-fired electric utility generating units is appropriate and necessary. On December 14, 2000, the EPA announced that it affirmatively decided to regulate mercury emissions from electric generating units. The EPA expects to propose regulations by December 2003 and issue final rules by December 2004. Because promulgation of rules by the EPA has not been

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completed, it is not possible to assess whether, or to what extent, this regulation will impact the Utility.

In 1998, EPA announced its New Source Review Enforcement Initiative targeting coal-fired utilities, petroleum refineries, pulp and paper mills and other industries for alleged violations of EPA's New Source Review rules. These rules require owners or operators that construct new major sources or make major modifications to existing sources to obtain permits and install air pollution control equipment at affected facilities. The EPA is attempting to determine if emission sources violated certain provisions of the Act by making major modifications to their facilities without installing state-of-the-art pollution controls. On January 2, 2001, the Utility received a request from the EPA, pursuant to Section 114(a) of the Act, to provide certain information relative to past operation and capital construction projects at the Big Stone Plant. The Utility has responded to that request and cannot, at this time, determine what, if any, actions will be taken by the EPA.

Water Quality: The Federal Water Pollution Control Act Amendments of 1972, and amendments thereto, provide for, among other things, the imposition of effluent limitations to regulate discharges of pollutants, including thermal discharges, into the waters of the United States, and the EPA has established effluent guidelines for the steam electric power generating industry. Discharges must also comply with state water quality standards.

The Utility has all federal and state water permits presently necessary for the operation of the Big Stone Plant. Water discharge permits for the Hoot Lake Plant and Coyote Station were renewed in 1997 and 1998, respectively, each for a five-year term. The Utility has filed, in a timely manner, the permit renewal application for Hoot Lake Plant and it believes it will receive a renewed permit in due course. The Utility owns five small dams on the Otter Tail River, which are subject to FERC licensing requirements. A license for all five dams was issued on December 5, 1991. Total nameplate rating of the five dams is 3,450 kw.

Solid Waste: Permits for disposal of ash and other solid wastes have been issued for the Coyote Station. Renewal permits are pending for Big Stone Plant and Hoot Lake Plant. The Utility has complied with all the requirements for the renewals and expects the permits to be granted. The Utility estimates that the current ash disposal site at the Hoot Lake Plant will be filled to capacity within approximately two years. The Utility is evaluating its options, including increased marketing of the ash for construction purposes and building a new ash disposal site adjacent to the current site within the same permitted area. An estimate of the engineering costs required to construct a new facility has been completed. On that basis, the Utility believes that the investment required will not have a significant impact on future plant operating costs.

At the request of the Minnesota Pollution Control Agency (MPCA) the Utility has an ongoing investigation at its former, closed Hoot Lake Plant ash disposal sites. The Utility is proceeding with additional site investigations with the findings subject to further review by the MPCA.

The EPA has promulgated various solid and hazardous waste regulations and guidelines pursuant to, among other laws, the Resource Conservation and Recovery Act of 1976, the Solid Waste Disposal Act Amendments of 1980 and the Hazardous and Solid Waste Amendments of 1984, which provide for, among other things, the comprehensive control of various solid and hazardous wastes from generation to final disposal. The States of Minnesota, North Dakota and South Dakota have also adopted rules and regulations pertaining to solid and hazardous waste. The total impact on the Utility of the various solid and hazardous waste statutes and regulations enacted by the federal government or the States of Minnesota, North Dakota and South Dakota is not certain at this time. To date, the Utility has incurred no significant costs as a result of these laws.

In 1980, the United States enacted the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as the Federal Superfund law, which was reauthorized and amended in 1986. In 1983, Minnesota adopted the Minnesota Environmental Response and Liability Act, commonly known as the Minnesota Superfund law. In 1988, South Dakota enacted the Regulated Substance Discharges Act, commonly known as the South Dakota Superfund law. In 1989, North Dakota enacted the Environmental Emergency Cost Recovery Act. Among other requirements, the federal and state acts establish environmental response funds to pay for remedial actions associated with the release or threatened release of certain regulated substances into the environment. These federal and state Superfund laws also establish liability for cleanup costs and damage to the environment resulting from such release or threatened release of regulated substances. The Minnesota Superfund law also creates liability for personal injury and economic loss under certain circumstances. The Utility is unable to determine the total impact of the Superfund laws on its operations at this time but has not incurred any significant costs to date related to these laws.

The Federal Toxic Substances Control Act of 1976 regulates, among other things, polychlorinated biphenyls (PCBs). The EPA has enacted regulations concerning the use, storage and disposal of PCBs. The Utility completed a program for the removal of PCB-filled transformers and capacitors. The Utility is also completing an additional program for the removal of PCB-contaminated mineral oil dielectric fluid from substation transformers and voltage regulators that were identified in 2000. The Utility continues to remove such oil from other electrical equipment.

Health Effects of Electric and Magnetic Fields (EMF): A number of studies have examined the possibility of adverse health effects from EMF without conclusive results. Although research conducted to date has found no conclusive evidence that EMF affects health, a few studies have suggested a possible connection with cancer. The utility industry continues to fund studies. The ultimate impact, if any, of this issue on the Utility and the electric utility industry is impossible to predict.

#### Capital Expenditures

The Utility is continually expanding, replacing and improving its electric facilities. During 2001, approximately \$35.0 million was invested for additions and replacements to its electric utility properties. During the five years ended December 31, 2001, gross electric property additions, including construction work in progress, were approximately \$126.5 million and gross retirements were approximately \$45.1 million.

The Utility estimates that during the five years 2002 through 2006 it will invest approximately \$157 million for electric construction. The Utility continuously reviews options for increasing its generating capacity. While at this time the Utility has no firm plans for additional base load generating plant construction, the Utility plans to install a gas-fired combustion turbine to be operational by June 1, 2003. The majority of electric utility expenditures for the five-year period 2002 through 2006 will be for work related to the Utility's production plants and distribution system.

#### Franchises

At December 31, 2001, the Utility had franchises in all of the 371 incorporated municipalities that it serves. All franchises are nonexclusive and generally were obtained for 20-year terms, with varying expiration dates. No franchises are required to serve unincorporated communities in any of the three states that the Utility serves.

## PLASTICS

### General

Plastics consists of businesses producing polyvinyl chloride (PVC) pipe. The Company derived 10 percent of its consolidated operating revenues from this segment in 2001, 14 percent in 2000 and 6 percent in 1999.

The following is a brief description of these businesses:

Northern Pipe Products, Inc., located in Fargo, ND, manufactures and sells PVC pipe for municipal, rural water, irrigation and other uses in a fifteen-state area.

Vinyltech Corporation, located in Phoenix, AZ, manufactures and sells PVC pipe for municipal, rural water, irrigation and other uses in a nine-state area of the West and Southwest region of the United States.

Together these companies have the capacity to produce 170 million pounds of PVC pipe annually.

#### Competition

The plastic pipe industry is highly fragmented and competitive, due to the large number of producers, small number of raw material suppliers and the commodity nature of the industry. Because of shipping costs, competition is usually regional, instead of national, in scope. Northern Pipe and Vinyltech compete not only against other plastic pipe manufacturers, but also ductile iron, steel, concrete and clay pipe producers. Pricing pressure will continue to effect operating margins in the future.

Northern Pipe and Vinyltech intend to continue to compete on the basis of their high quality products, cost effective production techniques and close customer relations and support.

#### Manufacturing and Resin Supply

Extrusion is a common manufacturing process used in the production of PVC. During the production process, the PVC compound is placed in an extrusion machine, where it is heated into a plastic state and pulled through a sizing apparatus to produce the pipe. The newly extruded pipe is moved through a water cooling trough, marked to identify the type of pipe and cut to length. Warehouse and outdoor storage facilities are used to store the finished product. Inventory is shipped from storage to customers primarily by common carrier.

The PVC resins are acquired in bulk and shipped to point of use by rail car. Both Northern Pipe and Vinyltech have good relationships with their key raw material vendors.

Due to the commodity nature of PVC resin and PVC pipe and the dynamic supply and demand factors worldwide, historically the markets for both PVC resin and PVC pipe have been very cyclical with significant fluctuations in prices and gross margins. Over the last ten years, there has been consolidation in PVC resin producers and the capacity of the PVC resin producers has increased by over 75 percent.

#### Capital Expenditures

During 2001, capital expenditures of approximately \$1.6 million were made in the Plastics segment. Total capital expenditures during the five-year period 2002-2006 are estimated to be approximately \$12 million.

## MANUFACTURING

### General

Manufacturing consists of businesses in the following manufacturing activities: production of wind towers, frame-straightening equipment and accessories for the auto repair industry, custom plastic pallets, material and handling trays, horticultural containers, fabrication of steel products, contract machining, and metal parts stamping and fabrication. During 2001 three acquisitions were completed in this segment. In February, the Company acquired the stock of T. O. Plastics, Inc., in September the Company acquired the stock of St. George Steel Fabrication, Inc., and in November, the Company acquired the assets and operations of Titan Steel Corporation. Titan Steel became a division of St. George Steel Fabrication, Inc. after the acquisition. The Company derived 19 percent of its consolidated operating revenues from this segment in 2001, 17 percent in 2000 and 18 percent in 1999.

The following is a brief description of each of these businesses:

BTD Manufacturing, Inc. (BTD), located in Detroit Lakes, MN, is a metal stamping and tool and die manufacturer. BTD stamps, fabricates, welds and laser cuts metal components according to manufacturers' specifications primarily for the recreation vehicle, gas fireplace, health and fitness and enclosure industries.

Chassis Liner Corporation, located in Alexandria and Lucan, MN, manufactures and markets vehicle frame-straightening equipment and accessories used by the auto repair industry.

DMI Industries Inc. (formerly Dakota Machine, Inc.), located in West Fargo, ND, manufactures towers for the wind energy industry and equipment for the sugar-refining industry.

Precision Machine, Inc., located in West Fargo, ND and Pelican Rapids, MN, provides machining using CHC lathes and machining centers.

T. O. Plastics, Inc., located in Minneapolis and Clearwater, MN and

Hampton, SC, manufactures and sells plastic thermoformed products for the horticulture industry. In addition, T. O. Plastics produces products such as clamshell packing, blister packs, returnable pallets and handling trays for shipping and storing odd-shaped or difficult-to-handle parts for other industries.

St. George Steel Fabrication, Inc., located in St. George and Salt Lake City, Utah, fabricates structural steel members for buildings and bridges, ductwork for the power and refining industries, conveyors and hoppers for mining and industrial markets and plate steel products for the wind tower industry.

#### Competition

The various markets in which the Manufacturing segment entities compete are characterized by intense competition. These markets have many established manufacturers with broader product lines, greater distribution capabilities, greater capital resources and larger marketing, research and development staffs and facilities than the Company's manufacturing entities.

The Company believes the principal competitive factors in its Manufacturing segment are product performance, quality, price, ease of use, technical innovation, cost effectiveness, customer service and breadth of product line. The Company's manufacturing entities intend to continue to compete on the basis of their high performance products, innovative technologies, cost effective manufacturing techniques, close customer relations and support and their strategy of increasing product offerings.

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Some of the products sold by the companies in the Manufacturing segment are purchased by companies in the recreational vehicle, wind energy and auto repair market. A downturn in these markets could have an adverse impact on the financial results of the Company's manufacturing segment.

#### Legislation

On March 9, 2002, federal legislation was passed that extended the wind energy production tax credit through the end of 2003. Passage of this tax credit was significant to DMI Industries Inc. in that it will promote investment in the wind energy market.

#### Capital Expenditures

During 2001, capital expenditures of approximately \$10.5 million were made in the Manufacturing segment. Total capital expenditures for the Manufacturing segment during the five-year period 2002-2006 are estimated to be approximately \$49 million.

### HEALTH SERVICES

#### General

Health Services consists of the DMS Health Group, which is engaged in the sale, service, rental, refurbishing and operation of medical imaging equipment and the sale of related supplies and accessories to various medical institutions. During September 2001 the Company acquired the assets and operations of Interim Solutions and Sales, Inc., Midwest Medical Diagnostics, Inc., and Nuclear Imaging, Ltd. Interim Solutions and Sales, Inc. and Midwest Medical Diagnostics, Inc. were merged into DMS Imaging, Inc. Nuclear Imaging, Ltd. is a subsidiary of DMS Imaging, Inc. The Company derived 12 percent of its consolidated operating revenues from this segment in 2001, 11 percent in 2000 and 14 percent in 1999.

The companies comprising the DMS Health Group include:

DMS Health Technologies, Inc., located in Fargo, ND, and formally named Diagnostic Medical Systems, Inc., sells, services and refurbishes diagnostic medical imaging equipment and related supplies and accessories. DMS sells radiology equipment primarily manufactured by Philips Medical Systems (Philips), a large multi-national company based in the Netherlands. Philips manufactures fluoroscopic, radiographic and mammography equipment, along with ultrasound, computerized tomography (CT) scanners, magnetic resonance imaging (MRI) scanners and cardiac cath labs. DMS is also a supplier of medical film and related accessories. DMS markets mainly to hospitals, clinics and mobile service companies in North Dakota, South Dakota, Minnesota, Montana and Wyoming.

DMS Imaging, Inc., a subsidiary of DMS Health Technologies, Inc. located in Bemidji, MN, operates mobile and in-house diagnostic medical imaging equipment, including CT, MRI, Positron-Emission Tomography, nuclear medicine services and other similar radiology services to hospitals, clinics, long-term care facilities and other medical

providers located in 32 states.

Combined, the DMS Health Group covers the three basics of the medical imaging industry: (1) ownership and operation of the imaging equipment for health care providers; (2) sale, lease and/or maintenance of medical imaging equipment and related supplies; and (3) scheduling, billing and administrative support of medical imaging services.

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#### Regulation

The health care industry is subject to federal and state regulation relating to licensure, conduct of operation, ownership of facilities, addition of facilities and services and payment of services. There can be no assurance that the regulatory environment in which the Health Services companies operate will not change significantly in the future.

Numerous mandatory procedures, regulations and safety standards established by federal and state regulatory agencies must be met in order to operate the various diagnostic imaging devices. The states in which the companies operate require that imaging technologists be licensed or certified. A lapse in required licenses or certifications could adversely affect the Health Services companies' operations. In addition, DMS Imaging, Inc. is currently accredited by the Joint Commission on Accreditation of Healthcare Organizations, an independent, non-profit organization that accredits various types of health care providers such as hospitals, nursing homes and providers of diagnostic imaging services. In the health care industry, accreditation is needed to meet certain Medicare certification requirements, expedite third-party payments and fulfill state licensure requirements. Some managed care providers prefer to contract with accredited organizations.

In some states, a certificate of need or similar regulatory approval is required prior to the acquisition of high-cost capital items or services, including diagnostic imaging systems or provision of diagnostic imaging services by the companies or its customers. Certificate of need laws were enacted to contain rising health care costs, prevent the unnecessary duplication of health resources and increase patient access for health services. Certificate of need regulations may limit or preclude the companies from providing diagnostic imaging services or systems. Conversely, a repeal of existing certificate of need regulations in states where the Health Services companies have obtained a certificate of need, or the issuance of a certificate of need exemption for a competitor could adversely affect the Health Services companies' business.

The Company monitors developments in health care law and will modify its operations from time to time as the business and regulatory environment changes. There can be no assurance that the Company will be able to modify its operations so as to address changes in the regulatory environment.

#### Reimbursement

The companies in the Health Services segment derive most of their revenues directly from health care providers rather than third-party payors, such as Medicare, Medicaid or private health insurance companies. The Health Services' customers who are health care providers receive the majority of their payments from third-party payors. Payments by third-party payors depend upon their policies. Because unfavorable reimbursement policies have limited and may continue to limit the profit margins of hospitals and clinics the Health Services companies bill directly, it may be necessary to lower fees to retain existing customers and attract new ones.

#### Competition

The market for selling, servicing and operating diagnostic imaging services and imaging systems is highly competitive. In addition to direct competition from other contract providers, the companies within Health Services compete with free-standing imaging centers and health care providers that have their own diagnostic imaging systems and with equipment manufacturers that sell imaging equipment to health care providers for full-time installation. Some of the direct competitors, which provide contract MRI services, have access to greater financial resources than the health services companies. In addition, some of Health Services' customers are capable of providing the same services to their patients directly, subject only to their

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decision to acquire a high-cost diagnostic imaging system, assume the financial and technology risk, and employ the necessary technologies. The companies in the Health Services segment may also experience greater competition in states that currently have certificate of needs laws should these laws be repealed, reducing barriers to entry in that state. The companies within this segment compete

against other contract providers on the basis of quality of services, quality and magnetic field strength of imaging systems, relationships with health care providers, knowledge and service quality of technologists, price, availability and reliability.

#### Environmental, Health or Safety Laws

Positron emission tomography services and some other imaging services require the use of radioactive material. While this material has a short life and quickly breaks down into inert, or non-radioactive substances, using such materials presents the risk of accidental environmental contamination and physical injury. Federal, state and local regulations govern the storage, use and disposal of radioactive material and waste products. The Company believes that its safety procedures for storing, handling and disposing of these hazardous materials comply with the standards prescribed by law and regulation; however the risk of accidental contamination or injury from those hazardous materials cannot be completely eliminated. The companies in the Health Services segment have not had any material expenses related to environmental, health or safety laws or regulations.

#### Capital Expenditures

During 2001 capital expenditures of approximately \$3.3 million were made in the Health Services segment. Total capital expenditures during the five-year period 2002-2006 are estimated to be \$7 million. Operating leases are also used to finance the acquisition of medical equipment used by Health Services. Operating lease payments during the five-year period 2002-2006 are estimated to be \$37 million.

### OTHER BUSINESS OPERATIONS

#### General

Other Business Operations consists of businesses engaged in electrical and telephone construction contracting, transportation, telecommunications, entertainment, energy services and natural gas marketing as well as the portion of corporate administrative and general expenses that are not allocated to the other segments. The Company derived 12 percent of its consolidated operating revenues from these businesses in 2001, 13 percent in 2000 and 14 percent in 1999.

The following is a brief description of each of these businesses:

Aerial Contractors, Inc., located in West Fargo, ND, constructs and repairs overhead and underground electric distribution and transmission lines and substations and installs underground fiber-optic, copper and coaxial cable for the telecommunications industry.

Midwest Information Systems, Inc., headquartered in Parkers Prairie, MN, provides telephone, cable and internet services with over 9,700 access lines for phone, internet and cable television to homes in rural western Minnesota communities through its subsidiaries Midwest Telephone Company, Osakis Telephone Company, Peoples Telephone Company of Big Fork and Data Video Systems, Inc.

Moorhead Electric, Inc., located in Moorhead, MN, installs data cable for commercial and industrial computer networks, underground fiber-optic and copper cable for the telecommunications industry and provides electrical contracting for predesigned retail, commercial and industrial sites.

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Otter Tail Energy Services Company, headquartered in Fergus Falls, MN was established in 1997 to pursue opportunities in the natural gas and electricity markets. It offers technical services, engineering services, performance-based service contracting and financial services related to these products. In addition it installs, arranges financing for and maintains municipal and institutional lighting systems and retrofits plumbing fixtures to help large institutional customers conserve water. Otter Tail Energy Services Company owns one subsidiary, Otter Tail Energy Management Company, which is a marketer of natural gas to commercial and institutional customers in Iowa, South Dakota, North Dakota and Minnesota.

E. W. Wylie Corporation (Wylie), located in Fargo, ND, is a contract and common carrier operating a fleet of tractors and trailers in 48 states and 6 Canadian provinces.

#### General Regulation

The telephone subsidiaries are subject to the regulatory authority of the MPUC regarding rates and charges for telephone services, as well as other matters. The telephone subsidiaries must keep on file with the MPUC schedules of

such rates and charges, and any requests for changes in such rates and charges must be filed for approval by the MPUC. The telephone industry is also subject generally to rules and regulations promulgated by the FCC. The cable television subsidiary is regulated by federal and local authorities.

#### Competition

Each of the businesses in Other Business Operations is subject to competition, as well as the effects of general economic conditions, in their respective industries. The trucking industry, in which Wylie competes, is highly competitive. Wylie competes primarily with other short- to medium-haul, flatbed truckload carriers, internal shipping conducted by existing and potential customers and, to a lesser extent, railroads. Competition for the freight transported by Wylie is based primarily on service and efficiency and to a lesser degree, on freight rates. There are other trucking companies that have greater financial resources, operate more equipment or carry a larger volume of freight than Wylie and these companies compete with Wylie for qualified drivers.

#### Capital Expenditures

During 2001, capital expenditures of approximately \$3.2 million were made in Other Business Operations. Capital expenditures during the five-year period 2002-2006 are estimated to be approximately \$24 million for Other Business Operations.

#### FINANCING

The Company estimates funds internally generated net of forecasted dividend payments, combined with funds on hand, will be sufficient to meet scheduled debt retirements and almost completely provide for its estimated 2002 through 2006 consolidated capital expenditures. Reduced demand for electricity or in the products manufactured and sold by the Company could have an effect on funds internally generated. Additional short-term or long-term financing will be required in the period 2002 through 2006 in order to complete the planned capital expenditures, in the event the Company decides to refund or retire early any of its presently outstanding debt or Cumulative Preferred Shares, to complete acquisitions, or for other corporate purposes.

The foregoing estimates of capital expenditures and funds internally generated may be subject to substantial changes due to unforeseen factors, such as changed economic conditions, interest rates, demand for energy,

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availability of energy within the power pool, cost of capacity charges relative to cost of new generation, competitive conditions, technological changes, acquisitions or divestitures of subsidiary companies, new environmental and other governmental regulations, tax law changes and utility regulation. There can be no assurance that any additional required financing will be available through bank borrowings, debt or equity financing or otherwise, or that if such financing is available, it will be available on terms acceptable to the Company.

The Company has access to short-term borrowing resources. As of December 31, 2001, the Company had unused credit lines totaling \$42.0 million.

#### EMPLOYEES

The Company had approximately 2,626 full-time employees at December 31, 2001. A total of 430 employees are represented by local unions of the International Brotherhood of Electrical Workers, of which 354 are employees of the Electric segment and are covered by a three-year labor contract expiring November 1, 2002. The Company has not experienced any strike, work stoppage, or strike vote, and considers its present relations with employees as very good.

#### Forward Looking Information - Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the Act), the Company has filed cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those discussed in forward-looking statements made by or on behalf of the Company. When used in this Form 10-K and in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and in oral statements, words such as "may", "will", "expect", "anticipate", "continue", "estimate", "project", "believes" or similar expressions are intended to identify forward-looking statements within the meaning of the Act. Factors that might cause such differences include, but are not limited to, governmental and regulatory action, the competitive environment, economic factors, weather conditions and other factors discussed under "Factors affecting future earnings" on pages 26 and 27 of the Company's 2001 Annual Report to Shareholders, filed as an Exhibit hereto. These factors are in addition to any other cautionary statements, written or

oral, which may be made or referred to in connection with any such forward-looking statement or contained in any subsequent filings by the Company with the Securities and Exchange Commission.

Item 2. PROPERTIES

The Coyote Station, which commenced operation in 1981, is a 414,000 kw (nameplate rating) mine-mouth plant located in the lignite coal fields near Beulah, North Dakota and is jointly owned by the Utility, Northern Municipal Power Agency, Montana-Dakota Utilities Co. and Northwestern Public Service Company. The Utility owns 35 percent of the plant and on July 1, 1998, became the operating agent of the Coyote Station.

The Utility, jointly with Northwestern Public Service Company and Montana-Dakota Utilities Co., owns the 414,000 kw (nameplate rating) Big Stone Plant in northeastern South Dakota which commenced operation in 1975. The Utility is the operating agent of Big Stone Plant and owns 53.9 percent of the plant.

Located near Fergus Falls, Minnesota, the Hoot Lake Plant is comprised of three separate generating units with a combined nameplate rating of 127,000

kw. The oldest Hoot Lake Plant generating unit was constructed in 1948 (7,500 kw nameplate rating) and a subsequent unit was added in 1959 (53,500 kw nameplate rating). A third unit was added in 1964 (66,000 kw nameplate rating) and later modified during 1988 to provide cycling capability, allowing this unit to be more efficiently brought on-line from a standby mode.

At December 31, 2001, the Utility's transmission facilities, which are interconnected with lines of other public utilities, consisted of 48 miles of 345 kv lines; 363 miles of 230 kv lines; 727 miles of 115 kv lines; and 4,146 miles of lower voltage lines, principally 41.6 kv. The Utility owns the uprated portion of the 48 miles of the 345 kv line, with Minnkota Power Cooperative retaining title to the original 230 kv construction.

In addition to the properties mentioned above, the Company owns and has investments in offices and service buildings. Through Varistar, the Company owns facilities and equipment used to manufacture PVC pipe and perform metal stamping, fabricating and contract machining; construction equipment and tools; medical imaging equipment; a fleet of flatbed trucks and trailers; and the infrastructure to maintain approximately 9,700 access lines for phone, internet and cable television in its telecommunication companies.

Management of the Company believes the facilities and equipment described above are adequate for the Company's present businesses.

All of the Company's electric utility properties, with minor exceptions, are subject to the lien of the Company's Indenture of Mortgage dated July 1, 1936, as amended and supplemented, securing its First Mortgage Bonds. All of the common shares of the companies owned by Varistar are pledged to secure indebtedness of Varistar.

Item 3. LEGAL PROCEEDINGS

Not Applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the three months ended December 31, 2001.

Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT (AS OF MARCH 1, 2002)

Set forth below is a summary of the principal occupations and business experience during the past five years of executive officers of the Company:

| NAME AND AGE            | DATES ELECTED   |   |
|-------------------------|-----------------|---|
|                         | TO OFFICE       | PRESENT POSITION AND BUSINESS EXPERIENCE        |
| John C. MacFarlane (62) | 4/9/01          | Present: Chairman and Chief Executive Officer   |
|                         | Prior to 4/9/01 | Chairman, President and Chief Executive Officer |
| John D. Erickson (43)   | 4/9/01          | Present: President                              |



|                      |   |
|----------------------|---|
| 4/10/00              | Executive Vice President, Chief<br>Financial Officer and<br>Treasurer |
| 10/26/98             | Vice President, Finance and<br>Chief Financial Officer                |
| Prior to<br>10/26/98 | Director, Market Strategies &<br>Regulation                           |

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|                           |                     |   |
|---------------------------|---------------------|---|
| Douglas L. Kjellerup (60) | 4/10/00             | Present: Vice President, Chief<br>Operating Officer<br>Energy Delivery  |
|                           | 2/1/99              | Chief Operating Officer, Energy Delivery;<br>Vice President, Marketing and<br>Development                               |
|                           | Prior to<br>2/1/99  | Vice President, Marketing and<br>Development  |
| George A. Koeck (49)      | 4/10/00             | Present: Corporate Secretary<br>and General Counsel   |
|                           | 8/2/99              | General Counsel   |
|                           | Prior to<br>8/2/99  | Partner, Dorsey & Whitney LLP   |
| Lauris N. Molbert (44)    | 4/9/01              | Present: Executive Vice President,<br>Corporate Development and<br>Varistar President and Chief<br>Operating Officer    |
|                           | 4/10/00             | Vice President, Chief Operating Officer,<br>Varistar; President and Chief<br>Operating Officer,<br>Varistar Corporation |
|                           | Prior to<br>4/10/00 | President and Chief Operating Officer,<br>Varistar Corporation  |
| Kevin G. Moug (42)        | 4/9/01              | Present: Chief Financial Officer and<br>Treasurer   |
|                           | Prior to<br>4/9/01  | Varistar Chief Financial Officer and<br>Treasurer   |
| Ward L. Uggerud (53)      | 4/10/00             | Present: Vice President,<br>Chief Operating Officer<br>Energy Supply  |
|                           | 2/1/99              | Chief Operating Officer, Energy Supply;<br>Vice President, Operations   |
|                           | Prior to<br>2/1/99  | Vice President, Operations  |

The term of office of each of the officers is one year. Any officer elected may be removed by the vote of the Board of Directors at any time during the term.

## PART II

### Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the first sentence under "Otter Tail Corporation stock listing" on Page 52, to "Selected consolidated financial data" on Page 19 and to "Quarterly information" on Page 47 of the Company's 2001 Annual Report to Shareholders, filed as an Exhibit hereto.

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### Item 6. SELECTED FINANCIAL DATA

The information required by this Item is incorporated by reference to "Selected consolidated financial data" on Page 19 of the Company's 2001 Annual

Report to Shareholders, filed as an Exhibit hereto.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is incorporated by reference to "Management's discussion and analysis of financial condition and results of operations" on Pages 20 through 29 of the Company's 2001 Annual Report to Shareholders, filed as an Exhibit hereto.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is incorporate by reference to "Quantitative and qualitative disclosures about market risk" on Pages 28 and 29 of the Company's 2001 Annual Report to Shareholders, filed as an Exhibit hereto.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated by reference to "Quarterly information" on Page 47 and the Company's audited financial statements on Pages 29 through 46 of the Company's 2001 Annual Report to Shareholders excluding "Report of Management" on Page 29, filed as an Exhibit hereto.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item regarding Directors is incorporated by reference to the information under "Election of Directors" in the Company's definitive Proxy Statement dated March 1, 2002. The information regarding executive officers is set forth in Item 4A hereto. The information regarding Section 16 reporting is incorporated by reference to the information under "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement dated March 1, 2002.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the information under "Summary Compensation Table," "Options/SAR Grants in last Fiscal Year," "Aggregated Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values," "Pension and Supplemental Retirement Plans," "Severance and Employment Agreements," and "Director Compensation" in the Company's definitive Proxy Statement dated March 1, 2002.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference to the information under "Outstanding Voting Shares" and "Management's Security Ownership" in the Company's definitive Proxy Statement dated March 1, 2002.

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Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of documents filed:

- (1) and (2) See Table of Contents on Page 24 hereof.
- (3) See Exhibit Index on Pages 25 through 30 hereof.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of certain long-term debt of the Company are not filed, and in lieu thereof, the Company agrees to furnish copies thereof to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K:

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OTTER TAIL CORPORATION

By /s/Kevin G. Moug

Kevin G. Moug
Chief Financial Officer and Treasurer

Dated: March 27, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature and Title

John C. MacFarlane )
Chairman and )
Chief Executive Officer )
(principal executive officer) )
and Director )
Kevin G. Moug )
Chief Financial Officer and Treasurer )
(principal financial and accounting officer) )
Thomas M. Brown, Director )
Dennis R. Emmen, Director )
Maynard D. Helgaas, Director )
Arvid R. Liebe, Director )
Kenneth L. Nelson, Director )
Nathan I. Partain, Director )
Gary J. Spies, Director )
Robert N. Spolum, Director )

By /s/John D. Erickson
John D. Erickson
Pro Se and Attorney-in Fact
Dated March 27, 2002

OTTER TAIL CORPORATION

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FINANCIAL STATEMENTS, SUPPLEMENTARY FINANCIAL DATA, SUPPLEMENTAL FINANCIAL SCHEDULES INCLUDED IN ANNUAL REPORT (FORM 10-K) FOR THE YEAR ENDED DECEMBER 31, 2001

The following items are included in this annual report by reference to the registrant's Annual Report to Shareholders for the year ended December 31, 2001:

Page in
Annual
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Consolidated Balance Sheets, December 31, 2001 and 2000.....30 & 31
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Schedules are omitted because of the absence of the conditions under which they are required, because the amounts are insignificant or because the information required is included in the financial statements or the notes thereto.

EXHIBIT INDEX  
TO  
ANNUAL REPORT  
ON FORM 10-K  
FOR YEAR ENDED DECEMBER 31, 2001

| PREVIOUSLY FILED |                        |                      |   |
|------------------|------------------------|----------------------|---|
| FILE NO.         | AS<br>EXHIBIT<br>NO.   | AS<br>EXHIBIT<br>NO. |   |
| 3-A              | 8-K<br>dated 4/10/01   | 3                    | --Restated Articles of Incorporation, as amended (including resolutions creating outstanding series of Cumulative Preferred Shares).                      |
| 3-C              | 33-46071               | 4-B                  | --Bylaws as amended through April 11, 1988.   |
| 4-D-1            | 2-14209                | 2-B-1                | --Twenty-First Supplemental Indenture from the Company to First Trust Company of Saint Paul and Russel M. Collins, as Trustees, dated as of July 1, 1958. |
| 4-D-2            | 2-14209                | 2-B-2                | --Twenty-Second Supplemental Indenture dated as of July 15, 1958.   |
| 4-D-3            | 33-32499               | 4-D-7                | --Thirty-Second Supplemental Indenture dated as of January 18, 1974.  |
| 4-D-4            | 8-K dated<br>7/24/92   | 4-D-15               | --Forty-Fifth Supplemental Indenture dated as of July 1, 1992.  |
| 4-D-5            | 8-A dated<br>1/28/97   | 1                    | --Rights Agreement, dated as of January 28, 1997 (the Rights Agreement), between the Company and Norwest Bank Minnesota, National Association.            |
| 4-D-6            | 8-A/A dated<br>9/29/98 | 1                    | --Amendment No. 1, dated as of August 24, 1998, to the Rights Agreement.  |
| 4-D-7            |                        |                      | --Note Purchase Agreement dated as of December 1, 2001.   |
| 10-A             | 2-39794                | 4-C                  | --Integrated Transmission Agreement dated August 25, 1967, between Cooperative Power Association and the Company.   |

PREVIOUSLY FILED

| FILE NO. | AS EXHIBIT NO. |   |
|----------|----------------|---|
| 10-A-1   | 10-A-1         | --Amendment No. 1, dated as of September 6, 1979, to Integrated Transmission Agreement, dated as of August 25, 1967, between Cooperative Power Association and the Company. |
| 10-A-2   | 10-A-2         | --Amendment No. 2, dated as of November 19, 1986, to Integrated Transmission Agreement between Cooperative Power Association and the Company.                               |
| 10-C-1   | 5-E            | --Contract dated July 1, 1958, between Central Power Electric Corporation, Inc., and the Company.   |
| 10-C-2   | 5-E-1          | --Supplement Seven dated November 21, 1973. (Supplements Nos. One through Six have been superseded and are no longer in effect.)  |
| 10-C-3   | 5-E-2          | --Amendment No. 1 dated December 19, 1973, to Supplement Seven.   |
| 10-C-4   | 10-C-4         | --Amendment No. 2 dated June 17, 1986, to Supplement Seven.   |
| 10-C-5   | 10-C-5         | --Amendment No. 3 dated June 18, 1992, to Supplement Seven.   |
| 10-C-6   | 10-C-6         | --Amendment No. 4 dated January 18, 1994, to Supplement Seven.  |
| 10-D     | 5-F            | --Contract dated April 12, 1973, between the Bureau of Reclamation and the Company.   |
| 10-E-1   | 5-G            | --Contract dated January 8, 1973, between East River Electric Power Cooperative and the Company.  |
| 10-E-2   | 5-E-1          | --Supplement One dated February 20, 1978.   |
| 10-E-3   | 10-E-3         | --Supplement Two dated June 10, 1983.   |
| 10-E-4   | 10-E-4         | --Supplement Three dated June 6, 1985.  |

PREVIOUSLY FILED

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NO.

| FILE NO. | AS<br>EXHIBIT<br>NO. |  |
|----------|----------------------|--|
| -----    | -----                |  |
| 10-E-5   | 10-E-5               | --Supplement No. Four, dated as of September 10, 1986.   |
| 10-E-6   | 10-E-6               | --Supplement No. Five, dated as of January 7, 1993.  |
| 10-E-7   | 10-E-7               | --Supplement No. Six, dated as of December 2, 1993.  |
| 10-F     | 10-F                 | --Agreement for Sharing Ownership of Generating Plant by and between the Company, Montana-Dakota Utilities Co., and Northwestern Public Service Company (dated as of January 7, 1970). |
| 10-F-1   | 10-F-1               | --Letter of Intent for purchase of share of Big Stone Plant from Northwestern Public Service Company (dated as of May 8, 1984).  |
| 10-F-2   | 10-F-2               | --Supplemental Agreement No. 1 to Agreement for Sharing Ownership of Big Stone Plant (dated as of July 1, 1983).   |
| 10-F-3   | 10-F-3               | --Supplemental Agreement No. 2 to Agreement for Sharing Ownership of Big Stone Plant (dated as of March 1, 1985).  |
| 10-F-4   | 10-F-4               | --Supplemental Agreement No. 3 to Agreement for Sharing Ownership of Big Stone Plant (dated as of March 31, 1986).   |
| 10-F-5   | 10-F-5               | --Amendment I to Letter of Intent dated May 8, 1984, for purchase of share of Big Stone Plant.   |
| 10-G     | 10-B                 | --Big Stone Plant Coal Agreements by and between the Company, Northwestern Public Service, Montana-Dakota Utilities Co., and RAG Coal West, Inc. (dated as of September 28, 2001).     |

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PREVIOUSLY FILED

AS  
EXHIBIT  
NO.

| FILE NO. | AS<br>EXHIBIT<br>NO. |  |
|----------|----------------------|--|
| -----    | -----                |  |
| 10-H     | 5-H                  | --Agreement for Sharing Ownership of Coyote Station Generating Unit No. 1 by and between the Company, Minnkota Power Cooperative, Inc., Montana-Dakota Utilities Co., Northwestern Public Service Company, and Minnesota Power & Light Company (dated as of July 1, 1977). |
| 10-H-1   | 10-H-1               | --Supplemental Agreement No. One dated as of November 30, 1978, to Agreement for Sharing Ownership of Coyote Generating Unit No. 1.  |

|        |                                |        |  |
|--------|--------------------------------|--------|--|
| 10-H-2 | 10-K for year ended 12/31/89   | 10-H-2 | --Supplemental Agreement No. Two dated as of March 1, 1981, to Agreement for Sharing Ownership of Coyote Generating Unit No. 1 and Amendment No. 2 dated March 1, 1981, to Coyote Plant Coal Agreement.  |
| 10-H-3 | 10-K for year ended 12/31/89   | 10-H-3 | --Amendment dated as of July 29, 1983, to Agreement for Sharing Ownership of Coyote Generating Unit No. 1.   |
| 10-H-4 | 10-K for year ended 12/31/92   | 10-H-4 | --Agreement dated as of Sept. 5, 1985, containing Amendment No. 3 to Agreement for Sharing Ownership of Coyote Generating Unit No.1, dated as of July 1, 1977, and Amendment No. 5 to Coyote Plant Coal Agreement, dated as of January 1, 1978.                    |
| 10-H-5 | 10-Q for quarter ended 9/30/01 | 10-A   | --Amendment dated as of June 14, 2001, to Agreement for Sharing Ownership of Coyote Generating Unit No. 1.   |
| 10-I   | 2-63744                        | 5-I    | --Coyote Plant Coal Agreement by and between the Company, Minnkota Power Cooperative, Inc., Montana-Dakota Utilities Co., Northwestern Public Service Company, Minnesota Power & Light Company, and Knife River Coal Mining Company (dated as of January 1, 1978). |
| 10-I-1 | 10-K for year ended 12/31/92   | 10-I-1 | --Addendum, dated as of March 10, 1980, to Coyote Plant Coal Agreement.  |

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PREVIOUSLY FILED

| FILE NO. |                                | AS EXHIBIT NO. |  |
|----------|--------------------------------|----------------|--|
| 10-I-2   | 10-K for year ended 12/31/92   | 10-I-2         | --Amendment (No. 3), dated as of May 28, 1980, to Coyote Plant Coal Agreement.   |
| 10-I-3   | 10-K for year ended 12/31/92   | 10-I-3         | --Fourth Amendment, dated as of August 19, 1985, to Coyote Plant Coal Agreement.   |
| 10-I-4   | 10-Q for quarter ended 6/30/93 | 19-A           | --Sixth Amendment, dated as of February 17, 1993, to Coyote Plant Coal Agreement.  |
| 10-I-5   |                                |                | --Agreement and Consent to Assignment of the Coyote Plant Coal Agreement.  |
| 10-K     | 10-K for year ended 12/31/91   | 10-K           | --Diversity Exchange Agreement by and between the Company and Northern States Power Company, (dated as of May 21, 1985) and amendment thereto (dated as of August 12, 1985). |
| 10-K-1   | 10-Q for quarter ended 9/30/99 | 10             | --Power Sales Agreement between the Company and Manitoba Hydro Electric Board (dated as of July 1,   |

1999).

|        |                                 |        |  |
|--------|---------------------------------|--------|--|
| 10-L   | 10-K for year ended 12/31/91    | 10-L   | --Integrated Transmission Agreement by and between the Company, Missouri Basin Municipal Power Agency and Western Minnesota Municipal Power Agency (dated as of March 31, 1986). |
| 10-L-1 | 10-K for year ended 12/31/88    | 10-L-1 | --Amendment No. 1, dated as of December 28, 1988, to Integrated Transmission Agreement (dated as of March 31, 1986).   |
| 10-M   | 10-K for year ended 12/31/99    | 10-M   | --Hoot Lake Coal Transportation Agreement by and between the Company and The Burlington Northern and Santa Fe Railway Company (dated as of July 19, 1999).                       |
| 10-N-1 | 10-Q for quarter ended 06/30/00 | 10     | --Deferred Compensation Plan for Directors, as amended and restated, dated June 21, 2000.*   |
| 10-N-2 | 10-K for year ended 12/31/94    | 10-N-2 | --Executive Survivor and Supplemental Retirement Plan, as amended.*  |
| 10-N-3 | 10-K for year ended 12/31/99    | 10-N-3 | --Form of Severance Agreement.*  |

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PREVIOUSLY FILED

| FILE NO. | AS EXHIBIT NO.               |  |
|----------|------------------------------|--|
| 10-N-4   | 10-K for year ended 12/31/93 | 10-N-5 --Nonqualified Profit Sharing Plan.*  |
| 10-N-5   | 10-K for year ended 12/31/93 | 10-N-6 --Nonqualified Retirement Savings Plan.*  |
| 10-N-6   | 10-K for year ended 12/31/98 | 10-N-6 --1999 Employee Stock Purchase Plan.  |
| 10-N-7   | 10-K for year ended 12/31/98 | 10-N-7 --1999 Stock Incentive Plan.*   |
| 10-N-8   |                              | --Employment Contract, dated January 1, 1999, between Varistar Corporation and Lauris Molbert.*  |
| 10-N-9   |                              | --Letter Agreement, dated August 30, 1996, between Mid-States Development, Inc. and Kevin Moug, as amended by letter agreement, dated July 12, 2000, between Varistar Corporation and Kevin Moug.* |
| 13-A     |                              | --Portions of 2001 Annual Report to Shareholders incorporated by reference in this Form 10-K.  |
| 21-A     |                              | --Subsidiaries of Registrant.  |
| 23       |                              | --Consent of Deloitte & Touche LLP.  |
| 24-A     |                              | --Powers of Attorney.  |



-----  
\* Management contract or compensatory plan or arrangement required to be filed pursuant to Item 601(b)(10)(iii)(A) of Regulation S-K.

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[\(Back To Top\)](#)

## Section 2: EX-4.D.7 (NOTE PURCHASE AGREEMENT)

EXHIBIT 4-D-7

=====

OTTER TAIL CORPORATION

\$90,000,000 6.63% Senior Notes due December 1, 2011

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NOTE PURCHASE AGREEMENT

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Dated as of December 1, 2001

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OTTER TAIL CORPORATION  
 3203 32ND AVENUE S.W.  
 FARGO, NORTH DAKOTA 58106-9156

\$90,000,000 6.63% Senior Notes, due December 1, 2011

Dated as of  
 December 1, 2001

TO THE PURCHASERS LISTED IN  
 THE ATTACHED SCHEDULE A:

Ladies and Gentlemen:

OTTER TAIL CORPORATION, a Minnesota corporation (the "Company"), agrees with the Purchasers named on Schedule A (the "Purchasers") as follows:

SECTION 1. AUTHORIZATION OF NOTES.

The Company will authorize the issue and sale of \$90,000,000 aggregate principal amount of its 6.63% Senior Notes due December 1, 2011 (the "Notes") such term to include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement). The Notes shall be substantially in the form set out in Exhibit 1 with such changes therefrom, if any, as may be approved by the Purchasers and the Company. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

The payment by the Company of all amounts due with respect to the Notes and the performance by the Company of its obligations under this Agreement described in Section 2 below will be unconditionally guaranteed by all Subsidiaries designated on Schedule 5.4 as Guarantors (the "Subsidiary Guarantors") under the Guaranty Agreement dated as of December 1, 2001 (the "Guaranty Agreement") from such Subsidiary Guarantors, which Guaranty Agreement shall be in the form attached hereto as Exhibit 2.

SECTION 2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified opposite such Purchaser's name in Schedule A at the purchase price of 100% of the principal amount thereof. The obligation of each Purchaser hereunder is several and not joint, and no Purchaser shall have any liability to any Person for the performance or nonperformance by any other Purchaser.

SECTION 3. CLOSING.

The sale and purchase of the Notes to be purchased by the Purchasers shall occur at the offices of Chapman and Cutler, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 A.M. Chicago time, at a closing (the "Closing") on December 27, 2001 or on such other Business Day thereafter on or prior to December 28, 2001 as may be agreed upon by the Company and the Purchasers. At the Closing the Company will deliver to each Purchaser the Notes to be purchased by such Purchaser in the form of a single Note (or such greater number of Notes in denominations of at least \$100,000 as such Purchaser may request) dated the date of the Closing and registered in such Purchaser's name (or in the name of such Purchaser's nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 163095559403 at U.S. Bank N.A., Fargo, North Dakota, ABA No. 091300023. If at the Closing the Company shall fail to tender such Notes to a Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to a Purchaser's satisfaction, such Purchaser shall, at such Purchaser's election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

SECTION 4. CONDITIONS TO CLOSING.

Each Purchaser's obligation to purchase and pay for the Notes to be sold to such Purchaser at the Closing is subject to the fulfillment to such Purchaser's satisfaction, prior to or at the Closing, of the following conditions:

Section 4.1. Representations and Warranties. The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default. (a) The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by it prior to or at the Closing, and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Schedule 5.14), no Default or Event of Default shall have occurred and be continuing. Neither the Company nor any Subsidiary shall have entered into any transaction since the date of the Memorandum that would have been prohibited by Section 10 hereof had such Sections applied since such date.

(b) The Subsidiary Guarantors shall have performed all of their obligations under the Guaranty Agreement which are to be performed on or prior to the Closing.

Section 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to such Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled.

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Otter Tail Corporation

Note Purchase Agreement

(b) Secretary's Certificate. The Company shall have delivered to such Purchaser a certificate certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of (i) the Notes and the Agreements by the Company and (ii) the Guaranty Agreement by the Subsidiary Guarantors.

Section 4.4. Opinions of Counsel. Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Dorsey & Whitney LLP, counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or such Purchaser's counsel may reasonably request, (b) from the General Counsel of the Company covering the matters set forth in Exhibit 4.4(b) and covering such other matters incident to such transactions as such Purchaser or such Purchaser's counsel may reasonably request and (c) from Chapman and Cutler, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to such transactions as such Purchaser or such Purchaser's counsel may reasonably request.

Section 4.5. Purchase Permitted by Applicable Law, etc. On the date of the Closing each purchase of Notes shall (i) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as Section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (ii) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (iii) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof. If requested by any Purchaser, such Purchaser shall have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Other Notes. The Company shall have consummated the sale of the entire principal amount of the Notes scheduled to be sold at the Closing as specified in Schedule A.

Section 4.7. Payment of Special Counsel Fees. Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the reasonable fees, charges and disbursements of the Purchasers' special counsel referred to in Section 4.4 to the extent reflected in a statement of such counsel rendered to the Company at least two Business Days prior to the Closing.

Section 4.8. Private Placement Number. A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

Section 4.9. Changes in Corporate Structure. Except as specified in Schedule 4.9, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger

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Otter Tail Corporation

Note Purchase Agreement

or consolidation and shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.10. Guaranty Agreement. The Guaranty Agreement shall have been duly authorized, executed and delivered by each Subsidiary Guarantor, shall constitute the legal, valid and binding contract and agreement of each of the Subsidiary Guarantors and shall be enforceable against each Subsidiary Guarantor in accordance with its terms.

Section 4.11. Funding Instruction Letter. Each Purchaser shall have received at least three Business Days prior to the Closing Date a letter from the Company on its letterhead setting forth the wire transfer instructions for the payment by such Purchaser of the purchase price of the Notes to be purchased by such Purchaser.

Section 4.12. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to such Purchaser and the Purchasers' special counsel, and such Purchaser and the Purchasers' special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or they may reasonably request.

#### SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority. The Company is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts, to execute and deliver this Agreement and the Notes and to perform the provisions hereof and thereof.

Section 5.2. Authorization, etc. This Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Company,

and this Agreement constitutes, and upon execution and delivery thereof each Note will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure. The Company, through its agent, A. G. Edwards & Sons, has delivered to each Purchaser a copy of a Private Placement Memorandum, dated November, 2001

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(the "Memorandum"), relating to the transactions contemplated hereby. This Agreement, the Guaranty Agreement, the Memorandum, the documents, certificates or other writings identified in Schedule 5.3 and the financial statements listed in Schedule 5.5, taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Except as disclosed in the Memorandum or as expressly described in Schedule 5.3 or in one of the documents, certificates or other writings identified therein or in the financial statements listed on Schedule 5.5, since December 31, 2000, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 5.4. Organization and Ownership of Shares of Subsidiaries. (a) Schedule 5.4 is (except as noted therein) a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien (except as otherwise disclosed in Schedule 5.4).

(c) Each Subsidiary identified in Schedule 5.4 is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and each Subsidiary Guarantor has the Corporate or other power and authority to execute and deliver the Guaranty Agreement and perform its obligations thereunder.

(d) The Guaranty Agreement has been duly authorized by all necessary action on the part of each Subsidiary Guarantor and the Guaranty Agreement constitutes a legal, valid and binding obligation of such Subsidiary Guarantor enforceable against such Subsidiary Guarantor in accordance with its terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(e) No Subsidiary is a party to, or otherwise subject to, any legal restriction or any agreement (other than this Agreement, the agreements listed on Schedule 5.4 and customary limitations imposed by corporate law statutes) restricting the ability of such Subsidiary to pay dividends out of profits or make any other similar distributions of profits to the Company or any

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of its Subsidiaries that owns outstanding shares of capital stock or similar equity interests of such Subsidiary.

Section 5.5. Financial Statements. The Company has delivered to each Purchaser copies of the consolidated financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said consolidated financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such Schedule and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim consolidated financial statements, to normal year-end adjustments).

Section 5.6. Compliance with Laws, Other Instruments, etc. Neither the execution, delivery and performance by the Company of this Agreement and the Notes nor the execution, delivery and performance by any Subsidiary Guarantor of the Guaranty Agreement will (i) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of the Company or any Subsidiary Guarantor under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company, any Subsidiary Guarantor is bound or by which the Company or any Subsidiary Guarantor or any of their respective properties may be bound or affected, (ii) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary Guarantor or (iii) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary Guarantor.

Section 5.7. Governmental Authorizations, etc. No prior consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement or the Notes or by the Subsidiary Guarantors of the Guaranty Agreement which has not been obtained or made.

Section 5.8. Litigation; Observance of Statutes and Orders. (a) Except as disclosed in Schedule 5.8, there are no actions, suits or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is in default under any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

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Section 5.9. Taxes. The Company and its Subsidiaries have filed all consolidated income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The



consolidated Federal income tax returns of the Company have been audited by the Internal Revenue Service for all fiscal years up to and including the fiscal year ended December 31, 1996.

Section 5.10. Title to Property; Leases. The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, etc. Except as disclosed in Schedule 5.11, the Company and its Subsidiaries own or possess all licenses, permits, franchises, authorizations, patents, copyrights, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with ERISA. (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities. The term "benefit liabilities" has the meaning specified

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in section 4001 of ERISA and the terms "current value" and "present value" have the meanings specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected post-retirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of each Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Notes to be purchased by such Purchaser.

Section 5.13. Private Offering by the Company. Neither the Company nor anyone acting on its behalf has offered the Notes or any similar securities for

sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than 50 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations. The Company will apply the proceeds of the sale of the Notes as set forth in Schedule 5.14. No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 207), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 10% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 10% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Indebtedness. Schedule 5.15 sets forth a complete and correct list of all outstanding Indebtedness of the Company and its Subsidiaries as of September 30, 2001, since which date there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Indebtedness of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in

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effect, in the payment of any principal or interest on any Indebtedness of the Company or such Subsidiary and no event or condition exists with respect to any Indebtedness of the Company or any Subsidiary the outstanding principal amount of which exceeds \$1,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Indebtedness to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

Section 5.16. Foreign Assets Control Regulations, etc. Use of the proceeds of this offering by the Company will not violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

Section 5.17. Status under Certain Statutes. Neither the Company nor any Subsidiary is an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, or is subject to regulation under the Public Utility Holding Company Act of 1935, as amended.

Section 5.18. Environmental Matters. Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them or other assets, alleging any damage to the environment or violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Purchasers in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, of violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties now or formerly owned, leased or operated by any of them or to other assets or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in a manner contrary to any Environmental Laws in each case in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

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SECTION 6. REPRESENTATIONS OF THE PURCHASER.

Section 6.1. Purchase for Investment. Each Purchaser represents that such Purchaser is purchasing the Notes for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's property shall at all times be within its control. Each Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

Section 6.2. Source of Funds. Each Purchaser represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" within the meaning of Department of Labor Prohibited Transaction Exemption ("PTE") 95-60 (issued July 12, 1995) and there is no employee benefit plan, treating as a single plan, all plans maintained by the same employer or employee organization, with respect to which the amount of the general account reserves and liabilities for all contracts held by or on behalf of such plan, exceed ten percent (10%) of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (issued January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (issued July 12, 1991) and, except as such Purchaser has disclosed to the Company in writing pursuant to this paragraph (b), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(c) the Source constitutes assets of an "investment fund" (within the meaning of Part V of the QPAM Exemption) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in

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such investment fund have been disclosed to the Company in writing pursuant to this paragraph (c); or

(d) the Source is a governmental plan; or

(e) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (e); or

(f) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

If any Purchaser or any subsequent transferee of the Notes indicates that such Purchaser or such transferee are relying on any representation contained in paragraph (b), (c) or (e) above, the Company shall deliver on the date of Closing and on the date of any applicable transfer a certificate, which shall either state that (i) it is neither a party in interest nor a "disqualified person" (as defined in section 4975(e)(2) of the Internal Revenue Code of 1986, as amended), with respect to any plan identified pursuant to paragraphs (b) or (e) above, or (ii) with respect to any plan, identified pursuant to paragraph (c) above, neither it nor any "affiliate" (as defined in Section V(c) of the QPAM Exemption) has at such time, and during the immediately preceding one year, exercised the authority to appoint or terminate said QPAM as manager of any plan identified in writing pursuant to paragraph (c) above or to negotiate the terms of said QPAM's management agreement on behalf of any such identified plan. As used in this Section 6.2, the terms "employee benefit plan", "governmental plan", "party in interest" and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

#### SECTION 7. INFORMATION AS TO COMPANY.

Section 7.1. Financial and Business Information. The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), a copy of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial

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Officer as fairly presenting, in all material respects, the consolidated financial position of the Company and its Subsidiaries and their results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements -- within 105 days after the end of each fiscal year of the Company, a copy of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance

with GAAP, and accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the consolidated financial position of the Company and its Subsidiaries and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) SEC and Other Reports -- promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission;

(d) Notice of Default or Event of Default -- promptly, and in any event within 15 days after a Responsible Officer becoming aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters -- promptly, and in any event within 15 days after a Responsible Officer becoming aware of any of the following, a written notice setting

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forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect; and

(f) Requested Information -- subject to the provisions of Section 20, with reasonable promptness, such other data and information relating to the business, operations, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes.

Section 7.2. Officer's Certificate. Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer

setting forth:

(a) Covenant Compliance -- the information (including detailed calculations) required in order to establish whether the Company was in compliance with the requirements of Section 10.1, 10.2, 10.3 and 10.5 hereof, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the

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beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Inspection. Subject to the provisions of Section 20, the Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the expense of the Company, to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

#### SECTION 8. PREPAYMENT OF THE NOTES.

Section 8.1. Required Prepayments. There are no required prepayment for the Notes.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid, together with interest accrued thereon to the date of such prepayment, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in

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connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

Section 8.3. Investment Grade Put Event. (a) In the event that an Investment Grade Put Event shall occur, the Company will give written notice (a "Company Notice") of such fact not more than 15 days after the Investment Grade Put Event Date to all holders of the Notes. The Company Notice shall (i) describe the facts and circumstances of the Investment Grade Put Event in reasonable detail, (ii) describe the Debt of the Company then outstanding, (iii) specify the rating, if any, accorded to Senior Debt by a Designated Rating Agency which is below an Acceptable Rating or state that the Company has requested a private rating pursuant to Section 9.7 and that the Designated Rating Agency has not issued a private rating in accordance with such request within the required time period, (iv) refer to this Section 8.3 and the right of the holders of the Notes to require the Company to purchase their Notes on the terms and conditions provided for herein upon the occurrence of an Investment Grade Put Event, and (v) contain an offer by the Company to purchase all of the outstanding Notes in full together with unpaid accrued interest to the date of purchase and the Make-Whole Amount. Each holder of the Notes shall have the right to accept such offer and require purchase of the Notes held by such holder in full by written notice to the Company given within 60 days following receipt of the Company Notice. On the date designated in such holder's notice (which shall be not less than 15 days nor more than 30 days after the date such notice is delivered to the Company), the Company shall purchase all Notes held by such holder at 100% of the principal amount of such Notes, together with unpaid accrued interest thereon to the date of purchase, and the Make-Whole Amount, if any. Failure to respond by a holder of the Notes shall constitute an acceptance of such offer and the date of purchase shall be the 15th Business Day following the end of the 60 day period referred to in the preceding sentence.

(b) In the event the Company fails to give the Company Notice as required above, each holder of Notes shall have the right to require the Company to purchase all Notes held by such holder at 100% of the principal amount of such Notes, together with unpaid accrued interest thereon to the date of purchase, and the Make-Whole Amount, if any. Notice of any required purchase pursuant to this Section 8.3(b) shall be delivered by any holder of Notes to the Company not more than 180 days after such holder has actual knowledge of such Investment Grade Put Event. On the date designated in such holder's notice (which shall be not less than 15 days after the date such notice is delivered to the Company), the Company shall purchase all Notes held by such holder at 100% of the principal amount of such Notes, together with unpaid accrued interest thereon to the date of purchase, and the Make-Whole Amount, if any. If the holder of any Note gives any notice pursuant to this Section 8.3(b) the Company will give a Company Notice within three business days of receipt of such notice to all holders of the Notes.

"Investment Grade Put Event" shall mean, and occur on, the first date on which either of the Designated Rating Agencies rate Senior Debt below an Acceptable Rating. If an Investment Grade Put Event Date shall have occurred and subsequent to such Investment Grade Put Event Date both Designated Rating Agencies shall rate Senior Debt an Acceptable Rating and

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thereafter an Investment Grade Put Event shall occur, then a new Investment Grade Put Event Date shall occur under this Agreement and the Company's obligations under this Section 8.3 shall remain binding and operative. If at any time the Company shall be requested to obtain a private rating of the Notes in accordance with Section 9.7 and within 70 days of such request the Notes shall not have been rated by the Designated Rating Agency or Agencies from whom such rating was sought, then an Investment Grade Put Event shall be deemed to have occurred unless Senior Debt shall then be rated an Acceptable Rating.

"Investment Grade Put Event Date" shall mean the first date upon which an Investment Grade Put Event shall have occurred.

"Senior Debt" shall mean either (i) the Notes or (ii) senior unsecured Debt of the Company which does not have the benefit of the credit support of any Person other than the Company and which shall be outstanding in an aggregate unpaid principal amount of not less than \$10,000,000.

(c) The obligation of the Company to give the notices specified in this Section 8.3 shall remain in effect so long as any Notes remain outstanding.

Section 8.4. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof.

Section 8.5. Maturity; Surrender, etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.6. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate pro rata to the holders of all Notes at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 30 Business Days. If the holders of more than 30% of the principal amount of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least 30 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes

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acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.7. Make-Whole Amount. The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on the Telerate Access Service (or such other display as may replace Page 678 on the Telerate Access Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of



such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the duration closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the duration closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal

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by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2, 8.3 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires and with respect to the purchase of Notes pursuant to Section 8.3, the date on which the Notes are required thereunder to be purchased by the Company.

#### SECTION 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 9.1. Compliance with Law. The Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, Environmental Laws, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

Section 9.2. Insurance. The Company will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties. The Company will, and will cause each of its Subsidiaries to, maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, provided that this Section shall not prevent the Company or any Subsidiary from discontinuing the operation

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and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company has concluded that such discontinuance would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.4. Payment of Taxes. The Company will, and will cause each of its Subsidiaries to, file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, provided that neither the Company nor any Subsidiary need pay any such tax or assessment if (i) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Company or a Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of the Company or such Subsidiary or (ii) the nonpayment of all such taxes and assessments in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, etc. Subject to Sections 10.4 and 10.5 the Company will at all times preserve and keep in full force and effect its corporate existence. Subject to Sections 10.4 and 10.5, the Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries and all rights and franchises of the Company and its Subsidiaries unless, in the good faith judgment of the Company, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Note Exchange Upon Issuance of Bonds. (a) In the event that the Company shall issue additional Bonds under and pursuant to the Indenture (the "Additional Bonds"), then the Company shall offer to exchange all of the outstanding Notes for Bonds of a new series (the "Exchange Bonds") which exchange would take place concurrently with or prior to the issuance of such Additional Bonds. The Exchange Bonds shall be issued under and secured by the Indenture, shall rank pari passu with all other Bonds issued and outstanding under the Indenture, shall have payment and maturity terms identical to the Notes for which they were exchanged, subject to provisions required to be in the Exchange Bonds pursuant to the terms of the Indenture, shall have required and optional prepayment provisions and provisions relating to amounts payable upon acceleration of maturity identical to those applicable to the Notes for which they were exchanged and shall otherwise be in the form required by the Indenture.

(b) The Company will, within 30 days after the Company's decision to issue Additional Bonds, give written notice of such decision to each holder of Notes which shall constitute an offer to exchange the Notes for the Exchange Bonds as described in subparagraph (b) of this Section 9.6.

(c) The offer to exchange the Notes for the Exchange Bonds contemplated by subparagraph (b) of this Section 9.6 shall be an offer to exchange, in accordance with and subject to this Section 9.6, all, but not less than all, the Notes held by each holder on a date specified in such offer (the "Proposed Exchange Date") that is not less than 15 days and not more than 30

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days after the date of such offer (if the Proposed Exchange Date shall not be specified in such offer, the Proposed Exchange Date shall be the 30th day after the date of such offer).

(d) A holder of Notes may accept the offer to exchange made pursuant to this Section 9.6 by causing a notice of such acceptance to be delivered to the Company at least 10 days prior to the Proposed Exchange Date. A failure by a holder of Notes to respond to an offer to exchange made pursuant to this Section 9.6 shall be deemed to constitute a rejection of such offer by such holder.

(e) The Company covenants and agrees to take all actions necessary for the due authorization, execution and delivery of such Exchange Bonds including, without limitation, (i) the filing with the Minnesota Public Utilities Commission of documents required in connection with the issuance of the Exchange Bonds, (ii) compliance with all requirements of the Indenture, and (iii) the taking of all other actions the holders of the Notes may reasonable request in connection with the delivery of the Exchange Bonds, including the delivery of legal opinions and an exchange agreement between the Company and the holders in form and substance reasonably satisfactory to the holders of 66-2/3% of the Notes then outstanding.

Section 9.7. Private Ratings. If at any time the Company does not have Senior Debt that is rated by both Designated Rating Agencies, upon the request of the Required Holders, the Company will promptly, and in any event within 15

days after receiving such request, notify each other holder of a Note of such request and seek and thereafter diligently attempt to obtain from a Designated Rating Agency which is not then so rating such Senior Debt a private credit rating for the Notes, and, promptly, and in any event within 5 days after receiving such rating, deliver a copy thereof to each holder of a Note. If the Company does not obtain a private credit rating for the Notes from a Designated Rating Agency within 70 days after the Required Holders shall have requested the Company to obtain a rating in accordance with this Section 9.7, the Company will promptly, and in any event within five days after the end of such 70-day period, notify each holder of a Note of such failure.

Section 9.8. Guaranty by Subsidiaries. The Company will cause any Subsidiary which after the Closing guarantees the obligations of the Company under the Bank Credit Agreement (an "Additional Subsidiary Guarantor") to enter into the Guaranty Agreement, and deliver within 15 Business Days thereafter to each of the holders of the Notes the following items:

(a) an agreement substantially in the form of Exhibit A to the Guaranty Agreement;

(b) a certificate signed by the President, a Vice President or another authorized Responsible Officer of the Company making representations and warranties to the effect of those contained in Sections 5.4, 5.6 and 5.7, with respect to such Additional Subsidiary Guarantor and the Guaranty Agreement, as applicable;

(c) such documents and evidence with respect to such Additional Subsidiary Guarantor as any holder of the Notes may reasonably request in order to establish the existence and good standing of such Additional Subsidiary Guarantor; and

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(d) an opinion of counsel addressed to each of the holders of the Notes satisfactory to the Required Holders, to the effect that the Guaranty Agreement has been duly authorized, executed and delivered and constitutes the legal, valid and binding contract and agreement of such Additional Subsidiary Guarantor enforceable in accordance with its terms, except as an enforcement of such terms may be limited by bankruptcy, insolvency, fraudulent conveyance and similar laws affecting the enforcement of creditors' rights generally and by general equitable principles.

Section 9.9. New Bank Agreement. The Company agrees that (i) on or before March 31, 2002 it will enter into a written commitment (the "Bank Commitment") with a lender or lenders (herein referred to in this Section 9.9 collectively as the "Bank") for a new Bank Credit Agreement (the "New Bank Agreement") with such Bank (A) which will replace the existing Bank Credit Agreement with a senior unsecured revolving credit facility for the Company as borrower thereunder of at least \$50,000,000, (B) which will contain financial covenants substantially similar to those covenants contained in Section 10 hereof without regard to the application of Section 10.7, with such covenants subject to the prior review of the Holders, and (C) which requires the agreement of the Bank to the execution of the Intercreditor Agreement substantially in the form attached hereto as Exhibit 3 prior to closing and (ii) on or before April 30, 2002, the New Bank Agreement will be executed and delivered by the Company and the Bank (the completion of the execution and delivery of the New Bank Agreement being the "Bank Closing" and the date of the Bank Closing being the "Bank Closing Date"). It shall not be considered an Event of Default hereunder if the Company fails to enter into a Bank Commitment by March 31, 2002 or if the Bank Closing does not occur by April 30, 2002.

In the event the Company does not enter into a Bank Commitment by March 31, 2002 or in the event the Bank Closing does not occur by April 30, 2002, the Company shall pay each Holder on the Bank Closing Date (subject to an earlier payment requirement in the following sentence) a fee (the "Interest Fee") which shall accrue during the period beginning on the Accrual Start Date and ending on the date such fee is required by this paragraph to be paid at the rate of 0.25% per annum on the aggregate outstanding principal amount of the Notes held by such Holder where "Accrual Start Date" means March 31, 2002 if the Bank Commitment is not entered into by that date or, if it is, April 30, 2002. If the Company does not enter into a Bank Commitment by June 30, 2002 or in the event the Bank Closing does not occur by July 31, 2002, the Company (i) shall pay to each Holder on the Second Accrual Start Date the Interest Fee such Holder is entitled to receive pursuant to the foregoing provisions of this paragraph and (ii) shall pay to each Holder on the Bank Closing Date a replacement fee (the "Replacement Interest Fee") which shall replace the Interest Fee and shall accrue during the period beginning on the Second Accrual Start Date and ending on the Bank Closing Date at the rate of 1.00% per annum on the aggregate principal amount of the Notes held by such Holder where "Second Accrual Start Date" means June 30, 2002 if the Bank Commitment is not entered into by that date, or if it is, July 31, 2002; provided, that if the Bank Closing Date has

not occurred by August 31, 2002, the Company shall pay the Replacement Interest Fee in monthly installments accrued to date commencing with a payment to each Holder on September 1, 2002 and on the first day of each month thereafter with the final Replacement Interest Fee accrued to the Bank Closing Date to be paid on such Bank Closing Date.

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Section 9.10. Additional Lenders under Intercreditor Agreement. Prior to any lending institution becoming an additional Lender under the Bank Credit Agreement after the Bank Closing Date, the Company will require such institution to become a party to the Intercreditor Agreement by executing a copy for each Noteholder of the agreement in the form of Exhibit A to the Intercreditor Agreement (an "Additional Lender Agreement"). Upon receipt of any Additional Lender Agreement, the Company shall forthwith deliver an executed copy thereof to each Noteholder.

Section 9.11. New Noteholders under Intercreditor Agreement. Upon the Bank Closing Date all Noteholders shall become a party to the Intercreditor Agreement (and hereby agree to do so) and at any time thereafter any Person which becomes a successor Noteholder shall be deemed to have concurrently become a party to the Intercreditor Agreement.

Section 9.12. Release of Guaranty Agreement. Upon receipt by the Noteholders of written notice from the Company and the Lenders that the guaranty obligations of any of the Subsidiary Guarantors and any Additional Subsidiary Guarantors under the Bank Credit Agreement have been released by the Lenders, the obligations of such Subsidiary Guarantors and such Additional Subsidiary Guarantors under the Guaranty Agreement shall be released and if such obligations of all Subsidiary Guarantors and all Additional Subsidiary Guarantors have been released the Guaranty Agreement and the Intercreditor Agreement shall terminate and the Noteholders agree that they shall take such action as shall be necessary to effectuate such termination; provided, that if at any time thereafter the Bank Credit Agreement shall again be guaranteed by any Subsidiary (i) the Company will, within 30 days, cause such Subsidiary to comply with the requirements of Sections 9.8(a) through (d) and (ii) the Intercreditor Agreement shall be re-executed by the Noteholders and the Lenders.

SECTION 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

Section 10.1. Limitation on Debt and Priority Debt. (a) The Company will not permit Consolidated Debt to exceed 60% of Consolidated Total Capitalization determined as of the end of each fiscal quarter of the Company.

(b) The Company will not permit Priority Debt to exceed 20% of Consolidated Total Capitalization determined as of the end of each fiscal quarter of the Company.

Section 10.2. Interest Charges Coverage Ratio. The Company will not permit the Interest Charges Coverage Ratio to be less than 1.5:1.0 determined as of the end of the most recently ended period of four consecutive fiscal quarters of the Company.

Section 10.3. Limitation on Liens. The Company will not, and will not permit any Subsidiary to, directly or indirectly create, incur, assume or permit to exist (upon the happening of a contingency or otherwise) any Lien on or with respect to any property or asset (including, without limitation, any document or instrument in respect of goods or accounts receivable) of the Company or any such Subsidiary, whether now owned or held or hereafter acquired, or any

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income or profits therefrom, or assign or otherwise convey any right to receive income or profits, except:

(a) Liens for taxes and assessments or governmental charges or levies and Liens securing claims or demands of mechanics and materialmen; provided that payment thereof is not at the time required by Section 9.4;

(b) Liens of or resulting from any judgment or award in an aggregate amount not to exceed \$10,000,000, the time for the appeal or petition for rehearing of which shall not have expired, or in respect

of which the Company or a Subsidiary shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall have been secured;

(c) Liens incidental to the conduct of business or the ownership of properties and assets (including, without limitation, Liens in connection with worker's compensation, unemployment insurance and other like laws, carrier's, warehousemen's liens and statutory landlords' liens) and Liens to secure the performance of bids, tenders or trade contracts, or to secure statutory obligations, surety or appeal bonds or other Liens of like general nature, in any such case incurred in the ordinary course of business and not in connection with the borrowing of money; provided in each case, the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings;

(d) minor survey exceptions or minor encumbrances, easements or reservations, or rights of others for rights-of-way, utilities and other similar purposes, or zoning or other restrictions as to the use of real properties, which are reasonably necessary for the conduct of the activities of the Company and its Subsidiaries or which customarily exist on properties of corporations engaged in similar activities and similarly situated and which do not in any event materially impair their use in the operation of the business of the Company and its Subsidiaries;

(e) Liens securing Debt of a Subsidiary to the Company or to another Subsidiary;

(f) Liens on property of the Company created by the Indenture to secure Bonds of the Company issued and outstanding thereunder and described on Schedule 5.15, including property acquired by the Company after the Closing Date to which such Liens attach;

(g) Liens in addition to those permitted by clause (f) hereof existing as of December 1, 2001 and described on Schedule 5.15 hereto and Liens securing any refinancing of Indebtedness secured by such Liens, provided that such refinancing shall be subject to similar terms and secured by the same assets and the principal amount of Indebtedness secured thereby is not increased;

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(h) Liens in connection with the acquisition of property after the date hereof by way of purchase money mortgage, conditional sale or other title retention agreement, Capital Lease or other deferred payment contract, provided that such Liens attach only to the property being acquired and that the Debt secured thereby does not exceed the Fair Market Value of such property at the time of acquisition thereof and the Lien shall be created contemporaneously with, or within 180 days after, the acquisition of such property;

(i) Liens that existed on assets of other Persons at the time of acquisition of such other Persons or of such assets by the Company or a Subsidiary and which continue to attach only to such assets and Liens securing any refinancing of Indebtedness secured by such Liens, provided that such refinancing shall be subject to similar terms and secured by the same assets and the principal amount of Indebtedness secured thereby is not increased); and

(j) Liens created, assumed or incurred after the date of the Closing given to secure Debt of the Company or any Subsidiary in addition to the Liens permitted by the preceding clauses (a) through (i) hereof;

provided that (1) all Debt secured by such Liens shall have been incurred within the applicable limitations provided in Section 10.1(b) and (2) at the time of creation, assumption or incurrence of the Debt secured by such Lien and after giving effect thereto and to the application of the proceeds thereof, no Default or Event of Default would exist.

Section 10.4. Merger, Consolidation, Etc. The Company will not, and will not permit any Subsidiary Guarantor or any Additional Subsidiary Guarantor to, consolidate with or merge with any other corporation or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person; provided that:

(a) Any Subsidiary Guarantor or any Additional Subsidiary Guarantor may directly or indirectly merge or consolidate with or into, or transfer all or substantially all of its property to, or be a party to an analogous reorganization with the Company or any Subsidiary so long as (i) in any such transaction involving the Company, the Company shall be the surviving or continuing Person and (ii) in any such

transaction involving a Subsidiary which is the surviving or continuing Person, such Subsidiary, unless the Guaranty Agreement shall have been released pursuant to Section 9.12, shall become obligated under the Guaranty Agreement and shall provide to the holders of the Notes the items described in Section 9.8 (a) through (d) concurrently with the consummation of such transaction; provided further, that a Subsidiary may transfer all or substantially all of its property without complying with the foregoing provisions of this clause (a) if the transfer is in compliance with Section 10.5; and

(b) the Company may consolidate or merge with or into, or transfer all or substantially all of its property to, or be a party to an analogous reorganization with any other Person if (1) the successor formed by such transaction or the Person that acquires in such transaction substantially all of the assets of the Company as an entirety, as the

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case may be, (the "Successor") shall be a solvent Person organized and existing under the laws of the United States or any state thereof (including the District of Columbia), and, (2) if the Company is not the Successor, (A) such Successor shall have executed and delivered to each holder of any Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement and the Notes, and (B) such Successor shall have caused to be delivered to each holder of any Notes an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Required Holders, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof, and (3) immediately before and after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing; provided, that no such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any Successor from its liability under this Agreement or the Notes.

Section 10.5. Sale of Assets, Etc. Except as permitted under Section 10.4, the Company will not, and will not permit any of its Subsidiaries to, make any Asset Disposition unless:

(a) in the good faith opinion of the Company, the Asset Disposition is in exchange for consideration having a Fair Market Value at least equal to that of the property exchanged and is in the best interest of the Company or such Subsidiary; and

(b) immediately after giving effect to the Asset Disposition, no Default or Event of Default would exist;

(c) immediately after giving effect to the Asset Disposition, the Disposition Value of all property that was the subject of any Asset Disposition occurring in the period of four fiscal quarters of the Company then next ending would not exceed 15% of Consolidated Assets as of the end of the then most recently ended fiscal year of the Company; provided, that if the Net Proceeds Amount for any Transfer is applied to a Debt Prepayment Application or a Property Reinvestment Application within 180 days after such Transfer, then such Transfer, only for the purpose of determining compliance with subsection (c) of this Section 10.5 as of a date on or after the Net Proceeds Amount is so applied, shall be deemed not to be an Asset Disposition; provided, however, that if the Asset Disposition is a Transfer of Utility Assets, such Transfer of Utility Assets by the Company shall be deemed not to be an Asset Disposition for such purposes only to the extent the Net Proceeds Amount therefrom is applied to a Utility Property Reinvestment Application within 180 days after such Transfer; and

(d) immediately after giving effect to a Transfer of Utility Assets, the Disposition Value of all property that was the subject of any Transfer of Utility Assets (i) occurring in the period of four fiscal quarters of the Company then next ending would not exceed 10% of Total Utility Plant (the "10% Four Quarter Limit") as of the end of the then most recently ended fiscal year of the Company, and (ii) occurring after the Closing Date through the date of determination would not exceed 25% of Total Utility Plant (the "25% Cumulative Limit") as of the end of the then most recently ended fiscal

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year; provided, that if the Net Proceeds Amount for any Transfer is applied to a Utility Property Reinvestment Application within 180 days after such Transfer, then such Transfer, only for purposes of compliance with subsection (d) of this Section 10.5 as of a date on or after the Net Proceeds Amount is so applied, shall be deemed not to be a Transfer of Utility Assets; provided, however, that if the Disposition Value of any property subject to a Transfer of Utility Assets when added to the Disposition Value of other Transfers of Utility Assets pursuant to clause (i) or (ii) of this subsection (d) would be in excess of either or both of the applicable 10% Four Quarter Limit or the 25% Cumulative Limit, then such Transfer shall be deemed not to be a Transfer of Utility Assets for purposes of compliance with subsection (d) of this Section 10.5 only if the Net Proceeds Amount for such Transfer is (A) deposited upon receipt by the Company in a segregated investment account with an institution which is not a creditor of the Company or any of its Subsidiaries and kept therein until application under the following clause (B) and (B) applied directly to a Utility Property Reinvestment Application within 180 days after such Transfer.

Section 10.6. Transactions with Affiliates. The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate.

Section 10.7 Benefit of More Restrictive Covenants or More Favorable Terms. If any Lender under the Bank Credit Agreement is or becomes entitled to the benefit of any covenant, agreement, event of default or other event which would permit the Lender to have the Company Debt obligations it holds purchased by the Company (a "put event") which is more restrictive on the Company or its Subsidiaries than the covenants, agreements, events of default or put events contained herein or which is more favorable to such Lender than the covenants, agreements, events of default or put events contained herein, then such more restrictive or more favorable covenant, agreement, event of default or put event shall be deemed to be incorporated into this Agreement by reference during any period such Lender is so entitled thereto without regard to any waivers by the Lender with respect thereto and shall remain so incorporated for a period of 30 days after the Lender is no longer entitled to the benefit thereof and the Noteholders shall be entitled to the benefits thereof with respect to this Agreement in addition to the existing covenants, agreements, events of default and put events contained herein so long as any of the Notes remain outstanding.

Prior to any closing of a Bank Credit Agreement, the Company shall deliver a letter to the Noteholders containing a list of those covenants, agreements, events of default and put events which are deemed to be incorporated into this Agreement pursuant to the foregoing provisions of this Section 10.7 and concurrently with or prior to the execution of any amendment to the Bank Credit Agreement, the Company shall deliver to the Noteholders a letter setting forth all covenants, agreements, events of default and put events and/or changes with respect thereto

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which are deemed to be incorporated into this Agreement pursuant to the foregoing provisions of this Section 10.7 and any such letters delivered to the Noteholders shall be satisfactory in form and substance to the Noteholders; provided that if a New Bank Agreement referred to in Section 9.9 is not entered into by April 30, 2002, the Company shall deliver such a letter to the Noteholders with respect to the Bank Credit Agreement in existence on the Closing Date. At any time after the receipt of any such letter the Required Holders shall have the right by delivery of written notice to the Company to amend this Agreement by adding to the Agreement any covenants, agreements, events of default or put events referred to in any such letter which the Required Holders elect to add pursuant to the foregoing provision of this Section 10.7.

#### SECTION 11. EVENTS OF DEFAULT.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and

payable; or

(c) the Company defaults (i) in the performance of or compliance with any term contained in Section 10 or Section 7.1(d) or (ii) in the payment when due of the amount required to be paid by the Company for the purchase of any Notes pursuant to Section 8.3; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note (any such written notice to be identified as a "notice of default" and to refer specifically to this paragraph (d) of Section 11); or

(e) any representation or warranty made in writing by or on behalf of the Company or by any officer of the Company in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Significant Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Indebtedness that is outstanding in an aggregate principal amount of at least \$10,000,000 beyond any period of grace provided with respect thereto, or (ii) the Company or any Significant Subsidiary is in default in the performance of or compliance with any term of any evidence of any Indebtedness in an

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aggregate outstanding principal amount of at least \$10,000,000 or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Indebtedness has become, or has been declared (or one or more Persons are entitled to declare such Indebtedness to be), due and payable before its stated maturity or before its regularly scheduled dates of payment; or

(g) the Company or any Significant Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or governmental authority of competent jurisdiction enters an order appointing, without consent by the Company or any of its Significant Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any of its Significant Subsidiaries, or any such petition shall be filed against the Company or any of its Significant Subsidiaries and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of \$10,000,000 are rendered against one or more of the Company and its Significant Subsidiaries and which judgments are not, within 60 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 60 days after the expiration of such stay; or

(j) default shall occur in the observance or performance of any provision of the Guaranty Agreement or the Guaranty Agreement shall cease to be in full force and effect for any reason except by operation of Section 9.12, including, without limitation, a final and nonappealable determination by any governmental body or court that the Guaranty Agreement is invalid, void or unenforceable, or any Subsidiary Guarantor or any Additional Subsidiary Guarantor shall contest or deny in writing the validity or enforceability of any provision of, or obligation under, the Guaranty Agreement; or



(k) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA

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section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$10,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, would reasonably be expected to have a Material Adverse Effect.

As used in Section 11(k), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in section 3 of ERISA.

#### SECTION 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration. (a) If an Event of Default with respect to the Company described in paragraph (g) or (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, the Required Holders may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder of Notes at the time outstanding affected by such Event of Default may at any time, at its option, by notice or notices to the Company, declare all the Notes held by it to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (i) all accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for), and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

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Section 12.2. Other Remedies. If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Notes have been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the holders of not less than 51% in principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, on any Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

#### SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

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Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or its attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee of a Note, or purchaser of a participation therein, shall, by its acceptance of such Note be deemed to make the same representations to the Company regarding the Note or participation as the Purchasers have made pursuant to Section 6.2.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, an original Purchaser or another holder of a Note with a minimum net worth of at least \$25,000,000, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

SECTION 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Fargo, North Dakota at the principal office of the Company. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction.

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Section 14.2. Home Office Payment. So long as any Purchaser or such Purchaser's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, such Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by such Purchaser or such Purchaser's nominee such Purchaser will, at such Purchaser's election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by any Purchaser under this Agreement and that has made the same agreement relating to such Note as such Purchaser has made in this Section 14.2.

SECTION 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of the Purchasers' special counsel, Chapman and Cutler, incurred by any Purchaser or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement, the Guaranty Agreement, the Intercreditor Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Guaranty Agreement, the Intercreditor Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Guaranty Agreement, the Intercreditor Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save each Purchaser of a Note harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by a Purchaser).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

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SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by a Purchaser of any Note or portion thereof or interest therein and the

payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between the Purchasers and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

#### SECTION 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 21 hereof, or any defined term (as it is used therein), will be effective as to a Purchaser unless consented to by such Purchaser in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 9.6, 11(a), 11(b), 12, 17 or 20.

#### Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted, on the same

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terms, ratably to each holder of Notes then outstanding whether or not such holder consented to such waiver or amendment.

Section 17.3. Binding Effect, etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by Company, etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

#### SECTION 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to a Purchaser or a Purchaser's nominee, to such Purchaser or it at the address specified for such communications in Schedule A, or at such other address as such Purchaser or it shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of Chief Financial Officer, or at such other address as the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

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#### SECTION 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to such Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

#### SECTION 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to a Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any Person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) such Purchaser's directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by such Purchaser's Notes), (ii) such Purchaser's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such Purchaser sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such Purchaser offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such Purchaser, (vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or

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(viii) any other Person to which such delivery or disclosure may be necessary or

appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

SECTION 21. SUBSTITUTION OF PURCHASER.

Each Purchaser shall have the right to substitute any one of such Purchaser's Affiliates as the purchaser of the Notes that such Purchaser has agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both such Purchaser and such Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of such Purchaser. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to a Purchaser all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to such Purchaser, and such Purchaser shall have all the rights of an original holder of the Notes under this Agreement.

SECTION 22. MISCELLANEOUS.

Section 22.1. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.2. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.3. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such

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prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.4. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.5. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.6. Submission to Jurisdiction. The Company hereby irrevocably submits and consents to the jurisdiction of the federal court located within the County of New York, State of New York (or if such court lacks jurisdiction, the State courts located therein), and irrevocably agrees that all actions or proceedings relating to this Agreement and the Notes may be litigated in such courts, and the Company waives any objection which it may have based on improper venue or forum non conveniens to the conduct of any proceeding in any such court and waives personal service of any and all process upon it, and consents that all such service of process be made by delivery to it at the

address of the Company set forth in Section 18 above.

Section 22.7. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

\* \* \* \* \*

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Otter Tail Corporation

Note Purchase Agreement

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

OTTER TAIL CORPORATION

By /s/ Kevin G. Moug

-----  
Name: Kevin G. Moug  
Title: C. F. O. and Treasurer

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Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

THE PRUDENTIAL INSURANCE COMPANY OF  
AMERICA

By /s/ Jay D. Squiers

-----  
Name: Jay D. Squiers  
Title: Vice President

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

HARTFORD LIFE INSURANCE COMPANY

By: Prudential Private Placement Investors,  
L.P., as Investment Advisor

By: Prudential Private Placement Investors,  
Inc., General Partner

By /s/ Jay D. Squiers

-----  
Name: Jay D. Squiers  
Title: Vice President

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

MEDICA HEALTH PLAN

By: Prudential Private Placement Investors,  
L.P., as Investment Advisor

By: Prudential Private Placement Investors,

Inc., General Partner

By /s/ Randall M. Kob

-----  
Vice President

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

GENERAL ELECTRIC CAPITAL ASSURANCE  
COMPANY

By /s/ Jon. M. Lucia

-----  
Name: Jon M. Lucia  
Title: Investment Officer

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

GE EDISON LIFE INSURANCE COMPANY

By /s/ William R. Wright

-----  
Name: William R. Wright  
Title: Chief Investment Officer

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

GE CAPITAL LIFE ASSURANCE COMPANY OF  
NEW YORK

By /s/ Jon M. Lucia

-----  
Name: Jon M. Lucia  
Title: Investment Officer

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

FIRST COLONY LIFE INSURANCE COMPANY

By /s/ Jon M. Lucia

-----  
Name: Jon M. Lucia  
Title: Assistant Vice President and  
And Investment Officer

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

TREASURER OF THE STATE OF SOUTH CAROLINA  
SOUTH CAROLINA RETIREMENT SYSTEM

By /s/ Grady L. Patterson Jr.

-----



Name: Grady L. Patterson Jr.  
Title: State Treasurer of South Carolina

Otter Tail Corporation

Note Purchase Agreement

The foregoing is hereby agreed to as of the date thereof.

COUNTRY LIFE INSURANCE COMPANY

By /s/ John A. Jacobs

-----  
Name: John A. Jacobs  
Title: Senior Investment Officer

INFORMATION RELATING TO PURCHASERS

| NAME AND ADDRESS<br>OF PURCHASER   | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|--|---|
| THE PRUDENTIAL INSURANCE COMPANY<br>OF AMERICA<br>c/o Prudential Capital Group<br>2200 Ross Avenue, Suite 4200E<br>Dallas, Texas 75201<br>Attention: Managing Director | \$21,500,000                                    |

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, !INV! 7784!, PPN 689648 B# 9, principal, Make-Whole Amount or interest") to:

Account Number 890-0304-391  
The Bank of New York  
New York, New York  
ABA #021-000-018

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments, and written confirmation of each such payment, to be addressed:

The Prudential Insurance Company of America  
c/o Investment Operations Group  
Gateway Center Two, 10th Floor  
100 Mulberry Street  
Newark, New Jersey 07102-4077  
Attention: Manager

Recipient of telephonic prepayment notices with respect to Notes:  
Manager, Trade Management Group  
Telephone: (973) 367-3141  
Facsimile: (973) 802-4925

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 22-1211670

SCHEDULE A  
(to Note Purchase Agreement)

Otter Tail Corporation

Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|----------------------------------|---|
|----------------------------------|---|

THE PRUDENTIAL INSURANCE COMPANY  
OF AMERICA  
c/o Prudential Capital Group  
2200 Ross Avenue, Suite 4200E  
Dallas, Texas 75201  
Attention: Managing Director

\$7,000,000

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, !INV 7784!, PPN 689648 B# 9, principal, Make-Whole Amount or interest") to:

Account Number 890-0304-944  
The Bank of New York  
New York, New York  
ABA #021-000-018

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments, and written confirmation of each such payment, to be addressed:

The Prudential Insurance Company of America  
c/o Investment Operations Group  
Gateway Center Two, 10th Floor  
100 Mulberry Street  
Newark, New Jersey 07102-4077  
Attention: Manager

Recipient of telephonic prepayment notices with respect to Notes:  
Manager, Trade Management Group  
Telephone: (973) 367-3141  
Facsimile: (973) 802-4925

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 22-1211670

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Otter Tail Corporation

Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER  | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|---|---|
| HARTFORD LIFE INSURANCE COMPANY<br>c/o Prudential Private Placement Investors, L.P.<br>Attn: Mr. Albert Trank, Senior Vice President<br>4 Gateway Center, 100 Mulberry Street<br>Newark, New Jersey 07102<br>Telephone: (973) 624-6432<br>Telefacsimile: (973) 802-8608 | \$5,000,000                                     |

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, Make-Whole Amount or interest") to:

Chase Manhattan Bank  
4 New York Plaza  
New York, New York 10004  
ABA #021000021  
Chase NYC/Cust  
A/C #900-9-000200 for F/C/T for domestic issuers use: G 08965 CRD

Notices

All notices and communications to be addressed as first provided above, except notices with respect to payments, and written confirmation of each such payment, to be addressed:

Hartford Investment Management Company  
c/o Portfolio Support  
P.O. Box 1744  
Hartford, Connecticut 06144-1744  
Telefacsimile: (860) 297-8875/8876

Name of Nominee in which Notes are to be issued: None

Otter Tail Corporation

Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER  | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|---|---|
| MEDICA HEALTH PLAN<br>c/o Prudential Private Placement Investors, Inc.<br>Four Gateway Center, 7th Floor<br>100 Mulberry Street<br>Newark, New Jersey 07102<br>Attention: Institutional Asset Management<br>Telephone: (973) 802-8608<br>Telecopy: (973) 802-7045 | \$1,500,000                                     |

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, Make-Whole Amount or interest") to:

Federal Reserve Bank of Boston  
 ABA No. 011001234  
 DDA No. 125261  
 For: Allina Medica Health Plan/AHHF5002082  
 Attn: MBS Income-Cost Center 1253

Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 41-1242261

Otter Tail Corporation

Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER   | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|--|---|
| GENERAL ELECTRIC CAPITAL ASSURANCE COMPANY<br>c/o GE Financial Assurance<br>Account: General Electric Capital Assurance Company<br>Two Union Square, 601 Union Street<br>Seattle, Washington 98101<br>Attention: Investment Department, Private Placements<br>Phone Number: (206) 516-4954<br>Fax Number: (206) 516-4578 | \$13,000,000                                    |

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, premium or interest") to:

Bankers Trust Company  
 14 Wall Street  
 New York, New York 10005  
 SWIFT Code: BKTR US 33  
 ABA #021001033  
 Account Number 99-911-145  
 FCC #097833

Notices

All notices with respect to payments and written confirmation of each such payment, to be addressed:

GE Financial Assurance  
 Account: General Electric Capital Assurance Company  
 Two Union Square, 601 Union Street  
 Seattle, Washington 98101  
 Attention: Investment Accounting

Phone Number: (206) 516-4649  
Fax Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: SALKELD & CO.

Taxpayer I.D. Number: 91-6027719

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Otter Tail Corporation Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER   | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|--|---|
| GE EDISON LIFE INSURANCE COMPANY<br>c/o GE Financial Assurance<br>Account: GE Edison Life Insurance Company (VIP Account)<br>Two Union Square, 601 Union Street<br>Seattle, Washington 98101<br>Attention: Investment Department, Private Placements<br>Phone Number: (206) 516-4954<br>Fax Number: (206) 516-4578 | \$10,000,000                                    |

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, premium or interest") to:

Bankers Trust Company  
14 Wall Street  
New York, New York 10005  
SWIFT Code: BKTR US 33  
ABA #021001033  
Account Number 99-911-145  
FCC #098775

Notices

All notices with respect to payments and written confirmation of each such payment, to be addressed:

GE Financial Assurance  
Account: GE Edison Life Insurance Company (VIP Account)  
Two Union Square, 601 Union Street  
Seattle, Washington 98101  
Attention: Investment Accounting  
Phone Number: (206) 516-4649  
Fax Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: SALKELD & CO.

Taxpayer I.D. Number: None (Foreign Company)

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Otter Tail Corporation Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER   | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|--|---|
| GE CAPITAL LIFE ASSURANCE COMPANY OF NEW YORK<br>c/o GE Financial Assurance<br>Account: GE Capital Life Assurance Company of New York<br>Two Union Square, 601 Union Street<br>Seattle, Washington 98101<br>Attention: Investment Department, Private Placements<br>Telephone Number: (206) 516-4954<br>Telefacsimile Number: (206) 916-4863 | \$7,000,000                                     |

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter

Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, premium or interest") to:

Bankers Trust Company  
14 Wall Street  
New York, New York 10005  
SWIFT Code: BKTR US 33  
ABA #021001033  
Account Number 99-911-145  
FCC #097836

Notices

All notices with respect to payments and written confirmation of each such payment to be addressed:

GE Financial Assurance  
Account: GE Capital Life Assurance Company of New York  
Two Union Square, 601 Union Street  
Seattle, Washington 98101  
Attention: Investment Accounting  
Telephone Number: (206) 516-2871  
Telefacsimile Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: SALKELD & CO.

Taxpayer I.D. Number: 22-2882416

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Otter Tail Corporation

Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER   | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|--|---|
| FIRST COLONY LIFE INSURANCE COMPANY<br>c/o GE Financial Assurance<br>Account: First Colony Life Insurance Company<br>Two Union Square, 601 Union Street<br>Seattle, Washington 98101<br>Attention: Investment Department, Private Placements<br>Telephone Number: (206) 516-4954<br>Telefacsimile Number: (206) 516-4578 | \$5,000,000                                     |

Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, premium or interest") to:

Bankers Trust Company  
16 Wall Street  
New York, New York 10005  
SWIFT Code: BKTR US 33  
ABA #021001033  
Account Number 99-911-145  
FCC #098069  
Ref: security description, coupon, maturity, PPN #, identify principal or interest

Notices

All notices with respect to payments and written confirmation of each such payment to be addressed:

GE Financial Assurance  
Account: First Colony Life Insurance Company  
Two Union Square, 601 Union Street  
Seattle, Washington 98101  
Attention: Investment Accounting  
Telephone Number: (206) 516-2871  
Telefacsimile Number: (206) 516-4740

All other notices and communications (including original note agreement, conformed copy of the note agreement, amendment requests, financial statements) to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: SALKELD & CO.

Taxpayer I.D. Number: 54-0596414

Otter Tail Corporation

Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER  | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|---|---|
| TREASURER OF THE STATE OF SOUTH CAROLINA<br>SOUTH CAROLINA RETIREMENT SYSTEM<br>Wade Hampton Building<br>Columbia, South Carolina 29201 | \$15,000,000                                    |

## Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, premium or interest") to:

Bank of New York  
ABA #0210000018  
BK=IOC 363  
S C Retirement System/862164

## Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 57-0882454

Otter Tail Corporation

Note Purchase Agreement

| NAME AND ADDRESS<br>OF PURCHASER   | PRINCIPAL AMOUNT<br>OF NOTES TO BE<br>PURCHASED |
|--|---|
| COUNTRY LIFE INSURANCE COMPANY<br>c/o Country Trust Bank Investment Management<br>808 IAA Drive<br>Bloomington, Illinois 61702<br>Attention: John Jacobs<br>Telephone: (309) 821-6260<br>Fax: (309) 821-6177 | \$5,000,000                                     |

## Payments

All payments on or in respect of the Notes to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as "Otter Tail Corporation, 6.63% Senior Notes due December 1, 2011, PPN 689648 B# 9, principal, premium or interest") to:

Northern Trust Chgo/Trust  
ABA Number 071000152  
Wire Account Number 5186041000  
For Further Credit to: 26-02712  
Account Name: Country Life Insurance Company  
Representing P & I on (list security)

## Notices

All notices and communications, including notices with respect to payments and written confirmation of each such payment, to be addressed as first provided above with a copy to:

Country Life Insurance Company  
Attention: Karent Brand (Investment Accounting)  
1701 Towanda Avenue  
P.O. Box 2000  
Bloomington, IL 61701  
Telephone: (309) 821-2854  
Fax: (309) 821-3538

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: 37-0808781

## DEFINED TERMS

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the express requirements of this Agreement.

Where any provision in this Agreement refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Acceptable Rating" shall mean in the case of Moody's a rating of "Baa3" (or the then current equivalent thereof) or better and in the case of S&P a rating of "BBB-" (or the then current equivalent thereof) or better and in the case of any other Designated Rating Agency, a rating equivalent to such Acceptable Rating of Moody's or S&P.

"Additional Subsidiary Guarantor" is defined in Section 9.8.

"Asset Disposition" means any Transfer except:

(a) any

(i) Transfer from a Subsidiary to the Company or a Wholly-Owned Subsidiary;

(ii) Transfer from the Company to a Wholly-Owned Subsidiary; and

(iii) Transfer from the Company to a Subsidiary (other than a Wholly-Owned Subsidiary) or from a Subsidiary to another Subsidiary (other than a Wholly-Owned Subsidiary), which in either case is for Fair Market Value,

so long as immediately before and immediately after the consummation of any such Transfer and after giving effect thereto, no Default or Event of Default exists; and

(b) any Transfer made in the ordinary course of business and involving only property that is either (i) inventory held for sale or (ii) equipment, fixtures, supplies or materials no longer required in the operation of the business of the Company or any of its Subsidiaries or that is obsolete.

"Affiliate" means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, "Control" means

SCHEDULE B  
(to Note Purchase Agreement)

Otter Tail Corporation

Note Purchase Agreement

the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an "Affiliate" is a reference to an Affiliate of the Company.

"Bank Closing Date" shall have the meaning set forth in Section 9.9.

"Bonds" shall mean any Bonds issued under the Indenture.

"Bank Credit Agreement" shall mean the Credit Agreement dated as of October 31, 1997 among the Mid-States Development, Inc. (now Varistar) and First Bank National Association, the Letter Agreement effective June 1, 1990 between the Company and U.S. Bank National Association and the Letter Agreement dated as of May 31, 2001 between the Company and The Bank of New York, each as amended from time to time, any replacement, additional or successor agreement or agreements thereto or any other bank credit facility or bank credit facilities in effect from time to time with banks or other lending institutions.

"Business Day" means (a) for the purposes of Section 8.7 only, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York are required or authorized to be closed, and (b) for the purposes of any other provision of this Agreement, any day other than a Saturday, a Sunday

or a day on which commercial banks in Minneapolis, Minnesota or New York, New York are required or authorized to be closed.

"Capital Lease" means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Lease Obligation" means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

"Closing" is defined in Section 3.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

"Company" means Otter Tail Corporation, a Minnesota corporation.

"Confidential Information" is defined in Section 20.

"Consolidated Assets" means, at any time, the total assets of the Company and its Subsidiaries which would be shown as assets on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of Subsidiaries.

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Otter Tail Corporation

Note Purchase Agreement

"Consolidated Debt" means, as of any date of determination, the total of all Debt of the Company and its Subsidiaries outstanding on such date, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP.

"Consolidated Income Available for Interest Charges" means, with respect to any period, Consolidated Net Income for such period plus all amounts deducted in the computation thereof on account of (a) Interest Charges and (b) taxes imposed on or measured by income or excess profits.

"Consolidated Net Income" means, with reference to any period, the net income (or loss) of the Company and its Subsidiaries for such period (taken as a cumulative whole), as determined in accordance with GAAP, after eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with GAAP, provided that there shall be excluded:

(a) the income (or loss) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Company or a Subsidiary, and the income (or loss) of any Person, substantially all of the assets of which have been acquired in any manner, realized by such other Person prior to the date of acquisition;

(b) the income (or loss) of any Person (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest, except to the extent that any such income has been actually received by the Company or such Subsidiary in the form of cash dividends or similar cash distributions; provided, further, that in any fiscal year there shall not be excluded the first \$1,000,000 of any such income (or loss) which is not so actually received;

(c) the undistributed earnings of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Subsidiary;

(d) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of income accrued during such period; provided, further, that in any fiscal year there shall not be excluded the first \$5,000,000 restored to income from contingency reserves the provisions for which reserves were made out of income accrued during one or more prior fiscal years;

(e) any aggregate net gain (but not any aggregate net loss) during such period arising from the sale, conversion, exchange or other disposition of capital assets (such term to include, without limitation, (i) all non-current assets and, without duplication, (ii) the following, whether or not current: all fixed assets, whether tangible or intangible, all inventory sold in conjunction with the disposition of fixed assets, and all Securities);



(f) any gains resulting from any write-up of any assets (but not any loss resulting from any write-down of any assets);

(g) any gain from the collection of the proceeds of life insurance policies after payment from such proceeds of any related liabilities;

(h) any gain arising from the acquisition of any Security, or the extinguishment, under GAAP, of any Debt, of the Company or any Subsidiary;

(i) any net income or gain (but not any net loss) during such period from (i) any change in accounting principles in accordance with GAAP, (ii) any prior period adjustments resulting from any change in accounting principles in accordance with GAAP, (iii) any extraordinary items, or (iv) any discontinued operations or the disposition thereof;

(j) any deferred credit representing the excess of equity in any Subsidiary at the date of acquisition over the cost of the investment in such Subsidiary; and

(k) in the case of a successor to the Company by consolidation or merger or as a transferee of its assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets.

"Consolidated Net Worth" means, at any time,

(a) the total assets of the Company and its Subsidiaries which would be shown as assets on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP, after eliminating all amounts properly attributable to minority interests, if any, in the stock and surplus of Subsidiaries, minus

(b) the total liabilities of the Company and its Subsidiaries which would be shown as liabilities on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP.

"Consolidated Total Capitalization" means, at any time, the sum of Consolidated Net Worth and Consolidated Debt.

"Debt" means, with respect to any Person, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of Redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) its Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities); and

(e) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (d) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (e) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

"Debt Prepayment Application" means, with respect to any Transfer of property, the application by the Company or its Subsidiaries of cash in an amount equal to the Net Proceeds Amount with respect to such Transfer to pay Debt of the Company, provided that in the course of making such application, the Company shall give to each holder of Notes a written offer to prepay each outstanding Note held by such holder at par in accordance with the following provisions in a principal amount equal to the Ratable Portion of such Note. If any holder of a Note fails to accept such an offer of prepayment, then for

purposes of the preceding sentence only the Company nevertheless shall be deemed to have paid Debt of the Company in an amount equal to the Ratable Portion for such Note. The offer to prepay shall specify a date for prepayment (the "Proposed Prepayment Date") not less than 30 days nor more than 45 days after the date of such offer. A holder of Notes may accept the offer to prepay by causing a notice of such acceptance to be delivered to the Company not later than 15 days after receipt by such holder of such offer, and a failure by a holder of Notes to accept an offer shall constitute a rejection of such offer by such holder. Upon delivery of an acceptance by the holder as set forth above of an offer by the Company to prepay such Notes, the Notes shall become due and payable at par on the Proposed Prepayment Date for such Notes. "Ratable Portion" for any Note means an amount equal to the product of (x) the Net Proceeds Amount being so applied to the payment of Debt of the Company multiplied by (y) a fraction of the numerator of which is the outstanding principal amount of such Note and the denominator of which is the aggregate principal amount of Debt of the Company.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means that rate of interest that is the greater of (i) 2% per annum above the rate of interest stated in clause (a) of the first paragraph of the Notes or (ii) 2% over the rate of interest publicly announced by U.S. Bank, National Association in Minneapolis, Minnesota as its "base" or "prime" rate.

"Designated Rating Agencies" means Moody's and S&P and in the event that Moody's or S&P is not rating Debt of corporations the common shares of which are publicly traded, then another rating agency or agencies of recognized national standing.

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Otter Tail Corporation

Note Purchase Agreement

"Disposition Value" means, at any time, with respect to any property

(a) in the case of property that does not constitute Subsidiary Stock, the book value thereof, valued at the time of such disposition in good faith by the Company, and

(b) in the case of property that constitutes Subsidiary Stock, an amount equal to that percentage of book value of the assets of the Subsidiary that issued such stock as is equal to the percentage that the book value of such Subsidiary Stock represents of the book value of all of the outstanding capital stock of such Subsidiary (assuming, in making such calculations, that all Securities convertible into such capital stock are so converted and giving full effect to all transactions that would occur or be required in connection with such conversion) determined at the time of the disposition thereof, in good faith by the Company.

"Environmental Laws" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Exchange Bonds" is defined in Section 9.6.

"Fair Market Value" means, at any time and with respect to any property, the sale value of such property that would be realized in an arm's-length sale at such time between an informed and willing buyer and an informed and willing seller (neither being under a compulsion to buy or sell).

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Authority" means

(a) the government of

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Otter Tail Corporation

Note Purchase Agreement

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

"Guaranty" means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Indebtedness or obligation or any property constituting security therefor;

(b) to advance or supply funds (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Indebtedness or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of any other Person to make payment of the Indebtedness or obligation; or

(d) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

In any computation of the Indebtedness or other liabilities of the obligor under any Guaranty, the Indebtedness or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor.

"Guaranty Agreement" is defined in Section 1.

"Hazardous Material" means any and all pollutants, toxic or hazardous wastes or any other substances, including all substances listed in or regulated in any Environmental Law that might pose a hazard to health or safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage, or filtration of which is or shall be restricted, regulated, prohibited or penalized by any applicable law (including, without limitation, asbestos, urea formaldehyde foam insulation and polychlorinated biphenyls).

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Otter Tail Corporation

Note Purchase Agreement

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Indebtedness" with respect to any Person means, at any time, without duplication,

(a) its liabilities for borrowed money and its redemption obligations in respect of Redeemable Preferred Stock;

(b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable arising in the ordinary course of business but including all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);

(c) Capital Lease Obligations;

(d) all liabilities for borrowed money secured by any Lien

with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);

(e) all its liabilities in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions (whether or not representing obligations for borrowed money);

(f) Swaps of such Person; and

(g) any Guaranty of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

"Indenture" means the Indenture of Mortgage dated as of July 1, 1936, as supplemented by 45 supplemental indentures between the Company and U.S. Bank Trust, National Association, as trustee.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form.

"Intercreditor Agreement" means the intercreditor agreement in the form attached hereto as Exhibit 3 which will be executed by the Lenders and the Noteholders upon the occurrence of the Bank Closing Date.

"Interest Charges" means, with respect to any period, the sum (without duplication) of the following (in each case, eliminating all offsetting debits and credits between the Company and its Subsidiaries and all other items required to be eliminated in the course of the preparation of consolidated financial statements of the Company and its Subsidiaries in accordance with

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Otter Tail Corporation

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GAAP): (a) all interest in respect of Debt of the Company and its Subsidiaries (including imputed interest on Capital Lease Obligations) deducted in determining Consolidated Net Income for such period, (b) all debt discount and expense amortized or required to be amortized in the determination of Consolidated Net Income for such period and (c) all dividends paid in respect of Preferred Stock.

"Interest Charges Coverage Ratio" means, at any time, the ratio of (a) Consolidated Income Available for Interest Charges for the period of four consecutive fiscal quarters ending on, or most recently ended prior to, such time to (b) Interest Charges for such period.

"Lender" means any Lender under the Bank Credit Agreement.

"Lien" means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

"Make-Whole Amount" is defined in Section 8.7.

"Material" means material in relation to the business, operations, affairs, financial condition, assets, or properties of the Company and its Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole, or (b) the ability of the Company to perform its obligations under this Agreement and the Notes or any Subsidiary Guarantor or Additional Subsidiary Guarantor to perform its obligations under the Guaranty Agreement, or (c) the validity or enforceability of this Agreement or the Notes or the Guaranty Agreement.

"Memorandum" is defined in Section 5.3.

"Moody's" means Moody's Investors Services Inc.

"Multiemployer Plan" means any Plan that is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"Net Proceeds Amount" means, with respect to any Transfer of any property by any Person, an amount equal to the difference of

(a) the aggregate amount of the consideration (valued at the

Fair Market Value of such consideration at the time of the consummation of such Transfer) received by such Person in respect of such Transfer, minus

(b) all ordinary and reasonable out-of-pocket costs and expenses actually incurred by such Person in connection with such Transfer.

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Otter Tail Corporation

Note Purchase Agreement

"Notes" is defined in Section 1.

"Noteholder" means any holder of the Notes.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"Plan" means an "employee benefit plan" (as defined in section 3(3) of ERISA) that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

"Preferred Stock" means, in respect of any corporation, shares of the capital stock of such corporation that are entitled to preference or priority over any other shares of the capital stock of such corporation in respect of payment of dividends or distribution of assets upon liquidation.

"Priority Debt" means, at any time without duplication, the sum of (a) all Debt of the Company and of any Subsidiaries secured by Liens other than by Liens permitted by Sections 10.3(a) through (g) and (b) all Debt of Subsidiaries and Preferred Stock of Subsidiaries held by entities other than the Company or a Wholly-Owned Subsidiary; provided, that there shall be excluded from the definition of Priority Debt (i) any Debt of a Subsidiary to the Company or a Wholly-Owned Subsidiary, and (ii) the Guaranties of the Subsidiary Guarantors or any Additional Subsidiary Guarantor (x) under the Guaranty Agreement and (y) under the Bank Credit Agreement, provided, that after the Bank Closing Date the Guaranties referred to in clause (ii) will be excluded so long as the Intercreditor Agreement is in effect.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Property Reinvestment Application" means, with respect to any Transfer of property, the application of an amount equal to the Net Proceeds Amount with respect to such Transfer to the acquisition by the Company or any Subsidiary of operating assets of the Company or any Subsidiary to be used in the ordinary course of business of such Person.

"QPAM Exemption" means Prohibited Transaction Class Exemption 84-14 issued by the United States Department of Labor.

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Otter Tail Corporation

Note Purchase Agreement

"Redeemable" means, with respect to the capital stock of any Person, each share of such Person's capital stock that is:

(a) redeemable, payable or required to be purchased or otherwise retired or extinguished, or convertible into Debt of such Person (i) at a fixed or determinable date, whether by operation of sinking fund or otherwise, (ii) at the option of any Person other than such Person, or (iii) upon the occurrence of a condition not solely within the control of such Person; or

(b) convertible into other Redeemable capital stock.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Notes at the time outstanding (exclusive of Notes then owned by the Company or any of its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"S&P" means Standard & Poor's Corporation.

"Security" shall have the same meaning as in Regulation SX adopted by the Securities and Exchange Commission.

"Senior Financial Officer" means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

"Significant Subsidiary" means at any time any Subsidiary that would at such time constitute a "significant subsidiary" (as such term is defined in Regulation S-X of the Securities and Exchange Commission as in effect on the date of the Closing) of the Company.

"Subsidiary" means, as to any Person, any corporation, association or other business entity in which such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such entity, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such Person or one or more of its Subsidiaries or such Person and one or more of its Subsidiaries (unless such partnership can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries). Unless the context otherwise clearly requires, any reference to a "Subsidiary" is a reference to a Subsidiary of the Company.

"Subsidiary Guarantors" is defined in Section 1.

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Otter Tail Corporation

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"Subsidiary Stock" means, with respect to any Person, the stock or other equity (or any options or warrants to purchase stock or other equity or other Securities exchangeable for or convertible into stock or other equity) of any Subsidiary of such Person.

"Swaps" means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

"Total Utility Plant" means, at any time, the total Utility Plant of the Company which would be shown on a consolidated balance sheet of the Company and its Subsidiaries as of such time prepared in accordance with GAAP.

"Transfer" means, with respect to any Person, any transaction in which such Person sells, conveys, transfers or leases (as lessor) or otherwise disposes of (including a dividend or a distribution other than a regular quarterly cash dividend paid by the Company or a distribution by the Company of additional shares of its common stock) any of its property, including, without limitation, Subsidiary Stock. For purposes of determining the application of the Net Proceeds Amount in respect of any Transfer, the Company may designate any Transfer as one or more separate Transfers each yielding a separate Net Proceeds Amount.

"Utility Assets" means the assets of the Utility Plant.

"Utility Plant" means all property (including separate and distinct plants, systems and properties), and all permanent improvements, extensions, additions and betterments to or about the plants and properties of the Company which are a part of the Company's electric utility system (including all generating and transmission plants and properties), and are properly chargeable under GAAP as additions to plant account including, without limiting the scope of the foregoing, property of the character described in the preceding provisions of this definition in process of construction or erection, so far as actually constructed or erected.

"Utility Property Reinvestment Application" means, with respect to any Transfer of Utility Assets, the application of an amount equal to the Net Proceeds Amount with respect to such Transfer to the acquisition by the Company of Utility Assets.

"Varistar" means Varistar Corporation, a Minnesota corporation and Wholly-Owned Subsidiary of the Company.

"Wholly-Owned Subsidiary" means, at any time, any Subsidiary one hundred percent (100%) of all of the equity interests (except directors' qualifying shares) and voting interests of

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Otter Tail Corporation

Note Purchase Agreement

which are owned by any one or more of the Company and the Company's other Wholly-Owned Subsidiaries at such time.

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CHANGES IN CORPORATE STRUCTURE

None

SCHEDULE 4.9  
(to Note Purchase Agreement)

DISCLOSURE MATERIALS

None

SCHEDULE 5.3  
(to Note Purchase Agreement)

SUBSIDIARIES OF THE COMPANY AND OWNERSHIP OF SUBSIDIARY STOCK

|    | JURISDICTION OF<br>FORMATION | PERCENT OWNERSHIP BY THE<br>CORPORATION AND ITS<br>SUBSIDIARIES** |      |
|----|------------------------------|---|------|
| 1. | Aerial Contractors, Inc.*    | North Dakota  | 100% |
| 2. | BTD Manufacturing, Inc.*     | Minnesota   | 100% |
| 3. | Chart L.L.C.                 | Minnesota   | 100% |
| 4. | Chassis Liner Corporation*   | Minnesota   | 100% |
| 5. | Chassis Liner Credit Corp.   | Minnesota   | 100% |

|     |                                     |              |      |
|-----|-------------------------------------|--------------|------|
| 6.  | Dakota Engineering, Inc.            | North Dakota | 100% |
| 7.  | Data Video Systems, Inc.            | Minnesota    | 100% |
| 8.  | DMI Industries, Inc.*               | North Dakota | 100% |
| 9.  | DMS Health Technologies, Inc.*      | North Dakota | 100% |
| 10. | DMS Imaging, Inc.*                  | North Dakota | 100% |
| 11. | DMS Leasing, Inc.                   | North Dakota | 100% |
| 12. | E.W. Wylie Corporation*             | North Dakota | 100% |
| 13. | Fargo Baseball, LLC                 | Minnesota    | 100% |
| 14. | Fargo Sports Concessions, LLC       | Minnesota    | 100% |
| 15. | KFGO, Inc.                          | North Dakota | 100% |
| 16. | Mid-States Testing Company          | Minnesota    | 100% |
| 17. | Midwest Information Systems, Inc.*  | Minnesota    | 100% |
| 18. | Midwest Telephone Co.               | Minnesota    | 100% |
| 19. | Minnesota Dakota Generating Company | Minnesota    | 100% |
| 20. | MIS Investments, Inc.               | Minnesota    | 100% |
| 21. | Moorhead Electric, Inc.*            | Minnesota    | 100% |

SCHEDULE 5.4  
(to Note Purchase Agreement)

|     |   |              |      |
|-----|---|--------------|------|
| 22. | MSB, Inc.   | North Dakota | 100% |
| 23. | Northern Pipe Products, Inc.*   | North Dakota | 100% |
| 24. | Nuclear Consultant, Inc.  | South Dakota | 100% |
| 25. | Nuclear Imaging, Ltd.*  | South Dakota | 100% |
| 26. | Ord Corporation   | Minnesota    | 100% |
| 27. | Osakis Telephone Company  | Minnesota    | 100% |
| 28. | Otter Tail Communications SD, Inc.  | South Dakota | 100% |
| 29. | Otter Tail Energy Management Company                                      | Minnesota    | 100% |
| 30. | Otter Tail Energy Services Company*                                       | Minnesota    | 100% |
| 31. | Otter Tail Management Corporation   | Minnesota    | 100% |
| 32. | Otter Tail Realty Company   | Minnesota    | 100% |
| 33. | Precision Machine, Inc.*  | Minnesota    | 100% |
| 34. | Quadrant Co.  | Minnesota    | 100% |
| 35. | St. George Steel Fabrication Inc.*  | Utah         | 100% |
| 36. | T.O. Plastics, Inc.*  | Minnesota    | 100% |
| 37. | The Peoples Telephone Co. of Bigfork                                      | Minnesota    | 100% |
| 38. | Varistar Corporation (formerly known as<br>Mid-States Development, Inc.)* | Minnesota    | 100% |
| 39. | Vinyltech Corporation*  | Arizona      | 100% |

-----  
\* Subsidiary Guarantor

\*\* The stock of certain Subsidiaries is pledged to the Lenders pursuant to the current Bank Credit Agreement with Varistar.

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FINANCIAL STATEMENTS

Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2001

Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2001

Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2001

Annual Report on Form 10-K for the Year Ended December 31, 2000

SCHEDULE 5.5  
(to Note Purchase Agreement)



CERTAIN LITIGATION

None

SCHEDULE 5.8  
(to Note Purchase Agreement)

PATENTS, ETC.

None

SCHEDULE 5.11  
(to Note Purchase Agreement)

USE OF PROCEEDS

The proceeds will be used (i) to repay indebtedness of (a) \$24 million of short-term indebtedness of Otter Tail and Varistar, (b) \$18.2 million of 8.75% first mortgage bonds due September 15, 2021 of Otter Tail, and (c) \$17.26 million of variable rate debt due October 31, 2007 of Varistar, (ii) to redeem \$18 million of preferred stock of Otter Tail, (iii) to fund certain capital expenditures of Varistar of approximately \$10 million, and (iv) for general corporate purposes.

SCHEDULE 5.14  
(to Note Purchase Agreement)

EXISTING INDEBTEDNESS

| LOCATION               | DESCRIPTION                   | AMOUNT       |
|------------------------|-------------------------------|--------------|
| Otter Tail Corporation | 7.25% First Mortgage Bonds    | \$18,400,000 |
| Otter Tail Corporation | 8.75% First Mortgage Bonds    | \$18,200,000 |
| Otter Tail Corporation | 8.25% First Mortgage Bonds    | \$27,600,000 |
| Otter Tail Corporation | 4.65% Pollution Control Bonds | \$ 5,185,000 |
| Otter Tail Corporation | 4.85% Pollution Control Bonds | \$20,790,000 |
| Otter Tail Corporation | Senior Debentures 6.375%      | \$50,000,000 |

|                        |  |              |
|------------------------|--|--------------|
| Otter Tail Corporation | Industrial Development Refunding Revenue |              |
|                        | Bonds 5.00%                              | \$ 3,010,000 |
| Otter Tail Corporation | Pollution Control Refunding              | \$10,400,000 |
| Otter Tail Corporation | Other                                    | \$ 923,000   |
| Varistar Corporation   | 7.80% due October 31, 2007               | \$10,333,000 |
| Varistar Corporation   | Variable due October 31, 2007            | \$17,260,000 |
| Varistar Corporation   | 8.15% due October 31, 2005               | \$ 5,610,000 |
| Varistar Corporation   | Variable due July 3, 2007                | \$ 4,690,000 |
| Varistar Corporation   | Other                                    | \$13,521,000 |

SCHEDULE 5.15  
(to Note Purchase Agreement)

[FORM OF NOTE]

OTTER TAIL CORPORATION

6.63% Senior Note December 1, 2011

No. [\_\_\_\_\_]
  
\$[\_\_\_\_\_]

[Date]
  
PPN 689648 B# 9

FOR VALUE RECEIVED, the undersigned, OTTER TAIL CORPORATION (herein called the "Company"), a corporation organized and existing under the laws of the State of Minnesota, hereby promises to pay to [\_\_\_\_\_] or registered assigns, the principal sum of [\_\_\_\_\_] DOLLARS on December 1, 2011, with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 6.63% per annum from the date hereof, payable semiannually, on the first day of each June and December in each year, commencing with the June or December next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable semiannually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.63% or (ii) 2% over the rate of interest publicly announced by U.S. Bank National Association from time to time in Minneapolis, Minnesota as its "base" or "prime" rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of the Company in Fargo, North Dakota or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Purchase Agreement referred to below.

This Note is one of a series of Senior Notes (herein called the "Notes") issued pursuant to a Note Purchase Agreement, dated as of December 1, 2001 (as from time to time amended, the "Note Purchase Agreement"), among the Company and the respective Purchasers named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreements and (ii) to have made the representation set forth in Section 6.2 of the Note Purchase Agreement.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the

EXHIBIT 1  
(to Note Purchase Agreement)

purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, at the price (including any



|  |    |
|--|----|
| Parties.....   | 1  |
| Recitals.....  | 1  |
| SECTION 1. DEFINITIONS.....                                      | 2  |
| SECTION 2. GUARANTY OF NOTES AND NOTE AGREEMENT.....             | 2  |
| SECTION 3. GUARANTY OF PAYMENT AND PERFORMANCE.....              | 2  |
| SECTION 4. GENERAL PROVISIONS RELATING TO THE GUARANTY.....      | 3  |
| SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE GUARANTORS..... | 7  |
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| SECTION 7. SUBMISSION TO JURISDICTION.....                       | 10 |
| SECTION 8. NOTICES.....  | 10 |
| SECTION 9. MISCELLANEOUS.....                                    | 11 |
| Signature.....   | 12 |

ATTACHMENTS TO GUARANTY AGREEMENT:

EXHIBIT A - Guaranty Supplement

GUARANTY AGREEMENT

Re: \$90,000,000 6.63% Senior Notes  
due December 1, 2011  
of Otter Tail Corporation

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This GUARANTY AGREEMENT dated as of December 1, 2001 (the or this "Guaranty") is entered into on a joint and several basis by each of the undersigned (which parties are hereinafter referred to individually as a "Guarantor" and collectively as the "Guarantors")

RECITALS

A. Each Guarantor, is presently a directly or indirectly wholly-owned subsidiary of Otter Tail Corporation, a Minnesota corporation (the "Company").

B. In order to raise funds to refinance existing Debt (as defined in the Note Agreement defined below) and for general corporate purposes, the Company has entered into the Note Purchase Agreement dated as of December 1, 2001 (the "Note Agreement") among the Company and each of the purchasers named on Schedule A attached to said Note Agreement (the "Initial Note Purchasers," together with their successors and assigns, the "Holders"), providing for, among other things, the issue and sale by the Company to the Initial Note Purchasers of the Company's 6.63% Senior Notes due December 1, 2011 in the aggregate principal amount of \$90,000,000 (the "Notes").

C. The Initial Note Purchasers have required as a condition of their purchase of the Notes that the Company cause each of the undersigned to enter into this Guaranty and to cause each Subsidiary (defined in the Note Agreement) which after the Closing (as defined in the Note Agreement) guarantees the Company's obligations under the Bank Credit Agreement ("Additional Subsidiary Guarantor") to enter into a Guaranty Supplement in substantially the form set forth in Exhibit A hereto (a "Guaranty Supplement"), in each case as security for the Notes, and the Company has agreed to cause the Guarantor to execute this Guaranty and to cause each Additional Subsidiary Guarantor to execute a Guaranty Supplement, in each case in order to induce the Initial Note Purchasers to purchase the Notes and thereby benefit the Company and its Subsidiaries by providing funds to enable the Company to refinance existing Debt (as further described in the Note Agreement) and to enable the Company and its Subsidiaries to have funds available for general corporate purposes.

NOW, THEREFORE, as required by Section 4.10 of the Note Agreement and

in consideration of the premises and other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, each Guarantor does hereby covenant and agree, jointly and severally as follows:

SECTION 1. DEFINITIONS.

Capitalized terms used herein shall have the meanings set forth in the Note Agreement unless herein defined or the context shall otherwise require.

SECTION 2. GUARANTY OF NOTES AND NOTE AGREEMENT.

(a) Each Guarantor jointly and severally does hereby irrevocably, absolutely and unconditionally guarantee unto the Holders: (1) the full and prompt payment of the principal of, premium, if any, and interest on the Notes from time to time outstanding, as and when such payments shall become due and payable, whether by lapse of time, upon redemption or prepayment, by extension or by acceleration or declaration or otherwise (including (to the extent legally enforceable) interest due on overdue payments of principal, premium, if any, or interest at the rate set forth in the Notes and interest accruing at the then applicable rate provided in the Notes after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Company, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) in Federal or other immediately available funds of the United States of America which at the time of payment or demand therefor shall be legal tender for the payment of public and private debts, (2) the full and prompt performance and observance by the Company of each and all of the obligations, covenants and agreements required to be performed or owed by the Company under the terms of the Notes and the Note Agreement and (3) the full and prompt payment, upon demand by any Holder, of all costs and expenses, legal or otherwise (including reasonable attorneys' fees), if any, as shall have been expended or incurred in the protection or enforcement of any rights, privileges or liabilities in favor of the Holders under or in respect of the Notes, the Note Agreement or under this Guaranty or in any action in connection therewith or herewith and in each and every case irrespective of the validity, regularity, or enforcement of any of the Notes or Note Agreement or any of the terms thereof or any other like circumstance or circumstances.

(b) The liability of each Guarantor under this Guaranty shall not exceed an amount equal to a maximum amount as will, after giving effect to such maximum amount and all other liabilities of such Guarantor, contingent or otherwise, result in the obligations of such Guarantor hereunder not constituting a fraudulent transfer, obligation or conveyance.

SECTION 3. GUARANTY OF PAYMENT AND PERFORMANCE.

This is a guarantee of payment and performance and each Guarantor hereby waives, to the fullest extent permitted by law, any right to require that any action on or in respect of any Note or the Note Agreement be brought against the Company or any other Person or that resort be had to any direct or indirect security for the Notes or for this Guaranty or any other remedy. Any Holder may, at its option, proceed hereunder against any Guarantor in the first instance to collect monies when due, the payment of which is guaranteed hereby, without first proceeding against the Company or any other Person and without first resorting to any direct or indirect security for the Notes or for this Guaranty or any other remedy. The liability of each Guarantor hereunder shall in no way be affected or impaired by any acceptance by any Holder of any

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direct or indirect security for, or other guaranties of, any Debt, liability or obligation of the Company or any other Person to any Holder or by any failure, delay, neglect or omission by any Holder to realize upon or protect any such guaranties, Debt, liability or obligation or any notes or other instruments evidencing the same or any direct or indirect security therefor or by any approval, consent, waiver, or other action taken, or omitted to be taken by any such Holder.

The covenants and agreements on the part of the Guarantors herein contained shall take effect as joint and several covenants and agreements, and references to the Guarantors shall take effect as references to each of them and none of them shall be released from liability hereunder by reason of the guarantee ceasing to be binding as a continuing security on any other of them.

SECTION 4. GENERAL PROVISIONS RELATING TO THE GUARANTY.

(a) Each Guarantor hereby consents and agrees that any Holder or Holders from time to time with or without the assent of any other Guarantor, may without in any manner affecting the liability of any other Guarantor under this Guaranty, and upon such terms and conditions as any such Holder or Holders may deem advisable:

(1) extend in whole or in part (by renewal or otherwise), modify, change, compromise, release or extend the duration of the time for the performance or payment of any Debt, liability or obligation of the Company or of any other Person secondarily or otherwise liable for any Debt, liability or obligations of the Company on the Notes, or waive any Default with respect thereto, or waive, modify, amend or change any provision of any other agreement or this Guaranty; or

(2) sell, release, surrender, modify, impair, exchange or substitute any and all property, of any nature and from whomsoever received, held by, or for the benefit of, any such Holder as direct or indirect security for the payment or performance of any Debt, liability or obligation of the Company or of any other Person secondarily or otherwise liable for any Debt, liability or obligation of the Company on the Notes; or

(3) settle, adjust or compromise any claim of the Company against any other Person secondarily or otherwise liable for any Debt, liability or obligation of the Company on the Notes.

Each Guarantor hereby ratifies and confirms any such extension, renewal, change, sale, release, waiver, surrender, exchange, modification, amendment, impairment, substitution, settlement, adjustment or compromise and that the same shall be binding upon it, and hereby waives, to the fullest extent permitted by law, any and all defenses, counterclaims or offsets which it might or could have by reason thereof, it being understood that such Guarantor shall at all times be bound by this Guaranty and remain liable hereunder.

(b) Each Guarantor hereby waives, to the fullest extent permitted by law:

(1) notice of acceptance of this Guaranty by the Holders or of the creation, renewal or accrual of any liability of the Company, present or future, or of the reliance of

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such Holders upon this Guaranty (it being understood that every Debt, liability and obligation described in Section 2 hereof shall conclusively be presumed to have been created, contracted or incurred in reliance upon the execution of this Guaranty);

(2) demand of payment by any Holder from the Company or any other Person indebted in any manner on or for any of the Debt, liabilities or obligations hereby guaranteed; and

(3) presentment for the payment by any Holder or any other Person of the Notes or any other instrument, protest thereof and notice of its dishonor to any party thereto and to such Guarantor.

The obligations of each Guarantor under this Guaranty and the rights of any Holder to enforce such obligations by any proceedings, whether by action at law, suit in equity or otherwise, shall not be subject to any reduction, limitation, impairment or termination, whether by reason of any claim of any character whatsoever or otherwise and shall not be subject to any defense, set-off, counterclaim (other than any compulsory counterclaim), recoupment or termination whatsoever.

(c) The obligations of each Guarantor hereunder shall be binding upon such Guarantor and its successors and assigns, and shall remain in full force and effect irrespective of:

(1) the genuineness, validity, regularity or enforceability of the Notes, the Note Agreement or any other agreement or any of the terms of any thereof, the continuance of any obligation on the part of the Company, or any other Guarantor or any other Person on or in respect of the Notes or under the Note Agreement or any other agreement or the power or authority or the lack of power or authority of the Company to issue the Notes or the Company to execute and deliver the Note Agreement or any other agreement or of any other Guarantor to execute and deliver this Guaranty or to perform any of its obligations hereunder or the existence or continuance of the Company, any other Guarantor or any other Person as a legal entity; or

(2) any default, failure or delay, willful or otherwise, in the performance by the Company, any other Guarantor or any other Person of any obligations of any kind or character whatsoever under the Notes, the Note Agreement or any other agreement; or

(3) any creditors' rights, bankruptcy, receivership or other insolvency proceeding of the Company, any other Guarantor or any other Person or in respect of the property of the Company, any other Guarantor or any other Person or any merger, consolidation, reorganization, dissolution, liquidation, the sale of all or

substantially all of the assets of or winding up of the Company, any other Guarantor or any other Person; or

(4) impossibility or illegality of performance on the part of the Company, any other Guarantor or any other Person of its obligations under the Notes, the Note Agreement or any other agreements; or

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(5) in respect of the Company, any other Guarantor or any other Person, any change of circumstances, whether or not foreseen or foreseeable, whether or not imputable to the Company, any other Guarantor or any other Person, or other impossibility of performance through fire, explosion, accident, labor disturbance, floods, droughts, embargoes, wars (whether or not declared), civil commotion, acts of God or the public enemy, delays or failure of suppliers or carriers, inability to obtain materials, action of any federal or state regulatory body or agency, change of law or any other causes affecting performance, or any other force majeure, whether or not beyond the control of the Company, any other Guarantor or any other Person and whether or not of the kind hereinbefore specified; or

(6) any attachment, claim, demand, charge, Lien, order, process, encumbrance or any other happening or event or reason, similar or dissimilar to the foregoing, or any withholding or diminution at the source, by reason of any taxes, assessments, expenses, Debt, obligations or liabilities of any character, foreseen or unforeseen, and whether or not valid, incurred by or against the Company, any Guarantor or any other Person or any claims, demands, charges or Liens of any nature, foreseen or unforeseen, incurred by any Person, or against any sums payable in respect of the Notes or under the Note Agreement or this Guaranty, so that such sums would be rendered inadequate or would be unavailable to make the payments herein provided; or

(7) any order, judgment, decree, ruling or regulation (whether or not valid) of any court of any nation or of any political subdivision thereof or any body, agency, department, official or administrative or regulatory agency of any thereof or any other action, happening, event or reason whatsoever which shall delay, interfere with, hinder or prevent, or in any way adversely affect, the performance by the Company, any Guarantor or any other Person of its respective obligations under or in respect of the Notes, the Note Agreement, this Guaranty or any other agreement; or

(8) the failure of any Guarantor to receive any benefit from or as a result of its execution, delivery and performance of this Guaranty; or

(9) any failure or lack of diligence in collection or protection, failure in presentment or demand for payment, protest, notice of protest, notice of default and of nonpayment, any failure to give notice to any Guarantor of failure of the Company, any other Guarantor or any other Person to keep and perform any obligation, covenant or agreement under the terms of the Notes, the Note Agreement, this Guaranty or any other agreement or failure to resort for payment to the Company, any other Guarantor or to any other Person or to any other guaranty or to any property, security, Liens or other rights or remedies; or

(10) the acceptance of any additional security or other guaranty, the advance of additional money to the Company or any other Person, the renewal or extension of the Notes or amendments, modifications, consents or waivers with respect to the Notes, the Note Agreement or any other agreement, or the sale, release, substitution or exchange of any security for the Notes; or

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(11) any merger or consolidation of the Company, any Guarantor or any other Person into or with any other Person or any sale, lease, transfer or other disposition of any of the assets of the Company, any Guarantor or any other Person to any other Person, or any change in the ownership of any shares of the Company, any Guarantor or any other Person; or

(12) any defense whatsoever that: (i) the Company or any other Person might have to the payment of the Notes (principal, premium, if any, or interest), other than payment thereof in Federal or other immediately available funds, or (ii) the Company or any other Person

might have to the performance or observance of any of the provisions of the Notes, the Note Agreement or any other agreement, whether through the satisfaction or purported satisfaction by the Company, any other Guarantor or any other Person of its debts due to any cause such as bankruptcy, insolvency, receivership, merger, consolidation, reorganization, dissolution, liquidation, winding-up or otherwise; or

(13) any act or failure to act with regard to the Notes, the Note Agreement, this Guaranty or any other agreement or anything which might vary the risk of any Guarantor or any other Person; or

(14) any other circumstance which might otherwise constitute a defense available to, or a discharge of, any Guarantor or any other Person in respect of the obligations of any Guarantor or other Person under this Guaranty or any other agreement;

provided that the specific enumeration of the above-mentioned acts, failures or omissions shall not be deemed to exclude any other acts, failures or omissions, though not specifically mentioned above, it being the purpose and intent of this Guaranty that the obligations of each Guarantor shall be absolute and unconditional and shall not be discharged, impaired or varied except by the payment of the principal of, premium, if any, and interest on the Notes in accordance with their respective terms whenever the same shall become due and payable as in the Notes provided and all other sums due and payable under the Note Agreement, at the place specified in and all in the manner and with the effect provided in the Notes and the Note Agreement, as each may be amended or modified from time to time. Without limiting the foregoing, it is understood that repeated and successive demands may be made and recoveries may be had hereunder as and when, from time to time, the Company shall default under or in respect of the terms of the Notes or the Note Agreement and that notwithstanding recovery hereunder for or in respect of any given default or defaults by the Company under the Notes or the Note Agreement, this Guaranty shall remain in full force and effect and shall apply to each and every subsequent default.

(d) Subject to the limitations under the Note Agreement on the rights of a Holder to transfer or assign the Notes, all rights of any Holder may be transferred or assigned at any time and shall be considered to be transferred or assigned at any time or from time to time upon the transfer of such Note whether with or without the consent of or notice to the Guarantors under this Guaranty or to the Company.

(e) To the extent of any payments made under this Guaranty, each Guarantor shall be subrogated to the rights of the Holder upon whose Notes such payment was made, but such

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Guarantor covenants and agrees that such right of subrogation shall be subordinate in right of payment to the prior indefeasible final payment in cash in full of all amounts due and owing by the Company with respect to the Notes and the Note Agreement and by the Guarantors under this Guaranty, and the Guarantors shall not take any action to enforce such right of subrogation, and the Guarantors shall not accept any payment in respect of such right of subrogation, until all amounts due and owing by the Company under or in respect of the Notes and the Note Agreement and all amounts due and owing by the Guarantors hereunder have indefeasibly been finally paid in cash in full. If any amount shall be paid to any Guarantor in violation of the preceding sentence at any time prior to the later of the indefeasible payment in cash in full of the Notes and all other amounts payable under the Notes, the Note Agreement and this Guaranty, such amount shall be held in trust for the benefit of the Holders and shall forthwith be paid to the Holders to be credited and applied to the amounts due or to become due with respect to the Notes and all other amounts payable under the Note Agreement and this Guaranty, whether matured or unmatured. Each Guarantor acknowledges that it has received direct and indirect benefits from the financing arrangements contemplated by the Note Agreement and that the waiver set forth in this paragraph (e) is knowingly made as a result of the receipt of such benefits.

(f) Each Guarantor agrees that to the extent the Company, any other Guarantor or any other Person makes any payment on any Note, which payment or any part thereof is subsequently invalidated, voided, declared to be fraudulent or preferential, set aside, recovered, rescinded or is required to be retained by or repaid to a trustee, receiver, or any other Person under any bankruptcy code, common law, or equitable cause, then and to the extent of such payment, the obligation or the part thereof intended to be satisfied shall be revived and continued in full force and effect with respect to the Guarantors' obligations hereunder, as if said payment had not been made. The liability of the Guarantors hereunder shall not be reduced or discharged, in whole or in part, by any payment to any Holder from any source that is thereafter paid, returned or refunded in whole or in part by reason of the assertion of a claim of any kind relating thereto, including, but not limited to, any claim for breach of contract, breach of warranty, preference, illegality, invalidity, or fraud asserted by any account debtor or by any other Person.

(g) No Holder shall be under any obligation: (1) to marshal any assets



in favor of the Guarantors or in payment of any or all of the liabilities of the Company under or in respect of the Notes or the obligations of the Guarantors hereunder or (2) to pursue any other remedy that the Guarantors may or may not be able to pursue themselves and that may lighten the Guarantors' burden, any right to which each Guarantor hereby expressly waives.

(h) The obligations of each Guarantor under this Guaranty rank pari passu in right of payment with all other Debt of such Guarantor which is not secured or which is not expressly subordinated in right of payment to any other Debt of such Guarantor.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE GUARANTORS.

Each Guarantor represents and warrants to each Holder that:

(a) Such Guarantor is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and is duly

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qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on (1) the business, operations, affairs, financial condition, assets, properties or prospects of such Guarantor and its subsidiaries, taken as a whole, or (2) the ability of such Guarantor to perform its obligations under this Guaranty, or (3) the validity or enforceability of this Guaranty (herein in this Section 5, a "Material Adverse Effect"). Such Guarantor has the power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Guaranty and to perform the provisions hereof.

(b) This Guaranty has been duly authorized by all necessary action on the part of such Guarantor, and this Guaranty constitutes a legal, valid and binding obligation of such Guarantor enforceable against such Guarantor in accordance with its terms, except as such enforceability may be limited by (1) applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent transfer, obligation or conveyance or other similar laws affecting the enforcement of creditors' rights generally and (2) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(c) The execution, delivery and performance by such Guarantor of this Guaranty will not (1) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien in respect of any property of such Guarantor or any of its subsidiaries under its corporate charter or by-laws, or except for contraventions, breaches or defaults which could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, under any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, or any other agreement or instrument to which such Guarantor or any of its subsidiaries is bound or by which such Guarantor or any of its subsidiaries or any of their respective properties may be bound or affected, (2) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to such Guarantor or any of its subsidiaries or (3) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to such Guarantor or any of its subsidiaries.

(d) No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by such Guarantor of this Guaranty.

(e) (1) Except as disclosed in Schedule 5.8 to the Note Agreement, there are no actions, suits or proceedings pending or, to the knowledge of such Guarantor, threatened against or affecting such Guarantor or any of its subsidiaries or any property of such Guarantor or any of its subsidiaries in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(2) Neither such Guarantor nor any of its subsidiaries is in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order,

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judgment, decree or ruling of any court, arbitrator or Governmental Authority or is in violation of any applicable law, ordinance, rule or regulation (including

without limitation Environmental Laws) of any Governmental Authority, which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(f) Such Guarantor is solvent, has capital not unreasonably small in relation to its business or any contemplated or undertaken transaction and has assets having a value both at fair valuation and at present fair salable value greater than the amount required to pay its debts as they become due and greater than the amount that will be required to pay its probable liability on its existing debts as they become absolute and matured. Such Guarantor does not intend to incur, or believe that it will incur, debts beyond its ability to pay such debts as they become due. Such Guarantor will not be rendered insolvent by the execution and delivery of, and performance of its obligations under, this Guaranty. Such Guarantor does not intend to hinder, delay or defraud its creditors by or through the execution and delivery of, or performance of its obligations under, this Guaranty.

#### SECTION 6. AMENDMENTS, WAIVERS AND CONSENTS.

(a) This Guaranty may be amended, and the observance of any term hereof may be waived (either retroactively or prospectively), with (and only with) the written consent of each Guarantor and the Required Holders, except that (1) no amendment or waiver of any of the provisions of Sections 2, 3 or 4, or any defined term (as it is used therein), will be effective as to any Holder unless consented to by such Holder in writing, and (2) no such amendment or waiver may, without the written consent of each Holder, (i) change the percentage of the principal amount of the Notes the Holders of which are required to consent to any such amendment or waiver, or (ii) amend this Section 6.

(b) The Guarantors will provide each Holder (irrespective of the amount of Notes then owned by it) with sufficient information, and shall be afforded the opportunity of considering the same for a period of not less than 30 days and shall be supplied by the Guarantors with a brief statement regarding the reasons for any such proposed waiver or amendment, a copy of the proposed waiver or amendment and such other information regarding such amendment as any Holder shall reasonably request to enable it to make an informed decision with respect thereto. The Guarantors will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 6 to each Holder promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite Holders.

(c) Each Guarantor agrees it will not directly or indirectly pay or cause to be paid any remuneration, whether by way of fee or otherwise, or grant any security, to any Holder as consideration for or as an inducement to the entering into by any Holder of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each Holder even if such Holder did not consent to such waiver or amendment.

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(d) Any amendment or waiver consented to as provided in this Section 6 applies equally to all Holders and is binding upon them and upon each future holder and upon the Guarantors. No such amendment or waiver will extend to or affect any obligation, covenant or agreement not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Guarantors and any Holder nor any delay in exercising any rights hereunder shall operate as a waiver of any rights of any Holder. As used herein, the term "this Guaranty" and references thereto shall mean this Guaranty as it may from time to time be amended or supplemented.

#### SECTION 7. SUBMISSION TO JURISDICTION.

Any legal action or proceeding with respect to this Guaranty or any document relating thereto shall be brought in the courts of the State of New York or of the United States of America for the Southern District of New York and in no other courts, and, by execution and delivery of this Guaranty, each Guarantor hereby accepts for itself and in respect of its property generally and unconditionally, the jurisdiction of the aforesaid courts. Each Guarantor hereby irrevocably and unconditionally waives any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens which it may now or hereafter have to the bringing of any action or proceeding in such respective jurisdiction and waives personal service of any and all process upon it, and consents that all such service of process be made by delivery to it at the address set forth in Section 8 and that service so made shall be deemed to be completed upon actual receipt.

#### SECTION 8. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telefacsimile if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service

(with charges prepaid). Any such notice must be sent:

(1) if to an Initial Note Purchaser or such Initial Note Purchaser's nominee, to such Initial Note Purchaser or such Initial Note Purchaser's nominee at the address specified for such communications on Schedule A to the Note Agreement, or at such other address as such Initial Note Purchaser or such Initial Note Purchaser's nominee shall have specified to any Guarantor or the Company in writing,

(2) if to any other Holder, to such Holder at such address as such Holder shall have specified to any Guarantor or the Company in writing, or

(3) if to any Guarantor, to such Guarantor c/o the Company at 3203 32nd Avenue, Fargo, North Dakota 58106-9156, or at such other address as such Guarantor shall have specified to the Holders in writing.

Notices under this Section 8 will be deemed given only when actually received.

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SECTION 9. MISCELLANEOUS.

(a) No remedy herein conferred upon or reserved to any Holder is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Guaranty now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle any Holder to exercise any remedy reserved to it under the Guaranty, it shall not be necessary for such Holder to physically produce its Note in any proceedings instituted by it or to give any notice, other than such notice as may be herein expressly required.

(b) The Guarantors will pay all sums becoming due under this Guaranty by the method and at the address specified for such purpose on Schedule A to the Note Agreement, or by such other reasonable method or at such other address as any Holder shall have from time to time specified to the Guarantors in writing for such purpose, without the presentation or surrender of this Guaranty or any Note.

(c) Any provision of this Guaranty that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

(d) If the whole or any part of this Guaranty shall be now or hereafter become unenforceable against any one or more of the Guarantors for any reason whatsoever or if it is not executed by any one or more of the Guarantors, this Guaranty shall nevertheless be and remain fully binding upon and enforceable against each other Guarantor as if it had been made and delivered only by such other Guarantors.

(e) This Guaranty shall be binding upon each Guarantor and its successors and assigns and shall inure to the benefit of each Holder and its successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not, so long as its Notes remain outstanding and unpaid.

(f) This Guaranty may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

(g) This Guaranty shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York, but excluding choice-of-law principles of the law of such State that would require the application of the laws of a jurisdiction other than such State.

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IN WITNESS WHEREOF, the undersigned has caused this Guaranty to be duly executed by an authorized representative as of this first day of December, 2001.

AERIAL CONTRACTORS, INC.

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

BTD MANUFACTURING, INC.

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

CHASSIS LINER CORPORATION

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

DMI INDUSTRIES, INC.

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

DMS HEALTH TECHNOLOGIES

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

DMS IMAGING, INC.

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

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E.W. WYLIE CORPORATION

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

MIDWEST INFORMATION SYSTEMS, INC.

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT

-----  
Title: DIRECTOR  
-----

MOORHEAD ELECTRIC, INC.

By /s/ LAURIS MOLBERT  
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Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----  
  
NORTHERN PIPE PRODUCTS, INC.

By /s/ LAURIS MOLBERT  
-----  
Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----  
  
NUCLEAR IMAGING, LTD

By /s/ LAURIS MOLBERT  
-----  
Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----  
  
OTTER TAIL ENERGY SERVICES COMPANY

By /s/ KEVIN MOUG  
-----  
Name: KEVIN MOUG  
-----  
Title: TREASURER  
-----

EXHIBIT 3  
To Note Purchase Agreement

PRECISION MACHINE, INC.  
  
By /s/ LAURIS MOLBERT  
-----  
Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----  
  
ST. GEORGE STEEL FABRICATION, INC.

By /s/ LAURIS MOLBERT  
-----  
Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----  
  
T.O. PLASTICS, INC.

By /s/ LAURIS MOLBERT  
-----  
Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----  
  
VARISTAR CORPORATION

By /s/ LAURIS MOLBERT  
-----  
Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----  
  
VINYLTECH CORPORATION

By /s/ LAURIS MOLBERT

-----  
Name: LAURIS MOLBERT  
-----  
Title: DIRECTOR  
-----

EXHIBIT 3  
To Note Purchase Agreement

GUARANTY SUPPLEMENT

To the Holders of the Notes  
of Otter Tail Corporation  
(the "Company")

Ladies and Gentlemen:

WHEREAS, in order to refinance existing indebtedness and for general corporate purposes, the Company issued its 6.63% Senior Notes due December 1, 2011 in the aggregate principal amount of \$90,000,000 (the "Notes") pursuant to the Note Purchase Agreement dated as of December 1, 2001 (the "Note Agreement") among the Company and each of the purchasers named on Schedule A attached to said Note Agreement (the "Initial Note Purchasers").

WHEREAS, as a condition precedent to their purchase of the Notes, the Initial Note Purchasers required that certain Subsidiaries of the Company enter into a Guaranty Agreement as security for the Notes (the "Guaranty").

Pursuant to Section 9.8 of the Note Agreement, the Company has agreed to cause the undersigned, \_\_\_\_\_, a corporation organized under the laws of \_\_\_\_\_ (the "Additional Subsidiary Guarantor"), to execute the Guaranty. In accordance with the requirements of the Guaranty, the Additional Subsidiary Guarantor desires to amend the definition of Guarantor (as the same may have been heretofore amended) set forth in the Guaranty attached hereto so that at all times from and after the date hereof, the Additional Subsidiary Guarantor shall be jointly and severally liable as set forth in the Guaranty for the obligations of the Company under the Note Agreement and Notes to the extent and in the manner set forth in the Guaranty.

The undersigned is the duly elected \_\_\_\_\_ of the Additional Subsidiary Guarantor, a subsidiary of the Company, and is duly authorized to execute and deliver this Guaranty Supplement to each of you. The execution by the undersigned of this Guaranty Supplement shall evidence its consent to and acknowledgment and approval of the terms set forth herein and in the Guaranty and by such execution the Additional Subsidiary Guarantor shall be deemed to have made in favor of the Holders the representations and warranties set forth in Section 5 of the Guaranty.

Upon execution of this Guaranty Supplement, the Guaranty shall be deemed to be amended as set forth above. Except as amended herein, the terms and provisions of the Guaranty are hereby ratified, confirmed and approved in all respects.

EXHIBIT A  
(to Guaranty Agreement)

Any and all notices, requests, certificates and other instruments (including the Notes) may refer to the Guaranty without making specific reference to this Guaranty Supplement, but nevertheless all such references shall be deemed to include this Guaranty Supplement unless the context shall otherwise require.

Dated: \_\_\_\_\_, \_\_\_\_.

[NAME OF ADDITIONAL SUBSIDIARY  
GUARANTOR]

By

Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT 3  
To Note Purchase Agreement

FORM OF INTERCREDITOR AGREEMENT

EXHIBIT 3  
To Note Purchase Agreement

=====

INTERCREDITOR AGREEMENT

Dated as of December 1, 2001

Re: \$90,000,000 6.63% Senior Notes due December 1, 2011

of

OTTER TAIL CORPORATION

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INTERCREDITOR AGREEMENT

INTERCREDITOR AGREEMENT dated as of December 1, 2001 among the Creditors (as defined below) and Otter Tail Corporation, a corporation incorporated under the laws of Minnesota (the "Company").

RECITALS:

A. Under and pursuant to the Note Purchase Agreement, dated as of December 1, 2001 (the "Note Purchase Agreement"), among the Company and the purchasers named on Schedule A attached to the Note Purchase Agreement (individually a "Noteholder" and collectively, the "Noteholders"), the Company proposes to issue and sell to the Noteholders \$90,000,000 aggregate principal amount of its 6.63% Senior Notes, due December 1, 2011 (the "Notes").

B. The Noteholders have required as a condition of their purchase of the Notes that each of the Subsidiaries listed as signatories to the Guaranty Agreement referred to in the Note Purchase Agreement (each being a "Subsidiary Guarantor" and collectively the "Subsidiary Guarantors"), enter into a guaranty as security for the Notes and accordingly the Subsidiary Guarantor has agreed to provide a guaranty. Each such Subsidiary Guarantor proposes to execute and deliver the Guaranty Agreement (each a "Noteholders' Guaranty" and collectively the "Noteholders' Guaranties") dated as of December 1, 2001, pursuant to which such Subsidiary Guarantor will irrevocably, absolutely and unconditionally guarantee to the Noteholders the payment of the principal of, premium, if any, and interest on the Notes and the payment and performance of all other obligations of the Company under the Note Purchase Agreement.

C. Under and pursuant to that certain Bank Credit Agreement dated as of \_\_\_\_\_ (as such agreement may be modified or amended, including any increase in the amount thereof and the addition of any lending institution which may become a Lender (as defined below) and including any replacement, additional or successor agreement or agreements thereto, the "Credit Agreement") between the Company and various lending institutions (individually a "Lender" and collectively the "Lenders"), the Lenders have made available to the Company certain credit facilities in a current aggregate principal amount up to \$\_\_\_\_\_ (all amounts outstanding in respect of said credit facilities being hereinafter collectively referred to as the "Loans").

D. In connection with the execution of the Credit Agreement and as security for the Loans made thereunder, the Subsidiary Guarantors have heretofore guaranteed to the Lenders the payment of the Loans and all other obligations of the Company under the Credit Agreement under that certain guaranty agreement (as such agreement may be modified, amended, renewed or replaced, including any increase in the amount thereof, the "Lenders' Guaranty").

Intercreditor Agreement

E. The Lenders' Guaranty and the Noteholders' Guaranty are each hereinafter individually referred to as a "Subsidiary Guaranty" and collectively referred to as the "Subsidiary Guaranties."

F. The Company and the Subsidiary Guarantors contemplate that from time to time after the date hereof, additional subsidiaries of the Company may, subject to the terms and conditions of the Credit Agreement and the Note Purchase Agreement, issue additional guaranties which the Company, the Subsidiary Guarantors and the Creditors wish to become subject to this Intercreditor Agreement pursuant to the requirements of ss.3.4 hereof.

G. Pursuant to the requirements of Section 9.9 of the Note Purchase Agreement, the Company has requested and the Lenders and the Noteholders have agreed that the Bank Closing Date has occurred and, accordingly, the Lenders under the New Bank Agreement and the Noteholders hereby enter into this



Agreement effective as of the Bank Closing Date.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS.

The following terms shall have the meanings assigned to them below in this ss.1 or in the provisions of this Agreement referred to below:

"Additional Guarantors" shall mean the Subsidiaries which are intended to be subject to this Intercreditor Agreement pursuant to the requirements of ss.3.4 hereof.

"Bank Closing Date" shall have the meaning set forth in the Note Purchase Agreement.

"Company" shall have the meaning assigned thereto in the Recitals hereof.

"Credit Agreement" shall have the meaning assigned thereto in the Recitals hereof.

"Creditor" shall individually mean any Lender or Noteholder and "Creditors" shall mean all of the Lenders and the Noteholders.

"Excess Subsidiary Payment" shall mean as to any Creditor an amount equal to the Subsidiary Payment received by such Creditor less the Pro Rata Share of Subsidiary Payments to which such Creditor is then entitled.

"Lender" and "Lenders" shall have the meanings assigned thereto in the Recitals hereto.

"Lenders Guaranty" shall have the meanings assigned thereto in the Recitals hereof.

"Loans" shall have the meaning assigned thereto in the Recitals hereof.

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Intercreditor Agreement

"New Bank Agreement" shall have the meaning set forth in the Note Purchase Agreement.

"Note Purchase Agreement" shall have the meaning assigned thereto in the Recitals hereof.

"Noteholder" or Noteholders" shall have the meanings assigned thereto in the Recitals hereof.

"Noteholders' Guaranty" and "Noteholders' Guaranties" shall have the meaning assigned thereto in the Recitals hereof.

"Notes" shall have the meaning assigned thereto in the Recitals hereof.

"Person" shall mean an individual, partnership, limited liability company, corporation, trust or unincorporated organization, and a government or agency or political subdivision thereof.

"Pro Rata Share of Subsidiary Payments" shall mean as of the date of any Subsidiary Payment to a Creditor in respect to a Subsidiary Agreement an amount equal to the product obtained by multiplying (a) the amount of all Subsidiary Payments made by the Subsidiary Guarantors to all Creditors less all reasonable costs incurred by such Creditors in connection with the collection of such Subsidiary Payments by (b) a fraction, the numerator of which shall be the Specified Amount owing to such Creditor, and the denominator of which is the aggregate amount of all outstanding Subject Obligations (without giving effect in the denominator to the application of any such Subsidiary Payments).

"Receiving Creditor" shall have the meaning assigned thereto in ss.2.

"Specified Amount" shall mean as to any Creditor the aggregate amount of the Subject Obligations owed to such Creditor.

"Subject Obligations" shall mean all principal of, premium, if any, and interest on, the Notes and the Loans and all other payment obligations of the Company under or in respect of the Notes and the Loans and under the Note Purchase Agreement or the Credit Agreement and any other payment obligations of the Company to the Lenders which are guaranteed by the Lenders' Guaranty.

"Subsidiary Agreements" shall mean the Subsidiary Guaranties.

"Subsidiary Guarantor" and "Subsidiary Guarantors" shall have the meaning assigned thereto in the Recitals hereof.

"Subsidiary Guaranty" and "Subsidiary Guaranties" shall have the meanings assigned thereto in the Recitals hereof.

"Subsidiary Payment" shall have the meaning assigned thereto in ss.2.

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Intercreditor Agreement

SECTION 2. SHARING OF RECOVERIES.

Each Creditor hereby agrees with each other Creditor that payments (including payments made through setoff of deposit balances or otherwise or payments or recoveries from any security interest granted to any Creditor) made pursuant to the terms of the Subsidiary Agreements (a "Subsidiary Payment") shall be shared so that each Creditor shall receive its Pro Rata Share of Subsidiary Payments. Accordingly, each Creditor hereby agrees that in the event (i) any Creditor shall receive a Subsidiary Payment (a "Receiving Creditor") and (ii) any other Creditor shall not concurrently receive its Pro Rata Share of Subsidiary Payments from such Subsidiary Guarantor, then the Receiving Creditor shall promptly remit the Excess Subsidiary Payment to each other Creditor who shall then be entitled thereto so that after giving effect to such payment (and any other payments then being made by any other Receiving Creditor pursuant to this ss.2) each Creditor shall have received its Pro Rata Share of Subsidiary Payments.

Any such payments shall be deemed to be and shall be made in consideration of the purchase for cash at face value, but without recourse, ratably from the other Creditors such amount of Notes or Loans (or interest therein), as the case may be, to the extent necessary to cause such Receiving Creditor to share such Excess Subsidiary Payment with the other Creditors as hereinabove provided; provided, however, that if any such purchase or payment is made by any Receiving Creditor and if such Excess Subsidiary Payment or part thereof is thereafter recovered from such Receiving Creditor by such Subsidiary Guarantor (including, without limitation, by any trustee in bankruptcy of such Subsidiary Guarantor or any creditor thereof), the related purchase from the other Creditors shall be rescinded ratably and the purchase price restored as to the portion of such Excess Subsidiary Payment so recovered, but without interest; and provided further nothing herein contained shall obligate any Creditor to resort to any setoff, application of deposit balance or other means of payment under any Subsidiary Agreement or avail itself of any recourse by resort to any property of the Company or any Subsidiary Guarantor, the taking of any such action to remain within the absolute discretion of such Creditor without obligation of any kind to the other Creditors to take any such action. In the event a Creditor shall determine that it is reasonably necessary to evidence the purchase of Notes or Loans (or an interest therein) by such Creditor pursuant to the foregoing provisions of this paragraph, the seller thereof upon the request of such Creditor shall take such action as shall be necessary to document such purchase.

SECTION 3. AGREEMENTS AMONG THE CREDITORS.

Section 3.1. Independent Actions by Creditors. Nothing contained in this Agreement shall prohibit any Creditor from accelerating the maturity of, or demanding payment from a Subsidiary Guarantor on, any Subject Obligation of the Company to such Creditor or from instituting legal action against the Company or a Subsidiary Guarantor to obtain a judgment or other legal process in respect of such Subject Obligation, but any funds received from a Subsidiary Guarantor in connection with any recovery therefrom shall be subject to the terms of this Agreement.

Section 3.2. Relation of Creditors. This Agreement is entered into solely for the purposes set forth herein, and no Creditor assumes any responsibility to any other party hereto to

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Intercreditor Agreement

advise such other party of information known to such other party regarding the financial condition of the Company or a Subsidiary Guarantor or of any other circumstances bearing upon the risk of nonpayment of the Subject Obligation. Each Creditor specifically acknowledges and agrees that nothing contained in this Agreement is or is intended to be for the benefit of the Company or a Subsidiary Guarantor and nothing contained herein shall limit or in any way modify any of the obligations of the Company or any Subsidiary Guarantor to the Creditors.

Section 3.3. Acknowledgment of Guaranties. The Lenders hereby

expressly acknowledge the existence of the Noteholders' Guaranty and the Noteholders hereby expressly acknowledge the existence of the Lenders' Guaranty.

Section 3.4. Additional Guarantors. Additional Persons may become "Subsidiary Guarantors" hereunder by executing and delivering to a then existing Creditor a guaranty by which such Person has become a guarantor of the Notes or Loans pursuant to the terms of the Credit Agreement or the Note Purchase Agreement. Accordingly, upon the execution and delivery of any such copy of the guaranty by any such Person, such Person shall, thereafter become a "Subsidiary Guarantor" for all purposes of this Agreement.

Section 3.5. Additional Lenders. Additional Persons may become "Lenders" hereunder, provided that any such Person shall sign an acknowledgement in the form of Exhibit A attached hereto, by which such Person agrees to be bound by the terms of this Agreement and such Person shall deliver to the Company for distribution to each of the then existing Creditors a copy of such acknowledgement so executed.

#### SECTION 4. MISCELLANEOUS.

Section 4.1. Entire Agreement. This Agreement represents the entire Agreement among the Creditors and, except as otherwise provided, this Agreement may not be altered, amended or modified except in a writing executed by all the parties to this Agreement.

Section 4.2. Notices. Notices hereunder shall be given to the Creditors at their addresses as set forth in the Note Purchase Agreement or the Credit Agreement, as the case may be, or at such other address as may be designated by each in a written notice to the other parties hereto.

Section 4.3. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of each of the Creditors and their respective successors and assigns, whether so expressed or not, and, in particular, shall inure to the benefit of and be enforceable by any future holder or holders of any Subject Obligations, and the term "Creditor" shall include any such subsequent holder of Subject Obligations, wherever the context permits.

Section 4.4. Consents, Amendment, Waivers. All amendments, waivers or consents of any provision of this Agreement shall be effective only if the same shall be in writing and signed by all of the Creditors.

SECTION 4.5. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

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#### Intercreditor Agreement

Section 4.6. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one Agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart.

Section 4.7. Sale of Interest. No Creditor will sell, transfer or otherwise dispose of any interest in the Subject Obligations unless such purchaser or transferee shall agree, in writing, to be bound by the terms of this Agreement.

Section 4.8. Severability. In case any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

Section 4.9. Expenses. In the event of any litigation to enforce this Agreement, the prevailing party shall, if not reimbursed by the Company, be entitled to its reasonable attorney's fees (including the allocated costs of in-house counsel).

Section 4.10. Term of Agreement. This Agreement shall terminate when all Subject Obligations are paid in full and such payments are not subject to any possibility of revocation or rescission or until all of the parties hereto mutually agree in a writing to terminate this Agreement.

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#### Intercreditor Agreement

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed as of the date first above written.

[VARIATION]

By  
Name \_\_\_\_\_  
Title \_\_\_\_\_

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Intercreditor Agreement

The undersigned hereby acknowledge and agree to the foregoing Agreement.

[VARIATION]

By  
Name \_\_\_\_\_  
Title \_\_\_\_\_

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EXECUTION BY ADDITIONAL LENDER

The undersigned hereby acknowledges and agrees to the foregoing Agreement and executes and delivers this Agreement and agrees to become a party thereto with all the rights, benefits and obligations of a Lender (as defined in the Agreement) all as of the date hereof \_\_\_\_\_, \_\_\_\_\_.

The undersigned Lender has entered into the following facility with the Company [insert description of debt facility of the Company] which is guaranteed by a Subsidiary Guarantor pursuant to [insert description of guaranty agreement].

[LENDER]

By \_\_\_\_\_  
Its

EXHIBIT A  
(to Intercreditor Agreement)

DESCRIPTION OF OPINION OF SPECIAL COUNSEL  
TO THE COMPANY

December \_\_, 2001

To the Purchasers named on  
the attached Schedule

Ladies and Gentlemen:

We have acted as counsel to Otter Tail Corporation, a Minnesota corporation (the "Company"), in connection with the transactions contemplated by that certain Note Purchase Agreement (the "Note Purchase Agreement") dated as of December 1, 2001 between the Company and you relating to the issuance and sale by the Company on the date hereof of \$90,000,000 aggregate principal amount of the Company's 6.63% Senior Notes due 2011 (the "Notes"). This opinion is being delivered to you pursuant to Section 4.4(a) of the Note Purchase Agreement. Capitalized terms used herein, except as otherwise specifically defined herein, are used with the same meaning as defined in the Note Purchase Agreement.

In connection with this opinion, we have examined the following documents:

- (a) The Restated Articles of Incorporation of the Company, as amended, certified by the Secretary of State of the State of Minnesota (the "Articles");
- (b) The Restated Bylaws of the Company, as amended, certified by its Secretary (the "Bylaws");
- (c) Resolutions of the Board of Directors of the Company adopted on October 22, 2001 (the "Resolutions"), certified by the Secretary of the Company;
- (d) An executed copy of the Note Purchase Agreement;
- (e) An executed copy of the Notes;
- (f) An executed copy of the Guaranty Agreement dated as of December 1, 2001 (the "Guaranty Agreement"), entered into by each of the Subsidiary Guarantors; and
- (g) The other documents delivered in connection with the closing of the sale of the Notes on the date hereof.

Exhibit 4.4(a)  
(to Note Purchase Agreement)

We also have examined such other documents and reviewed such questions of law as we have considered necessary and appropriate for the purposes of this opinion.

In rendering our opinions set forth below, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures and the conformity to authentic originals of all documents submitted to us as copies. We have also assumed the legal capacity for all purposes relevant hereto of all natural persons and, with respect to all parties to agreements or instruments relevant hereto other than the Company, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, that such agreements or instruments have been duly authorized by all requisite action (corporate or otherwise), executed and delivered by such parties and, except for the opinions given in paragraph (iv) below, that such agreements or instruments are the valid, binding and enforceable obligations of such parties. As to questions of fact material to our opinion, we have relied upon certificates of officers of the Company and of public officials.

Our opinions expressed below as to certain factual matters are qualified as being limited "to our knowledge" or by other words to the same or similar effect. Such words, as used herein, mean that prior to or during the course of this firm's representation of the Company in connection with the specific transactions contemplated by the Note Purchase Agreement, no contrary information came to the attention of Gary L. Tygesson, Timothy S. Hearn or Molly E. Joseph, the attorneys in our firm who have principally represented the Company in connection with the transactions contemplated by the Note Purchase Agreement. In rendering such opinions, we have not conducted any independent investigation of the Company, consulted with other attorneys in our firm with respect to the matters covered thereby, or reviewed any of our prior files involving the Company. Finally, no inference as to our knowledge with respect to the factual matters upon which we have so qualified our opinions should be drawn from the fact of our representation of the Company.

Based on the foregoing, we are of the opinion that:

- (i) The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the State of Minnesota, has the corporate power and the corporate authority to execute and perform the Note Purchase Agreement and to issue the Notes and has the corporate power and the corporate authority to conduct the activities in which it is now engaged, as described in the Memorandum, and is duly

licensed or qualified and is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary, except where the failure to be so licensed or so to qualify or to be in good standing would not result in a Material Adverse Effect.

(ii) The Note Purchase Agreement has been duly authorized, executed and delivered by the Company and constitutes a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms.

E 4.4(a)-2

(iii) The Notes have been duly authorized, executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable against the Company in accordance with their terms.

(iv) The Guaranty Agreement constitutes a legal, valid and binding agreement of each of the Subsidiary Guarantors named as a party thereto, enforceable against such Subsidiary Guarantor in accordance with its terms.

(v) No prior approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any Minnesota, New York or federal governmental authority is required to be obtained or made by the Company in connection with the execution and delivery of the Note Purchase Agreement or the Notes, except such as have been obtained or made.

(vi) Neither the issuance and sale of the Notes nor the execution, delivery and performance by the Company of the Note Purchase Agreement and the Notes (a) conflicts with or results in any breach of any of the provisions of or constitutes a default under or results in the creation or imposition of any lien or encumbrance upon any of the property of the Company pursuant to (1) the provisions of the Articles or Bylaws or (2) any indenture, mortgage, lease, agreement, instrument, license, permit, order, judgment or decree known to us by which the Company is bound or to which its properties and assets are subject, except for any such conflict, breach, default, lien or encumbrance which would not result in a Material Adverse Effect, or (b) results in the contravention of any law, rule or regulation as to which the Company or its properties or assets or any thereof are subject.

(vii) Assuming the accuracy and performance of, and compliance with, the representations, warranties and agreements of the Company and you in the Note Purchase Agreement, the issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Purchase Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

(viii) The issuance of the Notes and the use of the proceeds of the sale of the Notes in accordance with the provisions of and contemplated by the Note Purchase Agreement do not violate or conflict with Regulation T, U or X of the Board of Governors of the Federal Reserve System.

(ix) The Company is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act of 1940, as amended.

The opinions set forth above are subject to the following qualifications and exceptions:

(a) Our opinions above are subject to the effect of bankruptcy, insolvency, reorganization, arrangement, moratorium, fraudulent transfer, statutes of limitation or

E 4.4(a)-3

other similar laws and judicial decisions affecting or relating to the rights of creditors generally.

(b) Our opinions above are subject to the effect of general

principles of equity, including without limitation, concepts of materiality, reasonableness, good faith and fair dealing, estoppel, election of remedies and other similar doctrines affecting the enforceability of agreements generally (regardless of whether considered in a proceeding in equity or at law). In addition, the availability of specific performance, injunctive relief, the appointment of a receiver or other equitable remedies is subject to the discretion of the tribunal before which any proceeding therefor may be brought.

(c) We express no opinion as to the enforceability of provisions in the Note Purchase Agreement to the extent it contains obligations of the Company to pay any prepayment premium, default interest rate or other form of liquidated damages if the payment of such premium, interest rate or damages may be construed as unreasonable in relation to the actual damages or disproportionate to actual damages suffered by the Purchaser as a result of such prepayment or default.

(d) We express no opinion as to the enforceability of any Bank Credit Agreement which may be deemed to be incorporated by reference into the Note Purchase Agreement pursuant to Section 10.7 of the Note Purchase Agreement or as to the effect such incorporation may have on the enforceability of the Note Purchase Agreement, the Notes or the Guaranty Agreement.

(e) Our opinion in paragraph (iv) above as to the Guaranty Agreement is subject to the defenses available to a guarantor under applicable law.

(f) We express no opinion as to the validity, binding effect or enforceability of any provision of the Note Purchase Agreement or the Guaranty Agreement related to choice of law, forum selection or submission to jurisdiction (including, without limitation, any express or implied waiver of any objection to venue in any court or of any objection that a court is an inconvenient forum) to the extent that the validity, binding effect or enforceability of any such provision is to be determined by any court other than a court of the State of New York.

The opinions expressed above are limited to the laws of the States of Minnesota and New York and the federal laws of the United States and we express no opinion as to the laws of any other jurisdiction.

The foregoing opinions are being furnished to you solely for your benefit and the benefit of your successors and assigns and may not be relied upon by, nor may copies be delivered to, any other person without our prior written consent.

Very truly yours,

E 4.4(a)-4

DESCRIPTION OF OPINION OF GENERAL COUNSEL  
OF THE COMPANY

December \_\_, 2001

To the Purchasers named on  
the attached Schedule

Ladies and Gentlemen:

I have acted as in-house counsel to Otter Tail Corporation, a Minnesota corporation (the "Company"), in connection with the transactions contemplated by that certain Note Purchase Agreement (the "Note Purchase Agreement") dated as of December 1, 2001 between the Company and you relating to the issuance and sale by the Company on the date hereof of \$90,000,000 aggregate principal amount of the Company's 6.63% Senior Notes due 2011 (the "Notes"). This opinion is being delivered to you pursuant to Section 4.4(b) of the Note Purchase Agreement. Capitalized terms used herein, except as otherwise specifically defined herein, are used with the same meaning as defined in the Note Purchase Agreement.

In connection with this opinion, I have examined the following documents:

(a) The Articles or Certificate of Incorporation of the Company, each of the Subsidiary Guarantors and each of the Subsidiaries;

(b) The Bylaws of the Company, each of the Subsidiary Guarantors and each of the Subsidiaries;

(c) Resolutions of the Board of Directors of each of the Subsidiary Guarantors;

(d) An executed copy of the Note Purchase Agreement;

(e) An executed copy of the Notes;

(f) An executed copy of the Guaranty Agreement dated as of December 1, 2001, entered into by each of the Subsidiary Guarantors (the "Guaranty Agreement"); and

(g) The other documents delivered in connection with the closing of the sale of the Notes on the date hereof.

I also have examined such other documents and reviewed such questions of law as I have considered necessary and appropriate for the purposes of this opinion.

EXHIBIT 4.4(b)  
(to Note Purchase Agreement)

In rendering my opinions set forth below, I have assumed the authenticity of all documents submitted to me as originals, the genuineness of all signatures (other than the signatures of officers of the Company and the Subsidiary Guarantors) and the conformity to authentic originals of all documents submitted to me as copies. I also have assumed the legal capacity for all purposes relevant hereto of all natural persons (other than officers of the Company and Subsidiary Guarantors) and, with respect to all parties to agreements or instruments relevant hereto other than the Company and Subsidiary Guarantors, that such parties had the requisite power and authority (corporate or otherwise) to execute, deliver and perform such agreements or instruments, that such agreements or instruments have been duly authorized by all requisite action (corporate or otherwise), executed and delivered by such parties and that such agreements or instruments are the valid, binding and enforceable obligations of such parties. As to questions of fact material to my opinion, I have relied upon representations and certificates of officers and other employees of the Company (known by me to have authority to make such representations and certifications on behalf of the Company) and its Subsidiaries and certificates of public officials.

Based on the foregoing, I am of the opinion that:

(i) Each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and is duly licensed or qualified and is in good standing in each jurisdiction in which the character of the properties owned or leased by it or the nature of the business transacted by it makes such licensing or qualification necessary, except where failure to be so licensed or so to qualify or to be in good standing would not result in a Material Adverse Effect; and all of the issued and outstanding shares of capital stock of each Subsidiary have been duly issued, are fully paid and non-assessable and are owned by the Company, by one or more Subsidiaries, or by the Company and one or more Subsidiaries.

(ii) No prior approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any North Dakota governmental authority is required to be obtained or made by the Company in connection with the execution and delivery of the Note Purchase Agreement or the Notes, except such as have been obtained or made.

(iii) No prior approval, consent or withholding of objection on the part of, or filing, registration or qualification with, any Minnesota, North Dakota or federal governmental authority is required to be obtained or made by the Subsidiary Guarantors in connection with the execution and delivery of the Guaranty Agreement, except such as have been obtained or made.

(iv) Each of the Subsidiary Guarantors has the corporate power and authority and is duly authorized to enter into and perform all of its obligations under the Guaranty Agreement and the Guaranty Agreement has been duly authorized, executed and delivered by each of the Subsidiary Guarantors.

E-4.4(B)-2

(v) The execution, delivery and performance by each of the Subsidiary Guarantors of the Guaranty Agreements does not (a) conflict



with or result in any breach of any of the provisions of or constitute a default under or result in the creation or imposition of any lien or encumbrance upon any of the property of the Company or any Subsidiary Guarantor pursuant to (1) the provisions of the Articles of Incorporation or Bylaws of the Company or any Subsidiary Guarantor or (2) any indenture, mortgage, lease, agreement, instrument, license, permit, order, judgment or decree by which the Company or any Subsidiary Guarantor is bound or to which their properties and assets are subject, except for any such conflict, breach, default, lien or encumbrance which would not result in a Material Adverse Effect, or (b) result in the contravention of any law, rule or regulation as to which the Company or any Subsidiary Guarantor is or their properties or assets or any thereof are subject.

(vi) There is no litigation pending or, to the best of my knowledge, threatened which in my opinion could reasonably be expected to have a Material Adverse Effect on the Company or any Subsidiary or which would impair the ability of the Company to issue and deliver the Notes or to comply with the provisions of the Note Purchase Agreement or of any Subsidiary Guarantor to comply with the provisions of the Guaranty Agreement.

The opinions expressed above are limited to the laws of the States of Minnesota and North Dakota and the federal laws of the United States and I express no opinion as to the laws of any other jurisdiction.

The foregoing opinions are being furnished to you solely for your benefit and the benefit of your successors and assigns and may not be relied upon by, nor may copies be delivered to, any other person without my prior written consent.

Very truly yours,

George A. Koeck  
General Counsel and Corporate Secretary

E-4.4(B)-3

DESCRIPTION OF OPINION OF SPECIAL COUNSEL  
TO THE PURCHASERS

The closing opinion of Chapman and Cutler, special counsel to the Purchasers, called for by Section 4.4(b) of the Note Purchase Agreement, shall be dated the date of the Closing and addressed to the Purchasers, shall be satisfactory in form and substance to the Purchasers and shall be to the effect that:

1. The Company is a corporation, validly existing and in good standing under the laws of the State of Minnesota and has the corporate power and the corporate authority to execute and deliver the Note Purchase Agreements and to issue the Notes.

2. The Note Purchase Agreement has been duly authorized by all necessary corporate action on the part of the Company, has been duly executed and delivered by the Company and constitutes the legal, valid and binding contract of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

3. The Notes have been duly authorized by all necessary corporate action on the part of the Company, and the Notes being delivered on the date hereof have been duly executed and delivered by the Company and constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance and similar laws affecting creditors' rights generally, and general principles of equity (regardless of whether the application of such principles is considered in a proceeding in equity or at law).

4. The issuance, sale and delivery of the Notes under the circumstances contemplated by the Note Purchase Agreement do not, under existing law, require the registration of the Notes under the Securities Act of 1933, as amended, or the qualification of an indenture under the Trust Indenture Act of 1939, as amended.

The opinion of Chapman and Cutler shall also state that the opinions of Dorsey & Whitney LLP and General Counsel of the Company are each satisfactory in scope and form to Chapman and Cutler and that, in their opinion, the Purchasers

are justified in relying thereon.

EXHIBIT 4.4(c)  
(to Note Purchase Agreement)

Otter Tail Corporation

Note Purchase Agreement

In rendering the opinion set forth in paragraph 1 above, Chapman and Cutler may rely solely upon an examination of the Articles of Incorporation certified by, and a certificate of good standing of the Company from, the Secretary of State of the State of Minnesota, the By-laws of the Company and the general business corporation law of the State of Minnesota. The opinion of Chapman and Cutler is limited to the laws of the State of New York, the general business corporation law of the State of Minnesota and the Federal laws of the United States.

With respect to matters of fact upon which such opinion is based, Chapman and Cutler may rely on appropriate certificates of public officials and officers of the Company and upon representations of the Company and the Purchasers delivered in connection with the issuance and sale of the Notes.

E-4.4(c)-2

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### Section 3: EX-10.I.5 (AGREEMENT AND CONSENT)

Exhibit 10-I-5

AGREEMENT AND CONSENT TO ASSIGNMENT OF THE  
COYOTE PLANT COAL AGREEMENT

WHEREAS, Northern Municipal Power Agency, by and through its agent and representative for the Coyote Coal Plant, Minnkota Power Cooperative, Inc.; Montana-Dakota Utilities Co.; Northwestern Public Service Company; and Otter Tail Power Company (collectively "Buyers") are parties to the Coyote Plant Coal Agreement ("Agreement") between the Buyers and Knife River Corporation, successor-in-interest to Knife River Coal Mining Company ("Knife River"), dated January 1, 1978;

WHEREAS, Knife River has agreed to sell substantially all of the assets related to its coal operations, including the Agreement, to Dakota Westmoreland Corporation ("Dakota"), formerly Westmoreland-Knife River Acquisition Corp., and to WCCO-KRC Acquisition Corp., subsidiaries of Westmoreland Mining LLC ("WML"), a limited liability company, wholly owned by Westmoreland Coal Company ("Westmoreland"), pursuant to an Asset Purchase Agreement dated September 27, 2000 between Knife River and Dakota;

WHEREAS, Section 14.8 of the Agreement provides that the Agreement may not be assigned by Knife River, as Seller, without the consent of Buyers, which consent shall not be unreasonably withheld, except that no consent is required in the event of, among other things, transfer to a successor in interest, by merger, consolidation, sale and transfer, or otherwise, acquiring all or substantially all of the assets and business of Seller, specifically including its coal leases;

WHEREAS, the Buyers have raised certain concerns regarding the effect of assignment on the price of coal under the Agreement, which Dakota has agreed to address;

NOW THEREFORE, in consideration of the mutual promises contained herein, the Buyers, and Dakota hereby agree as follows:

1. Consent to Assignment

The Buyers, pursuant to Section 14.8 of the Agreement, consent to the assignment of the Agreement, the Addendum, and all Amendments, with all existing rights, duties and obligations, by Knife River to Dakota, effective upon the closing of the sale and transfer by Knife River of substantially all the assets related to its coal operations to Dakota pursuant to the Asset Purchase Agreement dated September 27, 2000 between Knife River and Dakota.

2. Protection of the Buyers

Dakota covenants that the acquisition and financing costs associated with the Asset Purchase Agreement dated September 27, 2000 between Dakota and Knife River will not be used to increase the coal price under Section 7 of the Agreement or to affect the calculation and invocation of Profit Limits Imposed on Seller under Section 8 of the Agreement. This covenant includes the following:

- a. There shall be no increase in pension costs due to the transfer of pension funds, assets or liabilities from Knife River to Dakota.
- b. There shall be no increase in the business, plant and equipment tax, permit, bond and insurance costs related to an increase in asset book values (either as determined under Generally Accepted Accounting Principles or tax regulations), as a result of the sale of substantially all of the assets related to Knife River's coal operations to Dakota.
- c. There shall be no increase in the coal severance taxes and federal reclamation fees, taxes or charges related to an increase in asset book values (either as determined under Generally Accepted Accounting Principles or tax regulations), as a result of the sale of substantially all of the assets related to Knife River's coal operations to Dakota.
- d. There shall be no increase in special studies costs for any special studies that may have been required to facilitate the sale of substantially all of the assets related to Knife River's coal operations to Dakota.
- e. There shall be no increase in depreciation costs related to an increase in asset book values, as a result of the sale of substantially all of the assets related to Knife River's coal operations to Dakota.
- f. There shall be no increase in interest costs related to Dakota's financing of its purchase of substantially all of the assets related to Knife River's coal operations.

The omission of any cost factor related to an increase in asset book values set forth in Sections 7 or 8 of the Agreement from this Section 2 of the "Agreement and Consent to Assignment" is not intended to exclude from Dakota's covenant increases in those cost factors attributable to Dakota's acquisition; provided, however that the provisions of this Agreement relate only to the assets acquired from Knife River and the costs of acquiring and financing Dakota's acquisition of the Knife River assets. The parties hereto expressly acknowledge that, in all other respects, prices shall be determined pursuant to the terms of the Agreement.

NORTHERN MUNICIPAL POWER AGENCY, by  
and through its agent and representative  
for the Coyote Coal Plant, MINNKOTA POWER  
COOPEATIVE, INC.

Date: 4/25/01

By: /s/ David Loer

-----  
Name:  
Title: President and CEO

MONTANA-DAKOTA UTILITIES CO., a division  
of MDU Resources Group, Inc.

Date: 4/26/01

By: /s/ Bruce Imsdahl

-----  
Name: BRUCE IMSDAHL  
Title: VICE PRESIDENT ENERGY SUPPLY

NORTHWESTERN PUBLIC SERVICE, a division of  
NorthWestern Corporation

Date:

By: /s/ Michael J. Hanson

-----  
Name: Michael J. Hanson  
Title: President & CEO

OTTER TAIL CORPORATION

Date: 5/16/01  
-----

By: /s/ Ward Uggerud  
-----

Name: Ward Uggerud  
Title: Chief Operating Officer,  
Energy Supply

DAKOTA WESTMORELAND CORPORATION

Date: 7/9/01  
-----

By: /s/ John V. O'Laughlin  
-----

Name: John V. O'Laughlin  
Title: President

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## Section 4: EX-10.N.8 (EMPLOYMENT AGREEMENT)

Exhibit 10-N-8

EMPLOYMENT CONTRACT  
(RENEWAL)

Reference is made to an Employment Contract dated January 1, 1995 (attached as Exhibit "A") (the "Contract").

With the following amendments or additions, the Contract is hereby renewed on the same terms and conditions:

|                  |  |
|------------------|--|
| Term:            | No specific term. Employment continues until terminated by Employer or Employee upon 30 days written notice by either party.   |
| Termination:     | Termination can be made by Employer for any reason and without cause. Employee may terminate for any reason, including Reasonable Cause (as defined in the Contract).  |
| Title:           | President & Chief Operating Officer  |
| Fringe Benefits: | Standard Employer benefits for full time exempt employees, plus paid family health insurance. Nothing in this Contract shall prevent or limit Employee's participation in any benefit, bonus, incentive or other plans, including any supplemental executive retirement plan or stock option plan. |
| Auto Allowance:  | \$800 per month, plus reimbursement for all business miles, including travel between Fargo and Fergus Falls (new rate to be effective May 1, 1999).  |
| Salary:          | \$148,472.50, plus annual increases of 10% for each of the next five consecutive years. Annual increases thereafter to be determined by the parties.   |
| Incentive Bonus: | Formula to be determined.  |
| Severance:       | In the event that (i) the Employer terminates the Contract for any reason (including for cause, death or disability) or (ii) Employee terminates the Contract for Reasonable Cause (as defined in the  |

attached Contract), Employee shall receive the base salary then in effect through the date of termination and a severance payment equal to all compensation (base salary, incentive bonus, etc.) paid to Employee in the most recent full calendar year from the date of termination (for example, if the date of termination is July 1, 1999, the most recent calendar year would be 1998) multiplied by one and one-half (1 1/2). If the Employee terminates the Contract without Reasonable Cause or if the reason for termination by Employer of the Contract is an act of embezzlement or other willful misconduct materially injurious to the Employer, no severance payment shall be made to Employee. In the case of a dispute concerning whether the severance payment should be paid and if the Employee established that he is legally entitled to payment of a severance payment, Employee shall be entitled to recover from Employer any costs incurred by Employee in obtaining payment of the severance payment from Employer (including Employee's attorneys fees and court costs). The severance payment shall be made within 30 days from the date of termination and shall be subject to normal payroll withholdings and deductions. This contract is made in the State of Minnesota and shall be governed by and construed in accordance with the substantive laws of the State of Minnesota.

Dated: As of January 1, 1999

Varistar Corporation

By /s/ N. Bruce Thom  
 -----  
 Its Chm of the Board & C.E.O.  
 -----

Dated: As of January 1, 1999

/s/ Lauris N. Molbert  
 -----  
 Lauris N. Molbert

Exhibit A

EMPLOYMENT CONTRACT TERMS  
 (EFFECTIVE AS OF 1/1/95)

Employee: Lauris N. Molbert  
 Employer: Mid-States Development, Inc.  
 Title: President  
 Duties: Determined by Board of Directors (BOD)  
 Direct Supervisor: Chair of BOD  
 Office Location: Primarily Fargo, with secondary office in Fergus Falls  
 Base Salary: \$100,000 annually, with 10% increase each year of term  
 Incentive Salary: Formula to be determined, but not less than \$25,000 annually with 10% increase each year of term

Fringe Benefits: Same as other Mid-States employees, including paid family health insurance

Auto Allowance: \$700 per month, plus reimbursement for business mileage except for travel between Fargo and Fergus Falls

CLE & CPE Allowance of \$5,000 per year for travel, registration, lodging, etc. in connection with continuing education qualifying for legal and CPA licenses

Vacations: 4 weeks paid per year

Outside Interests: Employee is permitted to devote time to consulting director and ownership interests in connection with the Bank of Steele and related companies or interest. Additionally, Employee may use administrative staff for secretarial duties in connection with such outside interest. Time devoted to such interests may occur during normal working hours.

Severance: If Employee should be terminated by Employer for any reason (including for just cause) or Employee shall elect to resign from employment for Reasonable Cause (defined below), Employer shall immediately pay to Employee the amount of \$125,000 in full payment and release of any and all future obligations of Employee or Employer. "Reasonable Cause" shall mean any of the following: (i) the duties, responsibilities, or titles of the Employee shall be material modified, (ii) the principal office location for Employee shall be moved from Fargo, (iii) the Employee's direct supervisor shall change, (iv) all or substantially all of the assets of the Employer are sold or transferred, or 50% or more of the equity interests in the Employer are transferred in one or more transactions; (iv) the Employer and Employee shall be unable to agree for any reason to extend the expiration date of this employment contract prior to the commencement of the final year of the original five year term, or (v) any material term or condition of this contract is altered or breached by the Employer without the consent of the Employee.

Term: Five years from January 1, 1995.

/s/ Lauris N. Molbert  
 -----  
 Lauris N. Molbert

/s/ N. Bruce Thom  
 -----  
 N. Bruce Thom, Chair BOD Mid-States Development, Inc.

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**Section 5: EX-10.N.9 (LETTER AGREEMENT)**

August 29, 1996

Kevin G. Moug  
4320 Crest Court  
Eau Claire, WI 54701

Dear Kevin:

This letter is to confirm your acceptance and outline the major elements of our offer to you for the position of Chief Financial Officer at Mid-States Development, Inc. As we discussed, your beginning monthly salary will be \$9,166.67 (\$110,000 annually) with a start date on or about October 1, 1996. In addition to the base salary, you will be provided the following:

- A signing bonus of up to \$30,000 to be paid on your first day of employment to cover relocation items such as moving your household goods from Eau Claire to Fargo, realtor commissions for selling your home, house hunting trip expenses and temporary housing costs.
- Participation in an individually determined annual bonus plan to become effective commencing January 1, 1997. The bonus will be developed within six months of your date of employment and the bonus will not be less than \$10,000 for the year ended December 31, 1997.
- Fully paid family medical insurance, participation in the Mid-States 401(k), when eligible, an automobile allowance of \$900 monthly, \$2,500 for continuing professional education and other employee benefits as outlined in the Company personnel policies.
- Three weeks vacation during the first twelve months of employment and three weeks vacation, annually, thereafter.
- If you should be terminated by Mid-States for any reason (including just cause, unless the termination for cause is the result of embezzlement or theft of company assets) or you should elect to resign from employment for "Reasonable Cause" (defined below), Mid-States will be obligated to immediately pay you an amount equal to 125% of your base salary in full payment and release of all obligations concerning your employment. "Reasonable Cause" shall mean any of the following: (i) your duties, responsibilities, or titles shall be materially modified; (ii) your direct supervisor shall change; or (iii) all or substantially all of the assets of Mid-States shall be sold or transferred or 50% or more of the equity interests of Mid-States are transferred in one or more transactions.

MID-STATES DEVELOPMENT, INC.

Kevin G. Moug

2

August 29, 1996

During the course of the interview process, it became apparent to us you have the talents and abilities we were seeking in a Chief Financial Officer. We will strive to capitalize on these talents and abilities and feel confident we can offer you the opportunity for professional growth as you lead the Company's financial function into the future.

Kevin, we are excited you have decided to join us and sincerely look forward to working with you in the future.

Yours very truly,

/s/ Lauris N. Molbert  
President

LNM\mas

ACCEPTED AND AGREED TO this 30th day of August, 1996.

/s/ Kevin G. Moug

-----  
Kevin G. Moug

[Letterhead of]  
VARISTAR  
CORPORATION

Lauris N. Molbert  
Direct (701) 451-3581

July 12, 2000

Kevin G. Moug  
715 Hackberry Drive  
Fargo, ND 58104

RE: EMPLOYMENT ARRANGEMENT

Dear Kevin:

Reference is made to a letter to you dated August 29, 1996, concerning your employment terms with Varistar ("the Letter").

In the Letter, Varistar agrees to pay you an amount equal to 125% of your base salary should you resign from employment for "Reasonable Cause" (defined in the Letter).

As we have discussed over the last several years, the intention was to include the most recent incentive compensation, in addition to your base salary in the computation of severance. Additionally, we had agreed to change the multiple to 150%, which is consistent with the arrangements for other senior managers. Unfortunately, this understanding was not memorialized in writing.

Accordingly, this letter will confirm Varistar's agreement that should you resign from employment for a Reasonable Cause, Varistar will be obligated to immediately pay you an amount equal to 150% of the sum of your base salary and the incentive compensation paid to you for the most recent calendar year. The Letter is hereby amended accordingly.

A copy of this letter will be placed in your personnel file.

Yours very truly,

/s/ Lauris N. Molbert  
President & Chief Operating Officer

LNM/mas  
cc: N. Bruce Thom

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## Section 6: EX-13.A (PORTIONS OF 2001 ANNUAL REPORT TO SHAREHOLDERS)

### EXHIBIT 13-A

#### SELECTED CONSOLIDATED FINANCIAL DATA

|   | 2001      | 2000 (1)  | 1999 (1)(2) | 1998 (3)  | 1997      | 1996      | 1991      |
|---|-----------|-----------|-------------|-----------|-----------|-----------|-----------|
| (thousands, except number of shareholders and per-share data) |           |           |             |           |           |           |           |
| REVENUES  |           |           |             |           |           |           |           |
| Electric  | \$307,684 | \$262,280 | \$233,527   | \$227,477 | \$205,121 | \$199,345 | \$179,456 |
| Plastics  | 63,216    | 82,667    | 31,504      | 24,946    | 24,953    | 22,049    | --        |
| Manufacturing   | 123,436   | 97,506    | 87,086      | 62,488    | 58,221    | 42,519    | --        |
| Health services   | 79,129    | 66,319    | 68,805      | 69,412    | 66,859    | 61,697    | --        |
| Other business operations                                     | 80,667    | 78,159    | 68,322      | 48,829    | 44,173    | 45,323    | 20,389    |
| Total operating revenues                                      | \$654,132 | \$586,931 | \$489,244   | \$433,152 | \$399,327 | \$370,933 | \$199,845 |
| SPECIAL CHARGES   | --        | --        | --          | 9,522     | --        | --        | --        |
| CUMULATIVE CHANGE IN ACCOUNTING PRINCIPLE                     | --        | --        | --          | 3,819     | --        | --        | --        |



|   |         |         |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|---------|---------|
| NET INCOME                              | 43,603  | 41,042  | 45,295  | 34,520  | 32,346  | 30,624  | 26,096  |
| CASH FLOW FROM OPERATIONS               | 77,529  | 61,761  | 81,850  | 63,959  | 69,398  | 68,611  | 46,667  |
| CAPITAL EXPENDITURES                    | 53,596  | 46,273  | 35,245  | 29,289  | 41,973  | 64,823  | 24,642  |
| TOTAL ASSETS                            | 782,541 | 737,708 | 694,341 | 655,612 | 655,441 | 669,704 | 491,633 |
| LONG-TERM DEBT                          | 227,360 | 195,128 | 180,159 | 181,046 | 189,973 | 163,176 | 146,326 |
| REDEEMABLE PREFERRED                    | --      | 18,000  | 18,000  | 18,000  | 18,000  | 18,000  | 13,150  |
| BASIC EARNINGS PER SHARE (4) (6)        | 1.69    | 1.59    | 1.75    | 1.36    | 1.29    | 1.23    | 1.07    |
| DILUTED EARNINGS PER SHARE (4) (6)      | 1.68    | 1.59    | 1.75    | 1.36    | 1.29    | 1.23    | 1.07    |
| RETURN ON AVERAGE COMMON EQUITY         | 15.5%   | 15.4%   | 18.4%   | 15.0%   | 14.9%   | 14.9%   | 15.4%   |
| DIVIDENDS PER COMMON SHARE (6)          | 1.04    | 1.02    | 0.99    | 0.96    | 0.93    | 0.90    | 0.80    |
| DIVIDEND PAYOUT RATIO                   | 62%     | 64%     | 57%     | 71%     | 72%     | 73%     | 74%     |
| COMMON SHARES OUTSTANDING -YEAR END (6) | 24,653  | 24,574  | 24,571  | 23,759  | 23,462  | 23,072  | 22,370  |
| NUMBER OF COMMON<br>SHAREHOLDERS (5)    | 14,358  | 14,103  | 13,438  | 13,699  | 13,753  | 13,829  | 13,928  |

Notes:

- (1) Restated to reflect the effects of two 2001 acquisitions accounted for under the pooling-of-interests method. The impact of the poolings on years prior to 1999 is not material.
- (2) During 1999 radio station assets were sold for a net gain of \$8.1 million or 34 cents per share.
- (3) In the first quarter of 1998 the Company changed its method of electric revenue recognition in the states of Minnesota and South Dakota from meter-reading dates to energy-delivery dates. Basic and diluted earnings per share includes 16 cents per share related to the cumulative effect of the change in accounting principle.
- (4) Based on average number of shares outstanding.
- (5) Holders of record at year end.
- (6) Common shares outstanding and per-share data reflect the effect of the two-for-one stock split effective March 15, 2000.

Management's discussion and analysis of  
financial condition and results of operations

Otter Tail Corporation's primary financial goals are to maximize its earnings and cash flows and to allocate capital profitably toward growth opportunities that will increase shareholder value. Management meets these objectives by earning the returns regulators allow in electric operations combined with successfully growing diversified operations. Meeting these objectives enables the Company to preserve and enhance its financial capability by maintaining optimal capitalization ratios and a strong interest coverage position, and preserving strong credit ratings on outstanding securities, which in the form of lower interest rates benefits both the Company's customers and shareholders.

LIQUIDITY:

The Company believes its financial condition is strong and that its cash, other liquid assets, operating cash flows, access to equity capital markets and borrowing capital, when taken together, provide adequate resources to fund ongoing operating requirements and future capital expenditures related to expansion of existing businesses and development of new projects. However, the Company's operating cash flow and access to capital markets can be impacted by macroeconomic factors outside its control. In addition, the Company's borrowing costs can be impacted by short and long-term debt ratings assigned by independent rating agencies, which in part are based on certain credit measures such as interest coverage and leverage ratios.

The Company has achieved a high degree of long-term liquidity by maintaining desired capitalization ratios and strong credit ratings, implementing cost-containment programs, and investing in projects that provide returns in excess of the Company's weighted average cost of capital.

Cash provided by operating activities of \$77.5 million combined with cash on hand of \$1.3 million at December 31, 2000, allowed the Company to pay dividends, meet sinking fund payment requirements, and partially finance capital expenditures.

The \$15.8 million increase in cash provided by operating activities between 2001 and 2000 reflects an increase in net income of \$2.6 million, a \$1.5 million increase in depreciation and amortization expense, a \$3.2 million change in deferred taxes, a \$5.1 million decrease in deferred debits and other assets primarily reflecting the change in the pension asset and \$16.7 million increase in working capital.

The \$17.7 million decrease in net cash used in investing activities between 2001 and 2000 reflects an increase in capital expenditures of \$7.3 million offset by a \$25.2 million reduction in cash used to complete acquisitions. The majority of the increase in capital expenditures occurred in the electric segment as a result of in-progress construction of a new gas-fired combustion turbine and construction of a new transmission line in North Dakota. In 2001 the Company completed six acquisitions. Two of the acquisitions were completed by issuing Company common stock. The remaining four were funded with cash which aggregated \$8.9 million in merger consideration.

Net cash used in financing activities was \$6.3 million for 2001 compared with \$6.6 million for 2000. The slight decrease between the years was due to the following. The Company received net proceeds from employee stock plans of \$1.3 million. Dividends paid increased \$889,000 and the net change in the issuance of long-term debt over the retirement of long-term debt and preferred stock decreased \$208,000 between the periods.

The Company sold \$20.79 million of Pollution Control Refunding Revenue Bonds, Mercer County, ND 4.85 percent Series due 2022 and \$5.185 million of Pollution Control Refunding Revenue Bonds, Grant County, SD 4.65 percent Series due in 2017 in September 2001. The proceeds were used to redeem the 2019 Series Mercer County (Coyote project) Pollution Control Refunding Revenue Bonds and the 2006 Series Grant County (Big Stone project) Pollution Control Refunding Revenue Bonds in October 2001.

The Company sold \$90 million of Senior Notes, 6.63 percent Series due 2011 in December 2001. The proceeds from the sale were used to retire the 8.75 percent Series First Mortgage Bonds at the aggregate redemption price of \$19.3 million; retire the \$6.35 Cumulative Preferred Shares at the aggregate redemption price of \$18.2 million; retire \$17.3 million of Varistar term debt; and repay \$20.8 million in short-term debt outstanding. The remaining proceeds will be used to fund certain capital expenditures and for general corporate purposes during 2002.

74,480 shares of common stock were issued during 2001 as a result of stock options exercised under the 1999 Stock Incentive Plan generating proceeds of \$1.3 million. In addition, the Company issued 721,436 unregistered common shares during 2001 to effect two acquisitions accounted for under the pooling-of-interests method.

#### CAPITAL REQUIREMENTS:

The Company's consolidated capital requirements include replacement of technically obsolete or worn-out equipment, new equipment purchases, and plant upgrades to accommodate anticipated growth. The electric segment has a construction and capital investment program to provide facilities necessary to meet forecasted customer demands and to provide reliable service. The construction program is subject to review and is revised annually in light of changes in demands for energy, availability of energy within the power pool, cost of capacity charges relative to cost of new generation, environmental laws, regulatory changes, technology, the costs of labor, materials and equipment, and the Company's consolidated financial condition.

Consolidated capital expenditures for the years 2001, 2000, and 1999 were \$53.6 million, \$46.3 million, and \$35.2 million, respectively. The estimated capital expenditures for 2002 are \$73 million, and the total capital expenditures for the five-year period 2002 through 2006 are expected to be approximately \$181 million.

The breakdown of 2001 actual and 2002 through 2006 estimated capital expenditures by segment is as follows:

|                           | 2001  | 2002          | 2002-2006 |
|---------------------------|-------|---------------|-----------|
|                           | ----  | ----          | -----     |
|                           |       | (in millions) |           |
| Electric                  | \$ 35 | \$ 50         | \$113     |
| Plastics                  | 2     | 1             | 12        |
| Manufacturing             | 11    | 14            | 34        |
| Health services           | 3     | 3             | 5         |
| Other business operations | 3     | 5             | 17        |
|                           | ----  | ----          | ----      |
| Total                     | \$ 54 | \$ 73         | \$181     |
|                           | ====  | ====          | ====      |

The \$15 million increase in capital expenditures for the electric segment for 2002 as compared to 2001 reflects construction of a new gas-fired combustion turbine plant.

The following table summarizes the Company's contractual obligations at December 31, 2001 and the effect these obligations are expected to have on its liquidity and cash flow in future periods.

| December 31, (in millions) | Total | 1 year | 2-3 years | 4-5 years | After 5 years |
|----------------------------|-------|--------|-----------|-----------|---------------|
|----------------------------|-------|--------|-----------|-----------|---------------|

|                                       |       |      |      |      |       |
|---------------------------------------|-------|------|------|------|-------|
| Long term debt                        | \$256 | \$29 | \$14 | \$10 | \$203 |
| Coal contracts (required minimums)    | 106   | 14   | 29   | 11   | 52    |
| Construction program(purchase orders) | 16    | 16   | --   | --   | --    |
| Capacity and energy requirements      | 70    | 14   | 24   | 21   | 11    |
| Operating leases                      | 53    | 16   | 22   | 10   | 5     |
| Total contractual cash obligations    | \$501 | \$89 | \$89 | \$52 | \$271 |

#### CAPITAL RESOURCES:

Financial flexibility is provided by unused lines of credit, strong financial coverages and credit ratings, and alternative financing arrangements such as leasing.

The Company estimates that funds internally generated net of forecasted dividend payments, combined with funds on hand, will be sufficient to meet scheduled debt retirements and almost completely provide for its estimated 2002 through 2006 consolidated capital expenditures. Reduced demand for electricity or in the products manufactured and sold by the Company could have an effect on funds internally generated. Additional short-term or long-term financing will be required in the period 2002 through 2006 in order to complete the planned capital expenditures, in the event the Company decides to refund or retire early any of its presently outstanding debt or cumulative preferred shares, to complete acquisitions, or for other corporate purposes. There can be no assurance that any additional required financing will be available through bank borrowings, debt or equity financing or otherwise, or that if such financing is available, it will be available on terms acceptable to the Company. If adequate funds are not available on acceptable terms, our business, results of operations, and financial condition could be adversely affected.

Bank lines of credit are a key source of operating capital and can provide interim financing of working capital and other capital requirements, if needed. As of December 31, 2001, the Company had \$11.4 million in cash and cash equivalents and \$42 million in three separate unused lines of credit. In addition to the formal bank lines, the Company can issue commercial paper. The subsidiaries' notes and credit lines are secured by a pledge of all of the common stock of the subsidiaries. (See note 9 to consolidated financial statements.)

The Company's credit ratings affect its access to the capital market. The current credit ratings for the Company's First Mortgage Bonds at December 31, 2001 are as follows:

|                           |     |
|---------------------------|-----|
| Moody's Investors Service | Aa3 |
| Fitch Ratings             | AA  |
| Standard and Poor's       | A+  |

Moody's rating outlook has been negative since September 2000. The Company's disclosure of these security ratings is not a recommendation to buy, sell, or hold its securities. A downgrade in the Company's credit ratings could adversely affect its ability to renew existing, or obtain access to new, credit facilities in the future and could increase the cost of such facilities.

The 6.63 percent Senior Notes due 2011 contain an investment grade put that could accelerate the maturity date of this series if designated rating agencies rate the senior debt below a rating of Baa3 for Moody's or BBB- for Standard and Poor's. If ratings on the Company's senior unsecured debt are downgraded to "Baa2" or below by Moody's or "BBB" or below by Standard and Poor's and Fitch Ratings, related to the Pollution Control Refunding Revenue Bonds, the Company would be required to grant to Ambac Assurance Corporation, under a financial guaranty insurance policy, a security interest in the assets of the electric utility. The Company believes the risk of either of these occurring is unlikely due to the current bond ratings of the Company combined with its strong debt-to-equity ratio and ability to generate cash from operations.

The Company is in compliance with all covenants or other requirements set forth in its credit agreements, note documents and indentures. Covenants relate to the Company's total net worth, current ratios, cash leverage ratio, fixed charge coverage ratio, and debt-to-equity ratio. The Company's fixed charge coverage ratio after taxes was 4.1x for 2001 compared to 3.8x for 2000, and the long-term debt interest coverage ratio before taxes was 5.2x for 2001, compared to 4.8x for 2000. During 2002 the Company expects these coverages to remain similar to 2001.

The Company did not have any relationships with unconsolidated entities or financial partnerships at December 31, 2001. These entities are often referred to as structured finance or special purpose entities, which would have been

established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. The Company is not exposed to any financing, liquidity, market or credit risk that could arise if it had such relationships.

Results of operations:

Consolidated Results of Operations

The Company recorded diluted earnings per share of \$1.68 for the year ended December 31, 2001 compared to \$1.59 for the year ended December 31, 2000. Total operating revenues for 2001 were \$654.1 million, compared with \$586.9 million for 2000. Operating income was \$77.5 million for the year 2001 compared with \$74.2 million for 2000. Growth in revenues and operating income from the electric, manufacturing and health services segments offset decreased operating income from the plastics and other business operations segments.

Electric

Otter Tail Power Company, a division of Otter Tail Corporation, provides electrical service to more than 126,000 customers in a service territory exceeding 50,000 square miles.

|  | 2001<br>----- | 2000<br>-----  | 1999<br>----- |
|--|---------------|----------------|---------------|
|  |               | (in thousands) |               |
| Operating revenues                       | \$307,684     | \$262,280      | \$233,527     |
| Production fuel                          | 41,776        | 38,546         | 36,839        |
| Purchased power                          | 99,491        | 66,121         | 44,190        |
| Other operation and maintenance expenses | 75,531        | 74,591         | 71,724        |
| Depreciation and amortization            | 24,272        | 23,778         | 23,366        |
| Property taxes                           | 9,464         | 9,976          | 10,174        |
|  | -----         | -----          | -----         |
| Operating income                         | \$ 57,150     | \$ 49,268      | \$ 47,234     |
|  | =====         | =====          | =====         |

(bar graph of information in following table)

| Electric operating income<br>(millions) |        |
|---|--------|
| -----                                   |        |
| 1999                                    | \$47.2 |
| 2000                                    | \$49.3 |
| 2001                                    | \$57.2 |

(end of graph)

Electric operating revenues for 2001 increased 17.3 percent over 2000 due to a \$33.5 million increase in wholesale power revenues, a \$10.2 million increase in retail revenues, and a \$1.7 million increase in other electric revenues. The increase in wholesale power revenues resulted from a 16.4 percent increase in wholesale prices combined with a 30.2 percent increase in wholesale kilowatt-hour (kwh) sales. The increase in the wholesale sales is the result of the electric utility's increased activity and involvement in wholesale markets. The increase in retail sales revenue is due to a 2.9 percent increase in retail kwh sales along with a \$6.3 million increase in cost-of-energy revenue. In addition to a \$1.9 million refund of fuel costs resulting from a coal contract arbitration settlement in 2000, the increase in cost-of-energy revenues reflects increases in fuel and purchased power costs per kwh for system use in 2001 as compared to 2000. Increases in retail kwh sold occurred in all customer categories except streetlighting, with commercial having the largest increase. The \$1.7 million increase in other electric revenues reflects an increase

in transmission service revenues and increases in revenues mainly related to construction service contracts for other utilities.

The \$3.2 million (8.4 percent) increase in production fuel expense in 2001 over 2000 is due to the following: a 4.4 percent increase in kwhs generated combined with a 0.8 percent increase in the fuel cost per kwh generated and a reduction in 2000 fuel expenses of \$1.9 million related to the coal arbitration settlement. Excluding the impact of this settlement, production fuel expenses increased 3.3 percent. The 50.5 percent increase in purchased power expense is the result of a 24.2 percent increase in kwh purchases combined with a 21.2 percent increase in the cost per kwh purchased. While kwh purchases for resale increased 49.4 percent to provide for the increase in wholesale sales of electricity, kwh purchases for retail sales were down 26.9 percent in 2001 compared to 2000.

Other operation and maintenance expenses increased 1.3 percent in 2001 compared to 2000, mainly due to a 3.1 percent increase in operating and maintenance labor expense. In addition, other operation and maintenance expense for 2000 included a credit of \$1.0 million that was recorded as part of the arbitration settlement that recovered previously recorded arbitration expenses. (See note 3 to consolidated financial statements.)

The 2.1 percent increase in depreciation and amortization expense for 2001 compared to 2000 is due to an increase in depreciable plant base as a result of recent capital expenditures. Property taxes decreased 5.1 percent for 2001 compared to 2000 due to a legislative reduction in tax capacity rates used to determine Minnesota property taxes. In addition, under a new state law in Minnesota, generation machinery and attached equipment were exempted for Minnesota property taxes. This reduction in property taxes will be refunded to retail electric customers.

No growth is expected in the electric segment in 2002. The warm winter of 2001 and 2002 will limit growth in retail sales, and the depressed wholesale market will lower sales volumes in 2002.

The 12.3 percent increase in electric operating revenues for 2000 compared to 1999 is due to a \$19.8 million increase in wholesale power revenues, a \$7.2 million increase in retail revenues and a \$1.8 million increase in other electric revenues. Increased wholesale prices along with increased demand contributed to the increase in revenues from wholesale power sales. Wholesale power kwh sales increased 27.8 percent. The electric utility was well positioned to capitalize on sales into a robust wholesale energy market in 2000 due to excellent plant availability when on-peak power prices were high. A 3.5 percent increase in retail kwh sales due primarily to much colder weather during November and December of 2000 compared to the same months in 1999, was the main contributor to the \$7.2 million increase in retail electric sales revenues. Retail revenue per kwh sold increased 0.4 percent due to an increase in cost of energy revenues between 2000 and 1999. The \$1.8 million increase in other electric segment revenues is due mainly to an increase in transmission service revenues combined with the proceeds from the sale of an algorithm concept developed by the utility to facilitate customer choice in a competitive retail electric market.

The 4.6 percent increase in production fuel expense in 2000 compared to 1999 resulted from a \$3.6 million increase in fuel costs at the generating plants offset by a \$1.9 million reduction in fuel costs due to the arbitration settlement with Knife River Coal Mining Company. (See note 3 to consolidated financial statements for more information on the arbitration settlement.) The increase in fuel costs at the generating plants reflects a 7.9 percent increase in the fuel cost per kwh generated combined with a 1.8 percent increase in kwh generated. The increase in fuel cost per kwh generated is due to slightly higher coal costs at one of the utility's generating plants and significantly higher fuel costs at the utility's combustion turbines. Purchased power expense increased 49.6 percent as a result of a 28.5 percent increase in the volume of electricity purchased combined with a 16.4 percent increase in the cost per kwh purchased. The additional electricity purchased and generated was needed to provide for increased retail and power pool sales

discussed above. The increase in cost per kwh purchased is a function of increased demand in the wholesale energy market and a general increase in electricity usage nationwide without a commensurate increase in generation.

Other operation and maintenance expenses for 2000 increased 4.0 percent as compared to 1999. This increase is due to additional expenses related to employee benefits, customer service enhancements and maintenance on generating plants, transmission, and distribution lines. Included in this increase are credits related to pension cost and the arbitration settlement that recovered previously recorded arbitration expenses.

The 1.8 percent increase in depreciation and amortization expense for 2000 compared to 1999 is due to an increase in depreciable plant base as a result of capital expenditures. The 1.9 percent decrease in property taxes for 2000 compared to 1999 is due to a general decline in mill rates for 2000.

#### Plastics

Plastics consists of businesses involved in the production of polyvinyl chloride (PVC) pipe in the Upper Midwest and Southwest regions of the United States. On January 1, 2000, the Company acquired the assets and operations of Vinyltech Corporation (Vinyltech) under the purchase method of accounting. (See note 2 to consolidated financial statements.)

| 2001           | 2000  | 1999  |
|----------------|-------|-------|
| -----          | ----- | ----- |
| (in thousands) |       |       |

|                               |           |          |          |
|-------------------------------|-----------|----------|----------|
| Operating revenues            | \$63,216  | \$82,667 | \$31,504 |
| Cost of goods sold            | 57,932    | 66,286   | 24,270   |
| Operating expenses            | 3,446     | 4,335    | 2,684    |
| Depreciation and amortization | 3,229     | 3,301    | 1,168    |
|                               | -----     | -----    | -----    |
| Operating (loss) income       | \$(1,391) | \$ 8,745 | \$ 3,382 |
|                               | =====     | =====    | =====    |

(bar graph of information in following table)

Plastics operating income  
(millions)

|       |         |
|-------|---------|
| ----- |         |
| 1999  | \$ 3.4  |
| 2000  | \$ 8.7  |
| 2001  | \$(1.4) |

(end of graph)

The 23.5 percent decrease in operating revenues for 2001 compared with 2000 is due to a 29.5 percent decline in average sales price per pound offset by an 8.5 percent increase in pounds of PVC pipe sold. The continuing decline in PVC resin prices combined with an over supply of finished PVC pipe products were the main factors in the decrease in average sales price per pound. The decrease of 12.6 percent in cost of goods sold reflects a 19.5 percent decrease in the average cost per pound of PVC pipe sold. The selling price per pound of PVC pipe is affected directly by the raw material cost of resin. Operating expenses decreased 20.5 percent primarily due to a reduction in labor costs and selling expenses.

The acquisition of Vinyltech on January 1, 2000 is the primary driver behind the increases in operating revenues, cost of goods sold, operating expenses and operating income for 2000 compared to 1999. Strong demands within the PVC pipe industry combined with higher sales prices per pound during the first half of the year also led to increased pipe revenues. The average sales price per pound of pipe between the periods increased 27.3 percent.

During the second half of 2000 there was a significant softening in demand for PVC product lines as PVC pipe prices decreased. The reduction in short-term demand was

due in part to our distributors' reluctance to purchase pipe for inventory while pipe prices were declining. The general slowing of the economy also reduced the demand for pipe. Additional resin capacity that came online during 2000 had a negative impact on resin prices. The continuing decline in PVC resin prices that started during the second half of 2000 and continued through 2001 combined with an over supply of finished PVC pipe products has lead to lower sales prices per pound. The Company expects the trends that are affecting the sales prices of PVC pipe to continue into the third quarter of 2002.

The gross margin percentage is sensitive to PVC raw material resin prices and the demand for PVC pipe. Historically, when resin prices are rising or stable, margins and sales volume have been higher and when resin prices are falling, sales volumes and margins have been lower. Gross margins also decline when the supply of PVC pipe increases faster than demand. Due to the commodity nature of PVC resin and the dynamic supply and demand factors worldwide, it is very difficult to predict gross margin percentages or assume that historical trends will continue.

Manufacturing

Manufacturing consists of businesses involved in the production of wind towers, frame-straightening equipment and accessories for the auto body shop industry, custom plastic pallets, material and handling trays, and horticultural containers, fabrication of steel products, contract machining, and metal parts stamping and fabricating. During 2001 three acquisitions were completed in this segment. On February 28, 2001 the Company acquired the outstanding common stock of T.O. Plastics, Inc. On September 28, 2001 the Company acquired the outstanding common stock of St. George Steel Fabrication, Inc. These two acquisitions were completed as a pooling-of-interests. On November 1, 2001, the Company acquired the assets and operations of Titan Steel Corporation using the purchase method of accounting. (See note 2 to consolidated financial statements.)

2001                      2000                      1999  
-----                      -----                      -----

(in thousands)

|                               |           |          |          |
|-------------------------------|-----------|----------|----------|
| Operating revenues            | \$123,436 | \$97,506 | \$87,086 |
| Cost of goods sold            | 91,360    | 72,639   | 64,907   |
| Operating expenses            | 14,762    | 13,992   | 13,255   |
| Depreciation and amortization | 5,139     | 3,930    | 3,627    |
|                               | -----     | -----    | -----    |
| Operating income              | \$ 12,175 | \$ 6,945 | \$ 5,297 |
|                               | =====     | =====    | =====    |

(bar graph of information in following table)

Manufacturing operating income  
(millions)

|      |        |
|------|--------|
| 1999 | \$ 5.3 |
| 2000 | \$ 6.9 |
| 2001 | \$12.2 |

(end of graph)

Operating revenues for the manufacturing segment increased 26.6 percent during 2001 compared to 2000 reflecting increased sales of wind towers combined with increased sales volumes of metal parts stamping, fabrication and thermoform plastic products. The 25.8 percent increase in cost of goods sold correlates with the increased sales volumes. The 5.5 percent increase in operating expenses reflects increases in general and administrative expenses offset by reductions in research, development and selling expenses.

Manufacturing operating revenues increased 12.0 percent during 2000 compared to 1999 due primarily to a \$10.6 million increase in sales volumes of metal parts stamping offset by a \$4.8 million decrease in operating revenues from the wind tower manufacturer. During 2000 the agricultural equipment manufacturer completed a

transition from manufacturing agricultural equipment to manufacturing towers that are used by the wind energy industry. The 11.9 percent increase in cost of goods sold for manufacturing operations in 2000 compared to 1999 closely follows the increase in sales volumes of stamped metal parts offset by the sales reduction at the agricultural equipment manufacturer. The 5.6 percent increase in operating expenses during 2000 compared to 1999 primarily is due to an increase of operating costs at the subsidiary that manufactures products for the auto body industry.

Health services

Health services include businesses involved in the sale of diagnostic medical equipment, supplies and accessories. In addition these businesses also provide service maintenance, mobile diagnostic imaging, mobile PET and nuclear medicine imaging, portable x-ray imaging and rental of diagnostic medical imaging equipment. On September 4, 2001, the Company acquired the assets and operations of Interim Solutions and Sales, Inc. and Midwest Medical Diagnostics, Inc. On September 10, 2001, the Company acquired the assets and operations of Nuclear Imaging, Ltd. In June 2000 the Company acquired the assets and operations of Portable X-Ray & EKG, Inc. (PXE) All of these acquisitions were accounted for using the purchase method of accounting. (See note 2 to consolidated financial statements.)

|                               |          |                |          |
|-------------------------------|----------|----------------|----------|
|                               | 2001     | 2000           | 1999     |
|                               | -----    | -----          | -----    |
|                               |          | (in thousands) |          |
| Operating revenues            | \$79,129 | \$66,319       | \$68,805 |
| Cost of goods sold            | 59,388   | 49,193         | 52,146   |
| Operating expenses            | 9,362    | 8,416          | 7,479    |
| Depreciation and amortization | 3,517    | 2,981          | 4,244    |
|                               | -----    | -----          | -----    |
| Operating income              | \$ 6,862 | \$ 5,729       | \$ 4,936 |
|                               | =====    | =====          | =====    |

(bar graph of information in following table)

Health services operating income  
millions

|      |       |
|------|-------|
| 1999 | \$4.9 |
| 2000 | \$5.7 |
| 2001 | \$6.9 |

(end of graph)

Operating revenues for the health services segment increased 19.3 percent for 2001 compared to 2000 due to an increase in equipment sales, services and supplies combined with an increase of 7.4 percent in scans performed. \$4.2 million of the revenue increase was the result of the acquisitions completed in September 2001. Cost of goods sold increased 20.7 percent reflecting increased costs of materials and supplies used and sold in the diagnostic equipment imaging business, increased rent expense and additional expenses as a result of the acquisitions. The operating expense increase related to increased labor costs, selling expenses, insurance expenses and promotion expenses.

The 3.6 percent decrease in operating revenues for health services for 2000 compared to 1999 is the result of decreased dealer sales. Offsetting the decreased dealer sales were increases in services and supply and accessory sales combined with operating revenues from the PXE acquisition and a 9.0 percent increase in the number of imaging scans performed primarily as a result of adding more routes. Cost of goods sold decreased 5.7 percent during 2000 compared to 1999 due to a decline in sales and servicing of equipment. The 12.5 percent increase in operating expenses in 2000 compared to 1999 reflects the results of the PXE acquisition combined with the additional routes and completion of more imaging scans.

#### Other business operations

The Company's other business operations include businesses involved in electrical and telephone construction contracting, transportation, telecommunications, entertainment, energy services, and natural gas marketing as well as the portion of corporate administrative and general expenses that are not allocated to the other segments.

Results of operations for the other business operations segment are as follows:

|                               | 2001           | 2000     | 1999     |
|-------------------------------|----------------|----------|----------|
|                               | -----          | -----    | -----    |
|                               | (in thousands) |          |          |
| Operating revenues            | \$80,667       | \$78,159 | \$68,322 |
| Cost of goods sold            | 41,109         | 40,938   | 38,954   |
| Operating expenses            | 30,927         | 27,088   | 17,550   |
| Depreciation and amortization | 5,943          | 6,572    | 4,454    |
|                               | -----          | -----    | -----    |
| Operating income              | \$ 2,688       | \$ 3,561 | \$ 7,364 |
|                               | =====          | =====    | =====    |

(bar graph of information in following table)

| Other business operations operating income |       |
|--|-------|
| (millions)                                 |       |
| -----                                      |       |
| 1999                                       | \$7.4 |
| 2000                                       | \$3.6 |
| 2001                                       | \$2.7 |

(end of graph)

The 3.2 percent increase in other business operating revenues reflects a \$2.4 million increase in revenues from the energy services company and \$1.7 million from the transportation subsidiary partially offset by a \$2.0 million decrease in revenues from the construction subsidiaries. Both operating revenues and cost of goods sold increased for the energy services company as a result of the higher cost of natural gas during the first half of 2001. The increase in cost of goods sold was offset by reductions in this category from the construction subsidiaries. Increases in brokerage revenue are primarily the reason for the increase in revenue from the transportation subsidiary. The decrease in revenues and cost of goods sold from the construction subsidiaries is due to an overall decline in the number of projects available for the companies to work on in 2001 as compared to 2000. Operating expenses increased 14.3 percent reflecting increased payments to owner-operators and increased brokerage fees within the transportation subsidiary and increases in insurance expenses. The 9.6 percent decrease in depreciation and amortization reflects the write down in 2000 of \$800,000 of goodwill that was impaired at the energy services company and charged to amortization expense.

Other business operating revenues increased 14.4 percent during 2000 compared to 1999, reflecting a full year of revenues from the transportation company compared to only four months during 1999. The increased revenues from the transportation company combined with increased revenues from the energy services subsidiary offset decreases in operating revenues from the construction and telecommunication subsidiaries and the lost revenues from the radio stations, which were sold in 1999. Cost of goods sold increased 5.1 percent during 2000 compared to 1999 as a result of the increased sales from the energy services subsidiary offset by a reduction in costs at the construction companies due to lower volumes of contracted work between the periods. The increase in operating



expenses also reflects a full year of operations from the transportation company offset by the absence of expenses from the radio stations.

In October 1999 the Company completed the sale of certain assets of the radio stations and video production company owned by KFGO, Inc., and the radio stations owned by Western Minnesota Broadcasting Company for \$24.1 million. Operating income includes results of operations for the radio stations through September 1999. The

gain from this sale is not included in operating income for segment purposes. For additional information regarding the sale see note 2 to consolidated financial statements. During 1999 the Company agreed, as part of a settlement with the Minnesota Pollution Control Agency, to donate all of its assets in its Quadrant Co. waste incineration plant to the City of Perham, Minnesota. The plant had ceased operations during the third quarter of 1998. Pro forma operating income for other business operations without Quadrant and the radio stations would have been \$6,303,000 for 1999.

#### Gain from sale of radio station assets

The Company recorded a \$14.5 million pre-tax gain from the sale of certain assets of the six radio stations and the video production company owned by KFGO, Inc., and the two radio stations owned by Western Minnesota Broadcasting Company on October 1, 1999. The after-tax gain from this sale contributed \$0.34 to earnings per share for 1999.

(bar graph of information in following table)

| Other income and deductions<br>(millions) |       |
|---|-------|
| -----                                     |       |
| 1999                                      | \$2.3 |
| 2000                                      | \$2.1 |
| 2001                                      | \$2.2 |

(end of graph)

#### Consolidated interest charges

(bar graph of information in following table)

| Interest charges<br>millions |        |
|------------------------------|--------|
| -----                        |        |
| 1999                         | \$15.2 |
| 2000                         | \$17.0 |
| 2001                         | \$16.0 |

(end of graph)

Interest expense decreased 6.0 percent for 2001 compared to 2000 due to decreases in the average long-term debt outstanding combined with lower interest rates on the line of credit balances and variable rate debt offset slightly by a higher daily average line of credit borrowings outstanding. Daily average outstanding borrowings were \$16.7 million for 2001 compared to \$12.8 million for 2000. The average interest rate under the line of credit was 5.2 percent for 2001. The 11.8 percent increase in interest charges in 2000 compared to 1999 is due to increases in long-term debt, higher average borrowings under the line of credit, and higher interest rates on the line of credit between the periods. Average interest rates under the line of credit were 8.1 percent for 2000 compared to 7.0 percent for 1999.

#### Consolidated income taxes

(bar graph of information in following table)

| Income taxes<br>millions |        |
|--------------------------|--------|
| -----                    |        |
| 1999                     | \$24.5 |
| 2000                     | \$18.4 |
| 2001                     | \$20.1 |

(end of graph)

The 9.4 percent increase in consolidated income taxes for 2001 compared to 2000

follows the \$4.3 million increase in income before income taxes. Consolidated income taxes decreased 25.0 percent during 2000 compared to 1999 primarily due to the income tax expense of \$6.4 million related to the sale of the radio station assets.

#### Impact of inflation

The electric utility operates under regulatory provisions that allow price changes in the cost of fuel and purchased power to be passed to customers through automatic adjustments to its rate schedules under the cost of energy adjustment clause. Other increases in the cost of electric service must be recovered through timely filings for rate relief with the appropriate regulatory agency.

The Company's plastics, manufacturing, health services, and other business operations consist almost entirely of unregulated businesses. Increased operating costs are reflected in product or services pricing with any limitations on price increases determined by the marketplace. The impact of inflation on these segments has not been significant during the past few years because of the relatively low rates of inflation experienced in the United States. Raw material costs, labor costs, and interest rates are important components of costs for companies in these segments. Any or all of these components could be impacted by inflation, with a possible adverse effect on the Company's profitability, especially in high inflation periods where raw material and energy cost increases would lead finished product prices.

#### Factors affecting future earnings

The results of operations discussed above are not necessarily indicative of future earnings. Factors affecting future earnings include, but are not limited to, the Company's ongoing involvement in diversification efforts, the timing and scope of deregulation and open competition, growth of electric revenues, impact of the investment performance of the Company's pension plan, changes in the economy, weather conditions, governmental and regulatory action, fuel and purchased power costs, and environmental issues. Anticipated higher operating costs and carrying charges on increased capital investment in plant, if not offset by proportionate increases in operating revenues and other income (either by appropriate rate increases, increases in unit sales, or increases in nonelectric operations), will affect future earnings.

#### Diversification

In 2001 approximately 24 percent of the Company's net earnings were contributed by diversified operations. The Company plans to make additional acquisitions through its wholly owned subsidiary, Varistar Corporation. It is possible that by 2006 nearly 50 percent of the Company's net earnings will be contributed from diversified operations. The following guidelines are used when considering acquisitions: emerging or middle market company; proven entrepreneurial management team that will remain after the acquisition; products and services intended for commercial rather

than retail consumer use; the ability to provide immediate earnings and future growth potential; and 100 percent ownership. The Company intends to grow earnings as a long-term owner of these investments. The Company also assesses the performance of these investments in accordance with its return on capital requirements and will consider divesting underperforming investments. Continuing growth from diversified operations could result in earnings and stock price volatility.

While the Company cannot predict the success of our current diversified businesses, we believe opportunities exist for growth in the business segments. Factors that could affect the results of the diversified businesses include, but are not limited to, the following: fluctuations in the cost and availability of raw materials and the ability to maintain favorable supplier arrangements and relationships; competitive products and pricing pressures and the ability to gain or maintain market share in trade areas; general economic conditions; effectiveness of advertising, marketing, and promotional programs; and adverse weather conditions. The failure of congress to approve extension of the Production Tax Credit for wind energy in December 2001 could have an unfavorable impact on the Company's subsidiary that manufactures towers for the wind energy industry.

#### Growth of electric revenue

Growth in electric sales will be subject to a number of factors, including the volume of sales of electricity to other utilities, the effectiveness of demand-side management programs, weather, competition, the price of alternative fuels, and the rate of economic growth or decline in the Company's service area. The Company's electric business depends primarily on the use of electricity by customers in our service area. The Company's electric kwh sales to retail customers increased 2.9 percent in 2001, 3.5 percent in 2000, and decreased 2.6 percent in 1999.

Factors beyond the Company's control, such as mergers and acquisitions, geographical location, transmission costs, unplanned interruptions at the Company's generating plants, and the effects of deregulation, could lead to

greater volatility in the volume and price of sales of electricity to other utilities. Activity in the short-term energy market is subject to change based on a number of factors and it is difficult to predict the quantity of wholesale power sales or prices for wholesale power although it does appear that market conditions for wholesale power transactions will be depressed during part of 2002.

#### Regulation

Rates of return earned on utility operations are subject to review by the various state commissions that have jurisdiction over the electric rates charged by the Company. These reviews may result in future revenue reductions when actual rates of return are deemed by regulators to be in excess of allowed rates of return.

On December 29, 2000 the North Dakota Public Service Commission (NDPSC) approved a performance-based ratemaking plan that links allowed earnings in North Dakota to seven defined performance standards in the areas of price, electric service reliability, customer satisfaction, and employee safety. The plan is in place for 2001 through 2005, unless suspended or terminated by the NDPSC or the Company. In 2001 the utility recorded an estimated \$334,000 refund to North Dakota customers based on 2001 earnings and the utility's 2001 performance relative to the defined standards of the performance-based ratemaking plan.

In 2001, the Minnesota Legislature exempted certain generation machinery and attached equipment from a new state personal property tax levy. The law also requires that any windfall tax savings resulting from this exemption be refunded to utility customers. As a result of this law, \$238,000 in 2001 tax savings will be refunded to retail electric customers in 2002.

#### Load Management and Minnesota Conservation Improvement Programs

Load management efforts will continue in all jurisdictions served by the Company. The goal of load management is to control demand for electricity by customers at times of peak use in order to alleviate or delay the need for building or acquiring new generating capacity or to avoid having to purchase high-priced energy at times

of peak demand. In addition to our load management efforts, we also invest in conservation improvement programs in Minnesota as mandated by state law. Conservation improvement programs are designed to encourage and reward the wise and efficient use of electricity by customers.

#### Fuel Costs

The Company has an agreement for Big Stone Plant's coal supply through December 31, 2004. The Company has been unable to negotiate a competitive delivery rate for coal to the Big Stone Plant with rail carriers. Coal is being shipped to Big Stone Plant under a tariff rate that is set through December 2002. The Company has commenced a proceeding before the Surface Transportation Board requesting the Board set a competitive rate. The Company expects the outcome to have a favorable impact on its fuel costs for the Big Stone Plant.

The Mid-Continent Area Power Pool region has experienced a reduction in availability of excess generation and transmission capacity, particularly in the summer season in the recent years. While the availability of the Company's plants has been excellent, the loss of a major plant could expose the Company to higher purchased power costs. Two factors significantly mitigate this financial risk. First, wholesale sale contracts include provisions to release the Company from its obligations in case of a plant outage; and second, the Company has cost of energy adjustment clauses that allow pass through of most of the energy costs to retail customers.

#### Environmental

Current regulations under the Federal Clean Air Act (the Act) are not expected to have a significant impact on future capital requirements or operating costs. However, proposed or future regulations under the Act, changes in the future coal supply market, and/or other laws and regulations could impact such requirements or costs. It is anticipated that, under current regulatory principles, any such costs could be recovered through rates. All of the Company's electric generating plants operated within the Act's phase two standards for sulfur-dioxide and nitrogen-oxide emissions in 2001. Ongoing compliance with the phase two requirements is not expected to significantly impact operations at any of the Company's plants.

The Act called for Environmental Protection Agency (EPA) studies of the effects of emissions of listed pollutants by electric steam generating plants. The EPA has completed the studies and sent reports to Congress. The Act required that the EPA make a finding as to whether regulation of emissions of hazardous air pollutants from fossil fuel-fired electric utility generating units is appropriate and necessary. On December 14, 2000, the EPA announced that it will regulate mercury emissions from electric generating units. The EPA expects to propose regulations by December 2003 and issue final rules by December 2004. Because promulgation of rules by the EPA has not been completed, it is not

possible to assess whether, or to what extent, this regulation will impact the Company.

The Company is planning to further improve the fine particulate emissions control at its Big Stone Plant by replacing a major portion of the plant's electrostatic precipitator in 2002 with a system based on Advanced Hybrid Particulate Collector technology. The new system will be installed as part of a demonstration project co-funded by the Department of Energy's National Energy Technology Laboratory Power Plant Improvement Initiative. The technology is designed to capture at least 99.99% of fly ash particulates emitted from the boiler. The Energy Department's share of the \$13.4 million project is \$6.5 million. The Company's share of the project is approximately \$2.9 million with the remaining portion funded by the plant's co-owners and other industry participants.

The EPA has targeted electric steam generating units as part of an enforcement initiative relative to compliance with the Act. The EPA is attempting to determine if utilities violated certain provisions of the Act by making major modifications to their facilities without installing state-of-the-art pollution controls. On January 2, 2001, the Company received a request from the EPA pursuant to Section 114(a) of the Act requiring the Company to provide certain information relative to past

operation and capital construction projects at its Big Stone Plant. The Company has responded to that request and cannot, at this time, determine what, if any, actions will be taken by the EPA as a result of the Company's response.

At the request of the Minnesota Pollution Control Agency (MPCA) the Company has an ongoing investigation at the Hoot Lake Plant closed ash disposal sites. The MPCA continues to monitor site activities under their Voluntary Investigation and Cleanup Program. In April 2001, Otter Tail submitted a Remedial Investigation Work Plan to the MPCA describing our plans to further investigate the environmental impact of the closed portion of the Hoot Lake Plant ash disposal site. The MPCA approved the plan, with some suggested modifications, in their letter of July 31, 2001. These tasks have been completed. The MPCA also asked that we eliminate a ground water seepage that was originating from one of the disposal areas. That task was completed in early November of 2001. We are continuing to monitor the site for evidence of further seepage.

#### Deregulation and legislation

In December 1999 the Federal Energy Regulatory Commission (FERC) issued Order No. 2000. This order requires public utilities that own, operate, or control interstate transmission to file by October 15, 2000, a proposal for a regional transmission organization (RTO) or a description of any efforts made to participate in an RTO, the reasons for not participating, and any plans for further work towards participation. The goal is to consolidate control of the transmission industry into a new structure of independent regional grid operators.

The electric utility agreed in October 2001 to join the Indianapolis-based Midwest Independent System Operator (MISO) RTO. In December 2001, MISO received FERC approval as a regional transmission organization. The MISO began operational control of the electric utility's transmission facilities above 100 kv on February 1, 2002. The utility continues to own and maintain its transmission assets as before. As the electric utility transitions to the full operation of the MISO there could be short-term negative impacts on wholesale power transactions. During 2002, the electric utility will work within MISO on evaluating for-profit transmission alliances, incentive for transmission construction and market design and implementation.

The U.S. Congress ended its 2001 legislative session without taking action on proposed electric industry restructuring legislation. The Minnesota Legislature passed an energy bill in 2001. Its primary focus was to streamline the siting and routing processes for the construction of new electric generation and transmission projects. The bill also added to utility requirements for renewable energy and energy conservation. There was no legislative action regarding electric retail choice in any of the states where the electric utility serves. No major electricity legislation is expected in the 2002 state legislative sessions. The Company does not expect retail competition to come to the States of Minnesota, North Dakota or South Dakota in the foreseeable future unless there is a federal effort to accomplish this.

#### Competition in the electric industry

As the electric industry evolves and becomes more competitive, the Company believes it is well positioned to be successful. The Company's generation capacity appears poised for competition due to unit heat rate improvements. A comparison of the Company's electric retail rates to the rates of other investor-owned utilities, cooperatives, and municipals in the states the Company serves indicates that its rates are competitive. In addition, the Company would attempt more flexible pricing strategies under an open, competitive environment.

#### Key accounting policies and accounting pronouncements

The Company's operations occur within five diverse segments. Three key accounting policies are revenue recognition, inventory valuations, and use of estimates. Due to

the diverse business operations of the Company revenue recognition depends on the product that is produced and sold. Provisions for sale returns and warranty costs are recorded at the time of the sale based on historical information and current trends. The majority of the Company's inventory is valued at the lower of cost or market. Changes in the market conditions could require a write down of inventory values. The Company uses estimates based on the best information available in recording transactions and balances resulting from business operations. Examples of items where estimates are used are unbilled revenues, collectability of accounts receivable, self insurance reserves, pension plan costs or income, and service contract maintenance costs. As better information becomes available or actual amounts are known, estimates are revised. Operating results can be affected by changes made to prior accounting estimates. See note 1 in the notes to consolidated financial statements for more details on significant accounting policies.

As of January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which requires all derivative instruments be reported on the consolidated balance sheet at fair value. The adoption of SFAS No. 133 did not have a material effect on the Company's consolidated financial statements. The application of SFAS 133 to electric utilities continued to evolve throughout 2001. On December 19, 2001, the Financial Accounting Standards Board revised SFAS 133 Implementation Issue No. C15 to be effective April 1, 2002 with early adoption allowed. As of December 31, 2001, the Company early adopted the revised SFAS 133 Implementation Issue No. C15. The Company has determined that certain electric energy contracts meet the criteria of a derivative under SFAS 133 but qualify for the normal purchase and normal sales exception and are not subject to mark-to-market accounting treatment. SFAS 133 did not have a material effect on the Company's 2001 consolidated financial statements.

In July 2001 the FASB issued SFAS 141, Business Combinations, which requires the purchase method of accounting to be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies that intangible assets acquired in a business combination, that meet certain criteria, be recognized and reported apart from goodwill. The Company has adopted this statement as of July 1, 2001 and applied it to the following acquisitions that occurred after July 1, 2001: Interim Solutions and Sales, Inc, Midwest Medical Diagnostics, Inc., Nuclear Imaging, Ltd, and Titan Steel Corporation. Adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In July 2001 the FASB issued SFAS 142, Goodwill and Other Intangible Assets, which requires goodwill and intangible assets with indefinite useful lives no longer be amortized. Rather they will be tested for impairment, at least annually, in accordance with the provisions of SFAS 142. Intangible assets with finite useful lives will be amortized over their respective estimated useful lives and will be reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 142 is effective January 1, 2002, except for any goodwill arising in a purchase business combination completed on or after July 1, 2001 which would be subject immediately to the provisions of SFAS 142. As of December 31, 2001, the Company had net goodwill of \$48.2 million. Included on the Company's consolidated statement of income for the twelve months ended December 31, 2001 is \$3.2 million in goodwill amortization expense. SFAS 142 requires the Company perform an assessment of goodwill impairment as of the date of adoption. Any impairment loss resulting from this transition to SFAS 142 would be recognized as a cumulative effect of a change in accounting principle in the Company's consolidated income statement at the time of adoption. The Company is continuing to evaluate the effect that the adoption of this statement may have on its consolidated financial statements. Based on the work completed to date, the Company does not expect the implementation of this statement to have a material impact on its consolidated results of operations and financial position.

In July 2001 the FASB issued SFAS 143, Accounting for Asset Retirement Obligations, which provides accounting requirements for retirement obligations associated with tangible long-lived assets. This statement is effective for fiscal years beginning

after June 15, 2002. The Company is assessing this statement but has not yet determined the impact of SFAS 143 on its consolidated financial position or results of operations.

The FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets in October 2001. SFAS 144 replaces SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. This statement develops one accounting model for long-lived assets to be

disposed of by sale and also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity in a disposal transaction. The statement is effective for fiscal years beginning after December 15, 2001. The Company adopted the accounting model for impairment or disposal of long-lived assets on January 1, 2002. Adoption of this statement did not have a material effect on the Company's consolidated financial statements.

#### Quantitative and Qualitative Disclosures About Market Risk

The Company has limited exposure to market risk associated with interest rates and commodity prices. The majority of the Company's long-term debt obligations bear interest at a fixed rate. Variable rate long-term debt bears interest at a rate that is reset on a periodic basis reflecting current market conditions. The Company manages its interest rate risk through the issuance of fixed-rate debt with varying maturities, maintaining consistent credit ratings, through economic refunding of debt through optional refundings, limiting the amount of variable interest rate debt, and utilization of short-term borrowings to allow flexibility in the timing and placement of long-term debt. As of December 31, 2001, the Company had \$17.0 million of long-term debt subject to variable interest rates. Assuming no change in the Company's financial structure, if variable interest rates were to average 1 percent higher or lower than what the average variable rate was on December 31, 2001, interest expense and pre-tax earnings would change by approximately \$170,000. The Company has short-term borrowing arrangements to provide working capital and general corporate funds. The level of borrowings under these arrangements varies from period to period, depending upon, among other factors, operating needs and capital expenditures. The interest rate on the majority of the short-term borrowing arrangements is variable based on LIBOR.

The electric utility's retail portion of fuel and purchased power costs are subject to cost of energy adjustment clauses that mitigate the commodity price risk by allowing a pass through of most of the increase or decrease in energy costs to retail customers. In addition, the electric utility participates in an active wholesale power market providing access to commodity transactions that may serve to mitigate price risk. The electric utility has in place an energy risk management policy with a primary goal to manage, through the use of defined risk management practices, price risk and credit risk associated with wholesale power purchases and sales.

The energy services subsidiary markets natural gas to approximately 150 retail customers. A portion of these customers are served under fixed-price contracts. There is price risk associated with this limited number of fixed-price contracts since the corresponding cost of natural gas is not immediately locked in. This price risk is not considered material to the Company. In addition, the Company has in place an energy risk management policy with the primary goal of managing, through the use of defined risk management practices, price risk and credit risk associated with the marketing of natural gas.

The plastics companies are exposed to market risk related to changes in commodity prices for PVC resins, the raw material used to manufacture PVC pipe. The PVC pipe industry is highly sensitive to commodity raw material pricing volatility. Currently, margins are very tight due to aggressive competition in a period of soft demand.

The Company does not use derivative financial instruments for speculative or trading purposes.

#### Cautionary Statements

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company makes the following statements.

The information in this annual report includes forward-looking statements. Important risks and uncertainties that could cause actual results to differ materially from those discussed in such forward-looking statements are set forth above under "Factors affecting future earnings." Other risks and uncertainties may be presented from time to time in the Company's future Securities and Exchange Commission filings.

#### INDEPENDENT AUDITORS' REPORT

To the Shareholders of Otter Tail Corporation

We have audited the accompanying consolidated balance sheets and statements of capitalization of Otter Tail Corporation and its subsidiaries (the Company) as of December 31, 2001, and 2000, and the related consolidated statements of income, common shareholders' equity, and cash flows for each of the three years

in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2001, and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota  
February 1, 2002

OTTER TAIL CORPORATION

| CONSOLIDATED BALANCE SHEETS, DECEMBER 31  | 2001           | 2000      |
|---|----------------|-----------|
|   | (in thousands) |           |
| ASSETS  |                |           |
| CURRENT ASSETS  |                |           |
| Cash and cash equivalents   | \$ 11,378      | \$ 1,259  |
| Accounts receivable:  |                |           |
| Trade (less allowance for doubtful accounts:<br>2001, \$1,109,000; 2000, \$922,000) | 64,215         | 61,913    |
| Other   | 5,047          | 6,813     |
| Inventory, fuel, materials and supplies   | 39,301         | 42,263    |
| Deferred income taxes   | 4,020          | 3,694     |
| Accrued utility revenues  | 11,055         | 11,315    |
| Other   | 8,878          | 6,468     |
|   | -----          | -----     |
| Total current assets  | 143,894        | 133,725   |
|   | -----          | -----     |
| INVESTMENTS   | 18,009         | 17,966    |
| INTANGIBLES--NET  | 49,805         | 43,532    |
| OTHER ASSETS  | 15,687         | 11,236    |
| DEFERRED DEBITS   |                |           |
| Unamortized debt expense and reacquisition premiums                                 | 5,646          | 2,778     |
| Regulatory assets   | 5,117          | 5,517     |
| Other   | 1,406          | 1,183     |
|   | -----          | -----     |
| Total deferred debits   | 12,169         | 9,478     |
|   | -----          | -----     |
| PLANT   |                |           |
| Electric plant in service   | 810,470        | 795,357   |
| Diversified operations  | 145,712        | 129,716   |
|   | -----          | -----     |
| Total   | 956,182        | 925,073   |
| Less accumulated depreciation and amortization                                      | 441,863        | 416,419   |
|   | -----          | -----     |
| Plant - net of accumulated depreciation and amortization                            | 514,319        | 508,654   |
| Construction work in progress   | 28,658         | 13,117    |
|   | -----          | -----     |
| Net plant   | 542,977        | 521,771   |
|   | -----          | -----     |
|   | -----          | -----     |
| TOTAL   | \$782,541      | \$737,708 |
|   | =====          | =====     |

See accompanying notes to consolidated financial statements.

OTTER TAIL CORPORATION

CONSOLIDATED BALANCE SHEETS, DECEMBER 31

2001

2000

(in thousands)

LIABILITIES AND EQUITY

CURRENT LIABILITIES

|  |           |           |
|--|-----------|-----------|
| Sinking fund requirements and current maturities of long-term debt | \$ 28,946 | \$ 14,288 |
| Accounts payable   | 54,777    | 52,525    |
| Accrued salaries and wages   | 9,491     | 9,476     |
| Income taxes payable   | 1,634     | 3,243     |
| Other accrued taxes  | 9,854     | 10,585    |
| Other accrued liabilities  | 6,090     | 6,524     |
|  | -----     | -----     |
| Total current liabilities  | 110,792   | 96,641    |
|  | -----     | -----     |

NONCURRENT LIABILITIES

32,981

30,181

COMMITMENTS (NOTE 6)

DEFERRED CREDITS

|                                |         |         |
|--------------------------------|---------|---------|
| Deferred income taxes          | 85,591  | 86,407  |
| Deferred investment tax credit | 13,935  | 15,112  |
| Regulatory liabilities         | 9,914   | 10,618  |
| Other                          | 7,160   | 6,850   |
|                                | -----   | -----   |
| Total deferred credits         | 116,600 | 118,987 |
|                                | -----   | -----   |

CAPITALIZATION (PAGE 35)

|   |            |            |
|---|------------|------------|
| Long-term debt, net of sinking fund and current maturities  | 227,360    | 195,128    |
| Cumulative preferred shares   | 15,500     | 33,500     |
| Common shares, par value \$5 per share -- authorized, 50,000,000 shares;<br>outstanding, 2001 -- 24,653,490 shares; 2000 -- 24,574,288 shares | \$ 123,267 | \$ 122,871 |
| Premium on common shares  | 1,526      | 50         |
| Unearned compensation   | (151)      | (226)      |
| Retained earnings   | 156,641    | 140,796    |
| Accumulated other comprehensive expense   | (1,975)    | (220)      |
|   | -----      | -----      |
| Total common equity   | 279,308    | 263,271    |
|   | -----      | -----      |
| Total capitalization  | 522,168    | 491,899    |
|   | -----      | -----      |

TOTAL

\$ 782,541

\$ 737,708

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See accompanying notes to consolidated financial statements.

OTTER TAIL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31

2001

2000

1999

(in thousands, except per-share amounts)

OPERATING REVENUES

|                           |            |            |            |
|---------------------------|------------|------------|------------|
| Electric                  | \$ 307,684 | \$ 262,280 | \$ 233,527 |
| Plastics                  | 63,216     | 82,667     | 31,504     |
| Manufacturing             | 123,436    | 97,506     | 87,086     |
| Health services           | 79,129     | 66,319     | 68,805     |
| Other business operations | 80,667     | 78,159     | 68,322     |
|                           | -----      | -----      | -----      |
| Total operating revenues  | 654,132    | 586,931    | 489,244    |

OPERATING EXPENSES

|   |         |         |         |
|---|---------|---------|---------|
| Production fuel                             | 41,776  | 38,546  | 36,839  |
| Purchased power                             | 99,491  | 66,121  | 44,190  |
| Electric operation and maintenance expenses | 75,531  | 74,591  | 71,724  |
| Cost of goods sold                          | 249,789 | 229,056 | 180,277 |
| Other nonelectric expenses                  | 58,497  | 53,831  | 40,964  |
| Depreciation and amortization               | 42,100  | 40,562  | 36,859  |
| Property taxes                              | 9,464   | 9,976   | 10,178  |
|   | -----   | -----   | -----   |



|   |           |           |           |
|---|-----------|-----------|-----------|
| Total operating expenses                              | 576,648   | 512,683   | 421,031   |
| OPERATING INCOME                                      |           |           |           |
| Electric  | 57,150    | 49,268    | 47,234    |
| Plastics  | (1,391)   | 8,745     | 3,382     |
| Manufacturing   | 12,175    | 6,945     | 5,297     |
| Health services                                       | 6,862     | 5,729     | 4,936     |
| Other business operations                             | 2,688     | 3,561     | 7,364     |
|   | -----     | -----     | -----     |
|   | 77,484    | 74,248    | 68,213    |
| GAIN FROM SALE OF RADIO STATION ASSETS                | -         | -         | 14,469    |
| OTHER INCOME AND DEDUCTIONS -- NET                    | 2,193     | 2,154     | 2,311     |
| INTEREST CHARGES                                      | 15,991    | 17,005    | 15,209    |
|   | -----     | -----     | -----     |
| INCOME BEFORE INCOME TAXES                            | 63,686    | 59,397    | 69,784    |
| INCOME TAXES  | 20,083    | 18,355    | 24,489    |
|   | -----     | -----     | -----     |
| NET INCOME  | 43,603    | 41,042    | 45,295    |
| PREFERRED DIVIDEND REQUIREMENTS                       | 1,993     | 1,879     | 2,228     |
|   | -----     | -----     | -----     |
| EARNINGS AVAILABLE FOR COMMON SHARES                  | \$ 41,610 | \$ 39,163 | \$ 43,067 |
|   | =====     | =====     | =====     |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC   | 24,600    | 24,572    | 24,553    |
| AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - DILUTED | 24,832    | 24,649    | 24,575    |
| BASIC EARNINGS PER SHARE                              | \$ 1.69   | \$ 1.59   | \$ 1.75   |
| DILUTED EARNINGS PER SHARE                            | \$ 1.68   | \$ 1.59   | \$ 1.75   |
| DIVIDENDS PER COMMON SHARE                            | \$ 1.04   | \$ 1.02   | \$ 0.99   |

See accompanying notes to consolidated financial statements.

#### OTTER TAIL CORPORATION

#### CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

|   | COMMON<br>SHARES<br>OUTSTANDING | PAR VALUE,<br>COMMON<br>SHARES | PREMIUM ON<br>COMMON<br>SHARES | UNEARNED<br>COMPENSATION | RETAINED<br>EARNINGS | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>INCOME/(EXPENSE) | TOTAL<br>EQUITY |
|---|---------------------------------|--------------------------------|--------------------------------|--------------------------|----------------------|---|-----------------|
| (in thousands, except common shares outstanding)  |                                 |                                |                                |                          |                      |   |                 |
| BALANCE, DECEMBER 31, 1998  | 11,879,504                      | \$ 59,398                      | \$ 39,919                      | \$ -                     | \$ 125,462           | \$ 297  | \$225,076       |
| Common stock issuances - net of retirement  | 45,483                          | 227                            | 1,540                          |                          | \$ (10)              |   | 1,757           |
| Unearned compensation - stock options   |                                 |                                | 301                            | (301)                    |                      |   | -               |
| Two-for-one stock split - March 15, 2000  | 11,924,987                      | 59,625                         | (41,760)                       |                          | (17,865)             |   | -               |
| Effects of pooling transactions,<br>January 1, 1999:  |                                 |                                |                                |                          |                      |   |                 |
| T.O. Plastics, Inc.   | 451,066                         | 2,255                          |                                |                          | (1,277)              |   | 978             |
| St. George Steel Fabrication, Inc.  | 270,370                         | 1,352                          |                                |                          | 426                  |   | 1,778           |
| Comprehensive income:   |                                 |                                |                                |                          |                      |   |                 |
| Net income  |                                 |                                |                                |                          | 45,295               |   | 45,295          |
| Reversal of previously recorded<br>unrealized gains on available-<br>for-sale securities sold |                                 |                                |                                |                          |                      | (297)   | (297)           |
| Total comprehensive income  |                                 |                                |                                |                          |                      |   | 44,998          |
| Cumulative preferred dividends  |                                 |                                |                                |                          | (2,267)              |   | (2,267)         |
| Common dividends  |                                 |                                |                                |                          | (23,554)             |   | (23,554)        |
| BALANCE, DECEMBER 31, 1999  | 24,571,410                      | \$ 122,857                     | \$ -                           | \$ (301)                 | \$ 126,210           | \$ -  | \$248,766       |
| Common stock issuances  | 2,878                           | 14                             | 50                             |                          |                      |   | 64              |
| Amortization of unearned compensation -<br>stock options                                      |                                 |                                |                                | 75                       |                      |   | 75              |
| Comprehensive income:   |                                 |                                |                                |                          |                      |   |                 |
| Net income  |                                 |                                |                                |                          | 41,042               |   | 41,042          |
| Minimum liability adjustment  |                                 |                                |                                |                          |                      | (220)   | (220)           |
| Total comprehensive income  |                                 |                                |                                |                          |                      |   | 40,822          |
| Purchase stock for employee purchase  |                                 |                                |                                |                          |                      |   |                 |

|  |            |            |          |          |            |            |           |
|--|------------|------------|----------|----------|------------|------------|-----------|
| plan on open market                                      |            |            |          |          | (250)      |            | (250)     |
| Cumulative preferred dividends                           |            |            |          |          | (1,878)    |            | (1,878)   |
| Common dividends   |            |            |          |          | (24,328)   |            | (24,328)  |
| -----  |            |            |          |          |            |            |           |
| BALANCE, DECEMBER 31, 2000                               | 24,574,288 | \$ 122,871 | \$ 50    | \$ (226) | \$ 140,796 | \$ (220)   | \$263,271 |
| Common stock issuances                                   | 79,202     | 396        | 1,187    |          |            |            | 1,583     |
| Amortization of unearned compensation - stock options    |            |            |          |          | 75         |            | 75        |
| Comprehensive income:                                    |            |            |          |          |            |            |           |
| Net income   |            |            |          |          | 43,603     |            | 43,603    |
| Minimum liability adjustment                             |            |            |          |          |            | (1,755)    | (1,755)   |
| -----  |            |            |          |          |            |            |           |
| Total comprehensive income                               |            |            |          |          |            |            | 41,848    |
| Tax benefit for exercise of stock options                |            |            | 302      |          |            |            | 302       |
| Remove capital stock expense \$6.35 preferred shares     |            |            | 246      |          | (246)      |            | -         |
| Purchase stock for employee purchase plan on open market |            |            | (259)    |          | (168)      |            | (427)     |
| Cumulative preferred dividends                           |            |            |          |          | (2,088)    |            | (2,088)   |
| Common dividends   |            |            |          |          | (25,256)   |            | (25,256)  |
| -----  |            |            |          |          |            |            |           |
| BALANCE, DECEMBER 31, 2001                               | 24,653,490 | \$ 123,267 | \$ 1,526 | \$ (151) | \$ 156,641 | \$ (1,975) | \$279,308 |
| -----  |            |            |          |          |            |            |           |

See accompanying notes to consolidated financial statements.

#### OTTER TAIL CORPORATION

#### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31

|   | 2001           | 2000      | 1999      |
|---|----------------|-----------|-----------|
|   | (in thousands) |           |           |
| -----   |                |           |           |
| Cash flows from operating activities  |                |           |           |
| Net income  | \$ 43,603      | \$ 41,042 | \$ 45,295 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                |           |           |
| Depreciation and amortization   | 42,100         | 40,562    | 36,859    |
| Deferred investment tax credit--net   | (1,177)        | (1,183)   | (1,186)   |
| Deferred income taxes   | (1,441)        | (4,655)   | (3,820)   |
| Change in deferred debits and other assets  | (8,434)        | (3,346)   | (459)     |
| Change in noncurrent liabilities and deferred credits                             | 2,484          | 4,263     | 4,727     |
| Allowance for equity (other) funds used during construction                       | (963)          | (341)     | (246)     |
| (Gain)/loss on sale of investments and radio station assets                       | (81)           | 728       | (14,455)  |
| Changes in working capital:   |                |           |           |
| Change in receivables, materials, and supplies                                    | 4,880          | (20,781)  | (572)     |
| Change in other current assets  | (432)          | 537       | 1,348     |
| Change in payables and other current liabilities                                  | (581)          | 9,904     | 8,253     |
| Change in interest and income taxes payable                                       | (2,429)        | (4,969)   | 6,106     |
|   | -----          | -----     | -----     |
| Net cash provided by operating activities   | 77,529         | 61,761    | 81,850    |
| -----   |                |           |           |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                |           |           |
| Gross capital expenditures  | (53,596)       | (46,273)  | (35,245)  |
| Proceeds from sale of radio station assets  | -              | -         | 24,063    |
| Proceeds from disposal of noncurrent assets                                       | 3,298          | 1,709     | 1,930     |
| Acquisitions--net of cash acquired  | (8,948)        | (34,194)  | (16,000)  |
| Change in other investments   | (1,884)        | (86)      | (9)       |
|   | -----          | -----     | -----     |
| Net cash used in investing activities   | (61,130)       | (78,844)  | (25,261)  |
| -----   |                |           |           |
| CASH FLOWS FROM FINANCING ACTIVITIES  |                |           |           |
| Change in short-term debt--net issuances  | -              | (50)      | (4,228)   |
| Proceeds from issuance of long-term debt--net of expenses                         | 119,266        | 44,814    | 15,444    |
| Proceeds from issuance of common stock--net                                       | -              | 14        | 1,757     |
| Proceeds from employee stock plans  | 1,347          | -         | -         |
| Redemption of preferred stock   | (18,000)       | -         | (5,331)   |
| Payments for retirement of long-term debt   | (81,549)       | (24,889)  | (17,618)  |
| Dividends paid and other distributions  | (27,344)       | (26,455)  | (25,820)  |
|   | -----          | -----     | -----     |
| Net cash used in financing activities   | (6,280)        | (6,566)   | (35,796)  |
| -----   |                |           |           |
| NET CHANGE IN CASH AND CASH EQUIVALENTS   | 10,119         | (23,649)  | 20,793    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                                    | 1,259          | 24,908    | 4,115     |
|   | -----          | -----     | -----     |
| CASH AND CASH EQUIVALENTS AT END OF YEAR  | \$ 11,378      | \$ 1,259  | \$ 24,908 |
|   | =====          | =====     | =====     |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

|                                      |           |           |           |
|--------------------------------------|-----------|-----------|-----------|
| Interest (net of amount capitalized) | \$ 16,313 | \$ 16,075 | \$ 14,004 |
| Income taxes                         | \$ 23,575 | \$ 28,510 | \$ 23,077 |

See accompanying notes to consolidated financial statements.

OTTER TAIL CORPORATION

CONSOLIDATED STATEMENTS OF CAPITALIZATION, DECEMBER 31

2001 2000

(in thousands)

Long-term debt

First mortgage bond series:

|   |           |           |
|---|-----------|-----------|
| 7.25%, due August 1, 2002                                     | \$ 18,200 | \$ 18,400 |
| 8.75%, retired December 2001                                  | -         | 18,200    |
| 8.25%, due August 1, 2022                                     | 27,300    | 27,600    |
| Pollution control series:                                     |           |           |
| 6.5-6.9%, Big Stone and Coyote project - retired October 2001 | -         | 25,981    |
| Total first mortgage bond series                              | 45,500    | 90,181    |

|  |        |        |
|--|--------|--------|
| Senior debentures 6.375%, due December 1, 2007   | 50,000 | 50,000 |
| Senior notes 6.63%, due December 1, 2011   | 90,000 | -      |
| Industrial development refunding revenue bonds   |        |        |
| 5.00% due December 1, 2002   | 3,010  | 3,010  |
| Pollution control refunding revenue bonds  |        |        |
| variable 1.9% at December 31, 2001, due December 1, 2012   | 10,400 | 10,400 |
| Grant County, South Dakota pollution control refunding revenue bonds 4.65%, due September 1, 2017  | 5,185  | -      |
| Mercer County, North Dakota pollution control refunding revenue bonds 4.85%, due September 1, 2022 | 20,790 | -      |
| Obligations of Varistar Corporation:   |        |        |
| 7.80% ten-year term note, due October 31, 2007   | 9,771  | 12,021 |
| Variable 8.11% at December 31, 2000, retired December 2001   | -      | 16,640 |
| 8.15% five-year term note, due October 31, 2005  | 5,280  | 6,600  |
| Variable 3.66% at December 31, 2001, due July 3, 2007  | 4,479  | 5,324  |
| Various at 3.25% to 8.4% at December 31, 2001  | 11,571 | 15,214 |
| Obligations of Otter Tail Energy Services Company  |        |        |
| 8.75% ten-year term note, due April 11, 2008   | 892    | 994    |
| Other  | 5      | 6      |

Total 256,883 210,390

Less:

|  |        |        |
|--|--------|--------|
| Current maturities                           | 28,646 | 13,293 |
| Sinking fund requirement                     | 300    | 995    |
| Unamortized debt discount and premium -- net | 577    | 974    |

Total long-term debt 227,360 195,128

CUMULATIVE PREFERRED SHARES -- without par value (stated and liquidating value \$100 a share) -- authorized 1,500,000 shares; outstanding:

Series subject to mandatory redemption:

Outstanding December 31, 2000 \$6.35, 180,000 shares - 18,000

Other series:

|                       |       |       |
|-----------------------|-------|-------|
| \$3.60, 60,000 shares | 6,000 | 6,000 |
| \$4.40, 25,000 shares | 2,500 | 2,500 |
| \$4.65, 30,000 shares | 3,000 | 3,000 |
| \$6.75, 40,000 shares | 4,000 | 4,000 |

Total other preferred 15,500 15,500

CUMULATIVE PREFERENCE SHARES -- without par value, authorized 1,000,000 shares; outstanding: none

TOTAL COMMON SHAREHOLDERS' EQUITY

279,308 263,271

TOTAL CAPITALIZATION

\$522,168 \$491,899

See accompanying notes to consolidated financial statements.

1. Summary of significant accounting policies

Principles of consolidation--The consolidated financial statements include Otter Tail Corporation and its wholly owned subsidiaries (the Company). Profits on sales between nonregulated affiliates and from the regulated electric utility company to nonregulated affiliates are eliminated. However, profits on sales to the regulated electric utility company from nonregulated affiliates are not eliminated, in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. These amounts are not material.

System of accounts--For regulatory reporting purposes, the electric utility's internal system of accounts is translated into the accounts of the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission (FERC), the Public Service Commission of North Dakota, and the Public Utilities Commissions of Minnesota and South Dakota.

Regulation and Statement of Financial Accounting Standards (SFAS) No. 71--As a regulated entity the Company and the electric utility account for the financial effects of regulation in accordance with SFAS No. 71. This statement allows for the recording of a regulatory asset or liability for costs that will be collected or refunded through the ratemaking process in the future. Included on the Company's Consolidated Balance Sheets for the years ended December 31, 2001 and 2000 are regulatory assets and liabilities that primarily relate to the recording of deferred taxes as required by SFAS No. 109, Accounting for Income Taxes.

Plant, retirements, and depreciation--Utility plant is stated at original cost. The cost of additions includes contracted work, direct labor and materials, allocable overheads, and allowance for funds used during construction (AFC). AFC, a noncash item, is included in utility construction work in progress. The amount of AFC capitalized was \$1,342,000 for 2001, \$471,000 for 2000, and \$344,000 for 1999. The cost of depreciable units of property retired plus removal costs less salvage is charged to the accumulated provision for depreciation. Maintenance, repairs, and replacement of minor items of property are charged to operating expenses. The provisions for utility depreciation for financial reporting purposes are made on the straight-line method based on the estimated service lives of the properties. Such provisions as a percent of the average balance of depreciable electric utility property were 3.06 percent for 1999 through 2001.

Property and equipment of nonutility and diversified operations are carried at historical cost or at the current appraised value if acquired in a business combination accounted for under the purchase method of accounting, and are depreciated on a straight-line basis over useful lives (3 to 40 years) of the related assets. Replacement and major improvements are capitalized; maintenance and repairs are expensed as incurred. Gains or losses on asset dispositions are included in the determination of net income.

Jointly owned plants--The consolidated financial statements include the Company's 53.9 percent (Big Stone Plant) and 35 percent (Coyote Station) ownership interests in the assets, liabilities, revenue, and expenses of Big Stone Plant and Coyote Station, respectively. Amounts at December 31, 2001 and 2000 included in electric plant in service for Big Stone were \$112,898,000 and \$111,850,000, respectively, and the accumulated depreciation was \$71,585,000 and \$68,269,000, respectively. Amounts at December 31, 2001 and 2000 included in electric plant in service for Coyote were \$146,566,000 and \$146,292,000, respectively, and the accumulated depreciation was \$74,057,000 and \$70,524,000, respectively. The Company's share of direct revenue and expenses of the jointly owned plants in service is included in operating revenue and expenses in the Consolidated Statements of Income.

Recoverability of long-lived assets--The Company reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. The Company determines potential impairment by comparing the carrying value of the assets with net cash flows expected to be

provided by operating activities of the business or related assets. Should the sum of the expected future net cash flows be less than the carrying values, the Company would determine whether an impairment loss should be recognized. An impairment loss would be quantified by comparing the amount by which the carrying value exceeds the fair value of the asset where fair value is based on the discounted cash flows expected to be generated by the asset.

Income taxes--Comprehensive interperiod income tax allocation is used for substantially all book and tax temporary differences. Deferred income taxes arise for all temporary differences between the book and tax basis of assets and liabilities. Deferred taxes are recorded using the tax rates scheduled by tax law to be in effect when the temporary differences

reverse. The Company amortizes the investment tax credit over the estimated lives of the related property.

Revenue recognition--Due to the diverse business operations of the Company revenue recognition depends on the product produced and sold. However, in general, the Company recognizes revenue when the earnings process is complete, evidenced by an agreement with the customer, there has been delivery and acceptance, and the price is fixed or determinable. In cases where significant obligations remain after delivery, revenue is deferred until such obligations are fulfilled. Provisions for sale returns and warranty costs are recorded at the time of the sale based on historical information and current trends.

Electric customers' meters are read and bills are rendered on a cycle basis. Revenue is accrued for electricity consumed but not yet billed. Rate schedules applicable to substantially all customers include a cost of energy adjustment clause, under which the rates are adjusted to reflect changes in average cost of fuels and purchased power, and a surcharge for recovery of conservation-related expenses.

Revenues on almost all of wholesale sales are recognized when energy is delivered. The majority of revenue is the result of bilateral agreements with individual counter-parties.

Plastics operating revenues are recorded when the product is shipped.

Health services operating revenues on major equipment and installation contracts are recorded when the equipment is delivered. Amounts received in advance under customer service contracts are deferred and recognized on a straight-line basis over the contract period. Revenues generated in the mobile imaging operations are recorded on a fee for scan basis.

Manufacturing operating revenues are recorded when products are shipped and on a percentage-of-completion basis for construction type contracts.

Other business operations operating revenues are recorded when services are rendered or products are shipped. In the case of construction contracts, the percentage-of-completion method is used.

Pre-production costs--As part of the manufacturing process, the Company incurs costs related to the design and development of molds, dies, and tools. As of January 1, 2000 the Company adopted prospectively Emerging Issues Task Force Statement (EITF) 99-5, Accounting for Pre-production Costs Related to Long-Term Supply Arrangements. The Company capitalizes the costs related to the design and development of molds, dies, and tools used to produce products under a long-term supply arrangement, some of which are owned by the Company. During 2001 and 2000 the amount of costs capitalized were \$1,216,000 and \$1,254,000. These costs are amortized over three years.

Stock-based compensation--As described in note 4, the Company has elected to follow the accounting provisions of Accounting Principle Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, for stock-based compensation and to furnish the pro forma disclosures required under SFAS No. 123, Accounting for Stock-Based Compensation.

Use of estimates--The Company uses estimates based on the best information available in recording transactions and balances resulting from business

operations. Estimates are used for such items as depreciable lives, tax provisions, collectability of trade accounts receivable, self insurance programs, environmental liabilities, unbilled revenues, unscheduled power exchanges, service contract maintenance costs and actuarially determined benefit costs. As better information becomes available (or actual amounts are determinable) the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

Reclassifications--Certain prior year amounts have been reclassified to conform to 2001 presentation. Such reclassifications had no impact on net income, shareholders' equity, or cash flows provided from operations. In addition, during 2001 the Company completed two acquisitions using the pooling-of-interests accounting method. Consolidated financial statements for 1999 and 2000 have been restated to reflect these acquisitions.

Cash equivalents--The Company considers all highly liquid debt instruments purchased with maturity of 90 days or less to be cash equivalents.

Debt reacquisition premiums--In accordance with regulatory treatment, the Company defers utility debt redemption premiums and amortizes such costs over the original life of the reacquired bonds.

Investments--At December 31, 2001 and 2000, the Company had investments of \$6,108,000 and \$6,759,000, respectively, in limited partnerships that invest in tax-credit qualifying affordable housing projects. These investments provided the Company with tax credits of \$1,418,000 and \$1,414,000 in 2001 and 2000, respectively. The balance of investments at

December 31, 2001, consists of \$6,058,000 in additional investments accounted for under the equity method and \$5,843,000 in other investments accounted for under the cost method, with \$1,186,000 related to participation in economic development loan pools. The balance of investments at December 31, 2000, consists of \$5,024,000 in additional investments accounted for under the equity method and \$6,180,000 in other investments accounted for under the cost method, with \$1,263,000 related to participation in economic development loan pools. (See further discussion under note 10.)

Inventories--The electric operation inventories are reported at average cost. The plastics, health services, manufacturing, and other business operation inventories are stated at the lower of cost (first-in, first-out) or market.

Short-term debt--There was no short-term debt outstanding as of December 31, 2001 and 2000. The average interest rate paid on short-term debt during 2001 and 2000 was 5.2 percent and 8.1 percent, respectively.

Intangible assets--The majority of the Company's intangible assets consist of goodwill associated with the acquisition of subsidiaries. Intangible assets are amortized on a straight-line basis over periods of 40 years for the telecommunication operations and 15 years or less for all other goodwill and intangibles.

The Company periodically evaluates the recovery of intangible assets based on an analysis of undiscounted future cash flows. As a result of changing market conditions during 2000, the Company completed an evaluation of the recoverability of the assets of a subsidiary acquired by Otter Tail Energy Services in 1998. As a result of the evaluation it was determined that \$800,000 of goodwill was impaired and was charged to amortization expense during 2000. As a result of the writedown, the remaining goodwill related to the acquisition is \$1.0 million as of December 31, 2001.

Total intangibles as of December 31 are as follows:

|   | 2001           | 2000     |
|---|----------------|----------|
|   | -----          | -----    |
|   | (in thousands) |          |
| Goodwill on telecommunications operations   | \$ 7,749       | \$ 7,749 |
| Other intangible assets, primarily goodwill | 56,761         | 47,288   |
|   | -----          | -----    |
| Total                                       | 64,510         | 55,037   |
| Less accumulated amortization               | 14,705         | 11,505   |
|   | -----          | -----    |
| Intangibles-net                             | \$49,805       | \$43,532 |
|   | =====          | =====    |

Adoption of new accounting pronouncements--The Company adopted Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities, as amended, on January 1, 2001, which requires all derivative instruments be reported on the consolidated balance sheet at fair value. The adoption of SFAS No. 133 did not have a material effect on the Company's consolidated financial statements. The application of SFAS 133 to electric utilities continued to evolve throughout 2001. On December 19, 2001, the Financial Accounting Standards Board revised SFAS 133 Implementation Issue No. C15 to be effective April 1, 2002 with early adoption allowed. As of December 31, 2001, the Company early adopted the revised SFAS 133 Implementation Issue No. C15. The Company has determined that certain electric energy contracts meet the criteria of a derivative under SFAS 133 but qualify for the normal purchase and normal sales exception and are not subject to mark-to-market accounting treatment. SFAS 133 did not have a material effect on the Company's 2001 consolidated financial statements.

In July 2001 the FASB issued SFAS 141, Business Combinations, which requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies that intangible assets acquired in a business combination, that meet certain criteria, be recognized and reported apart from goodwill. The Company has adopted this statement as of July 1, 2001 and applied it to the acquisitions that occurred after July 1, 2001: Interim Solutions and Sales, Inc., Midwest Medical Diagnostics, Inc., Nuclear Imaging, Ltd., and Titan Steel Corporation. Adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In July 2001 the FASB issued SFAS 142, Goodwill and Other Intangible Assets, which requires goodwill and intangible assets with indefinite useful lives no longer be amortized. Rather they will be tested for impairment, at least annually, in accordance with the provisions of SFAS 142. Intangible assets with finite useful lives will be amortized over their respective estimated useful lives and will be reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 142 is effective January 1, 2002, except for any

goodwill arising in a purchase business combination completed on or after July 1, 2001 which would be subject immediately to the provisions of SFAS 142. As of December 31, 2001, the Company had net goodwill of \$48.2 million. Included on the Company's consolidated statement of income for the year ended December 31, 2001 is \$3.2 million in goodwill amortization expense. SFAS 142 requires the Company perform an assessment of goodwill impairment as of the date of adoption. Any impairment loss resulting from this transition to SFAS 142 would be recognized as a cumulative effect of a change in accounting principle in the Company's consolidated income statement at the time of adoption. The Company is continuing to evaluate the statement for its impact on the Company's consolidated financial statements. Based on the work completed to date, the Company does not expect the implementation of this statement to have a material impact on its consolidated results of operations and financial position.

In July 2001 the FASB issued SFAS 143, Accounting for Asset Retirement Obligations, which provides accounting requirements for retirement obligations associated with tangible long-lived assets. This statement is effective for fiscal years beginning after June 15, 2002. The Company is assessing this statement but has not yet determined the impact of SFAS 143 on its consolidated financial position or results of operations.

The FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets in October 2001. SFAS 144 replaces SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. This statement develops one accounting model for long-lived assets to be disposed of by sale and also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity in a disposal transaction. The statement is effective for fiscal years beginning after December 15, 2001. The Company adopted the accounting model for impairment or disposal of long-lived assets starting January 1, 2002. Adoption of this statement did not have a material effect on the Company's consolidated financial statements.

## 2. Business combinations, dispositions and segment information

On February 28, 2001 the Company acquired all of the outstanding common stock of T.O. Plastics, Inc. in exchange for 451,066 newly issued shares of the Company's common stock. T.O. Plastics, Inc. custom manufactures returnable pallets, material and handling trays and horticultural containers. It has three facilities in Minnesota and one facility in South Carolina. On September 28, 2001 the Company acquired all of the outstanding common stock of St. George Steel Fabrication, Inc. in exchange for 270,370 newly issued shares of the Company's common stock. St. George Steel is a fabricator of steel products engaged in custom and proprietary operations located in Utah. These acquisitions were accounted for as a pooling-of-interests. Since the St. George Steel acquisition was initiated prior to June 30, 2001, pooling-of-interest accounting was allowed under the transition provision of Statement of Financial Accounting Standards No. 141. The Company's consolidated financial statements for 2000 and 1999 have been restated to reflect the effects of the poolings. The results of operations of the separate companies and the combined amounts included in the consolidated financial statement are presented in the table below.

|   | Otter Tail<br>Corporation | Pooled<br>Entities | Combined   |
|---|---------------------------|--------------------|------------|
| -----<br>(in thousands, except per share amounts) |                           |                    |            |
| FOR THE YEAR ENDED DECEMBER 31, 1999:             |                           |                    |            |
| Changes in common equity:                         |                           |                    |            |
| Common shares, par value                          | \$ 119,250                | \$ 3,607           | \$ 122,857 |
| Premium on common shares                          | --                        | --                 | --         |
| Unearned compensation                             | (301)                     | --                 | (301)      |
| Retained earnings                                 | 126,744                   | (534)              | 126,210    |
| Accumulated other comprehensive income            | --                        | --                 | --         |
| Total common equity                               | \$ 245,693                | \$ 3,073           | \$ 248,766 |
|   | =====                     | =====              | =====      |
| Operating revenues                                | \$ 464,577                | \$ 24,667          | \$ 489,244 |
| Net Income  | 44,977                    | 318                | 45,295     |
| Earnings available for common shares              | 42,749                    | 318                | 43,067     |
| Average common shares outstanding-diluted         | 23,853                    | 722                | 24,575     |
| Diluted earnings per share                        | \$ 1.79                   |                    | \$1.75     |
| FOR THE YEAR ENDED DECEMBER 31, 2000:             |                           |                    |            |
| Changes in common equity:                         |                           |                    |            |
| Common shares, par value                          | \$ 119,264                | \$ 3,607           | \$ 122,871 |
| Premium on common shares                          | 50                        | --                 | 50         |
| Unearned compensation                             | (226)                     | --                 | (226)      |

|  |            |           |            |
|--|------------|-----------|------------|
| Retained earnings                              | 140,511    | 285       | 140,796    |
| Accumulated other comprehensive income         | (220)      | --        | (220)      |
|  | -----      | -----     | -----      |
| Total common equity                            | \$ 259,379 | \$ 3,892  | \$ 263,271 |
|  | =====      | =====     | =====      |
| Operating revenues                             | \$ 559,445 | \$ 27,486 | \$ 586,931 |
| Net Income                                     | 40,224     | 818       | 41,042     |
| Earnings available for common shares           | 38,346     | 817       | 39,163     |
| Average common shares outstanding-diluted      | 23,928     | 721       | 24,649     |
| Diluted earnings per share                     | \$ 1.61    |           | \$ 1.59    |
| FOR THE THREE MONTHS ENDED MARCH 31, 2001 (1): |            |           |            |
| Operating revenues                             | \$ 155,509 | \$ 4,145  | \$ 159,654 |
| Net Income                                     | 11,471     | 529       | 12,000     |
| Earnings available for common shares           | 11,002     | 528       | 11,530     |
| Average common shares outstanding-diluted      | 24,506     | 270       | 24,776     |
| Diluted earnings per share                     | \$ 0.45    |           | \$ 0.47    |
| FOR THE THREE MONTHS ENDED JUNE 30, 2001 (1):  |            |           |            |
| Operating revenues                             | \$ 152,896 | \$ 4,436  | \$ 157,332 |
| Net Income                                     | 8,775      | 382       | 9,157      |
| Earnings available for common shares           | 8,305      | 383       | 8,688      |
| Average common shares outstanding-diluted      | 24,529     | 270       | 24,799     |
| Diluted earnings per share`                    | \$ 0.34    |           | \$ 0.35    |
| FOR THE SIX MONTHS ENDED JUNE 30, 2001 (1):    |            |           |            |
| Operating revenues                             | \$ 308,405 | \$ 8,581  | \$ 316,986 |
| Net Income                                     | 20,246     | 911       | 21,157     |
| Earnings available for common shares           | 19,307     | 911       | 20,218     |
| Average common shares outstanding-diluted      | 24,515     | 270       | 24,785     |
| Diluted earnings per share`                    | \$ 0.79    |           | \$ 0.82    |

(1) St. George Steel Fabrication, Inc. only.

On September 4, 2001 the Company acquired the assets and operations of Interim Solutions and Sales, Inc. and Midwest Medical Diagnostics, Inc. of Minneapolis, Minnesota. These companies operate as a division of DMS Imaging, Inc. and provide mobile diagnostic imaging services on an interim basis for computed tomography and magnetic resonance imaging, fee-per-exam options and sales of previously owned imaging equipment. Revenues for 2000 were approximately \$3.1 million. The acquisition was accounted for using the purchase method and the excess of the purchase price over the net assets acquired was \$2.2 million.

On September 10, 2001 the Company acquired the assets and operations of Nuclear Imaging, Ltd., of Sioux Falls, South Dakota. Nuclear Imaging provides mobile nuclear medicine, positron emission tomography and bone densitometry services to more than 120 healthcare facilities in the Midwest. Nuclear Imaging is a subsidiary of DMS Imaging, Inc. Revenues for 2000 were approximately \$6.9 million. The acquisition was accounted for using the purchase method and the excess of the purchase price over the net assets acquired was \$4.8 million

On November 1, 2001 the Company acquired the assets and operations of Titan Steel Corporation of Salt Lake City, Utah. Titan is a fabricator of steel products engaged in custom operations. Titan is an operating division of St. George Steel Fabrication, Inc. Revenues for 2000 were approximately \$9 million. The acquisition was accounted for using the purchase method and the excess of the purchase price over the net assets acquired was immaterial.

The acquisitions of Interim Solutions and Sales, Inc., Midwest Medical Diagnostics, Inc., Nuclear Imaging, Ltd and Titan Steel Corporation were accounted for using the purchase method of accounting under SFAS 141. Under the transition provision of SFAS 142 no goodwill was amortized for these acquisitions during 2001. The pro forma effect of these acquisitions on 2000 and 1999 revenues, net income, or earnings per share was not significant.

On January 1, 2000 the Company acquired the assets and operations of Vinyltech Corporation (Vinyltech) located in Phoenix, Arizona. Vinyltech is a manufacturer of polyvinyl chloride (PVC) pipe and produces approximately 90 million pounds of pipe annually. Annual revenues for 1999 were approximately \$41 million.

On June 1, 2000 the Company acquired the assets and operations of Portable X-Ray & EKG, Inc. (PXE) located in Minneapolis, Minnesota. PXE is a provider of mobile x-ray, EKG, ultrasound and echocardiogram services primarily to patients in long-term care facilities in the Minneapolis/St. Paul market. Its 1999 annual revenues were approximately \$2.8 million.

These acquisitions were accounted for using the purchase method of



accounting. The excess of the purchase price over the net assets acquired of approximately \$24 million is being amortized over 15 years. The pro forma effect of these acquisitions on 1999 revenues, net income, or earnings per share was not significant.

On September 1, 1999 the Company acquired the flatbed trucking operations of E. W. Wylie Corporation (Wylie). The acquisition was accounted for using the purchase method of accounting. The excess of the purchase price over net assets acquired of approximately \$8 million is being amortized over 15 years. Wylie is located in Fargo, North Dakota, and operates in 48 states and 6 Canadian provinces. The pro forma effect of the Wylie acquisition on 1999 revenues, net income, or earnings per share was not significant.

On October 1, 1999 the Company completed the sale of certain assets of the radio stations and video production company owned by KFGO, Inc. and the radio stations

owned by Western Minnesota Broadcasting Company for \$24.1 million. The gain after income tax was \$8.1 million or \$0.34 cents per share.

Segment information--The accounting policies of the segments are described under note 1 - Summary of significant accounting policies. The Company's business operations consist of five segments based on products and services. Electric includes the electric utility only and is based in Minnesota, North Dakota, and South Dakota. Plastics consists of businesses involved in the production of PVC pipe in the Upper Midwest and Southwest regions of the United States. Health services include businesses involved in the sale of diagnostic medical equipment, supplies and accessories. In addition these businesses also provide service maintenance, mobile diagnostic imaging, mobile PET and nuclear medicine imaging, portable x-ray imaging and rental of diagnostic medical imaging equipment to various medical institutions located in 32 states. Manufacturing operations consist of businesses involved in the production of wind towers, frame-straightening equipment and accessories for the auto body shop industry, custom plastic pallets, material and handling trays, and horticultural containers, fabrication of steel products, contract machining, and metal parts stamping and fabrication located in the Upper Midwest and Utah. Other business operations consist of businesses operating in electrical and telephone construction contracting, transportation, telecommunications, entertainment, and energy services and natural gas marketing as well as the portion of corporate administrative and general expenses that are not allocated to other segments. The electrical and telephone construction contracting companies and energy services and natural gas marketing business operate primarily in the Upper Midwest. The telecommunications companies operate in central and northeast Minnesota and the transportation company operates in 48 states and 6 Canadian provinces. The Company evaluates the performance of its business segments and allocates resources to them based on earnings contribution and return on total invested capital. Information for the business segments for 2001, 2000 and 1999 is presented in the following table.

|                               | 2001<br>-----  | 2000<br>----- | 1999<br>----- |
|-------------------------------|----------------|---------------|---------------|
|                               | (in thousands) |               |               |
| Operating revenue             |                |               |               |
| Electric                      | \$307,684      | \$262,280     | \$233,527     |
| Plastics                      | 63,216         | 82,667        | 31,504        |
| Manufacturing                 | 123,436        | 97,506        | 87,086        |
| Health services               | 79,129         | 66,319        | 68,805        |
| Other business operations     | 80,667         | 78,159        | 68,322        |
|                               | -----          | -----         | -----         |
| Total                         | \$654,132      | \$586,931     | \$489,244     |
|                               | =====          | =====         | =====         |
| Operating income              |                |               |               |
| Electric                      | \$ 57,150      | \$ 49,268     | \$ 47,234     |
| Plastics                      | (1,391)        | 8,745         | 3,382         |
| Manufacturing                 | 12,175         | 6,945         | 5,297         |
| Health services               | 6,862          | 5,729         | 4,936         |
| Other business operations     | 2,688          | 3,561         | 7,364         |
|                               | -----          | -----         | -----         |
| Total                         | \$ 77,484      | \$ 74,248     | \$ 68,213     |
|                               | =====          | =====         | =====         |
| Depreciation and amortization |                |               |               |
| Electric                      | \$ 24,272      | \$ 23,778     | \$ 23,366     |
| Plastics                      | 3,229          | 3,301         | 1,168         |
| Manufacturing                 | 5,139          | 3,930         | 3,627         |
| Health services               | 3,517          | 2,981         | 4,244         |
| Other business operations     | 5,943          | 6,572         | 4,454         |
|                               | -----          | -----         | -----         |
| Total                         | \$ 42,100      | \$ 40,562     | \$ 36,859     |
|                               | =====          | =====         | =====         |

|                           |           |           |           |
|---------------------------|-----------|-----------|-----------|
| Capital expenditures      |           |           |           |
| Electric                  | \$ 34,992 | \$ 24,659 | \$ 21,095 |
| Plastics                  | 1,572     | 3,361     | 4,491     |
| Manufacturing             | 10,516    | 8,688     | 4,019     |
| Health services           | 3,282     | 2,871     | 993       |
| Other business operations | 3,234     | 6,694     | 4,647     |
|                           | -----     | -----     | -----     |
| Total                     | \$ 53,596 | \$ 46,273 | \$ 35,245 |
|                           | =====     | =====     | =====     |
| Identifiable assets       |           |           |           |
| Electric                  | \$523,948 | \$531,778 | \$524,012 |
| Plastics                  | 45,649    | 49,831    | 16,477    |
| Manufacturing             | 67,033    | 59,130    | 43,908    |
| Health services           | 50,560    | 32,909    | 29,542    |
| Other business operations | 95,351    | 64,060    | 80,402    |
|                           | -----     | -----     | -----     |
| Total                     | \$782,541 | \$737,708 | \$694,341 |
|                           | =====     | =====     | =====     |

No single external customer accounts for 10 percent or more of the Company's revenues. Substantially all sales and long-lived assets of the Company are within the United States.

### 3. Rate matters and arbitration settlement.

In 2001 the Minnesota Legislature exempted certain generation machinery and attached equipment from the new state personal property tax levy. The law also required that any windfall tax savings resulting from this exemption be refunded to electric utility customers. As a result of this law, \$238,000 in 2001 property tax savings will be refunded to retail electric customers in 2002.

On December 29, 2000, the NDPSC approved a performance-based ratemaking plan that links allowed earnings in North Dakota to seven defined performance standards in the areas of price, electric service reliability, customer satisfaction, and employee safety. The plan is in place for 2001 through 2005, unless suspended or terminated by the NDPSC or the Company. In 2001, the electric utility recorded an estimated \$334,000 refund to North Dakota customers based on 2001 earnings and the performance relative to the defined standards of the performance-based ratemaking plan.

During the second quarter of 2000, the Minnesota, South Dakota and North Dakota utility regulatory agencies approved the accounting treatment of settlement proceeds related to the Knife River coal contract arbitration. The settlement proceeds of \$3.2 million (including interest) had been recorded as a liability on the balance sheet since 1999 pending regulatory approval. The approval allowed the Company to recover arbitration costs of \$1.0 million that had been previously expensed and to recognize as income \$308,000 of fuel cost savings applicable to wholesale power pool sales. The remaining \$1.9 million represents a reduction of fuel costs that were returned to the Company's electric retail customers through the cost of energy adjustment clause during 2000.

On October 6, 1999, the NDPSC approved a settlement agreement following an audit of the Company's electric operations in North Dakota. The effect of this settlement decreased 1999 earnings by approximately \$441,000 after taxes or \$0.02 per share. As part of the settlement agreement, the Company was required to refund to North Dakota customers during 2000 any 1999 regulated electric operations earnings from North Dakota over a 12.5 percent return on equity. The amount of the refund was insignificant.

### 4. Common shares

New issuances--Common stock issuances during 2001 included 721,436 unregistered shares to effect the pooling acquisitions, 74,480 shares issued as a result of stock options exercised, 3,041 shares issued as director compensations and 1,681 shares of restricted stock.

Stock split--On March 15, 2000 the Company effected a two-for-one Common Stock split in the form of a 100 percent stock dividend by issuance of one additional \$5.00 par value Common Share for each \$5.00 par value Common Share outstanding on February 15, 2000. All common share and per share amounts have been adjusted for 2000 and 1999 to reflect the stock split.

Stock incentive plan--Under the 1999 Stock Incentive Plan (Incentive Plan) a total of 2,600,000 common shares were authorized for granting of stock awards. The Incentive Plan provides for the grant of options, performance awards,

restricted stock, stock appreciation rights and other types of stock grants or stock-based awards. The exercise price of the stock options is equal to the fair market value per share at the date of the grant. Options granted to outside directors are exercisable immediately, and all other options granted as of December 31, 2001 vest ratably over a four-year period. The options expire ten years after the date of the grant.

The Company accounts for the Incentive Plan under APB 25. Unearned compensation relating to the options granted in 1999 was \$151,000 at December 31, 2001, and is included as a reduction of common equity. Had compensation costs for the stock options issued under the Incentive Plan been determined based on estimated fair value at the award dates, as prescribed by SFAS 123, the Company's net income for 1999 through 2001 would have decreased as presented in the table below. This may not be representative of the pro forma effects for future years if additional options are granted. Using the Black-Scholes option-pricing model, the Company's pro forma net income with related assumptions are as follows:

|                            | 2001     | 2000     | 1999     |
|----------------------------|----------|----------|----------|
| Net income                 |          |          |          |
| As reported                | \$43,603 | \$41,042 | \$45,295 |
| Pro forma                  | \$42,770 | \$40,697 | \$45,132 |
| Diluted earnings per share |          |          |          |
| As reported                | \$1.68   | \$1.59   | \$1.75   |
| Pro forma                  | \$1.64   | \$1.58   | \$1.75   |
| Risk free interest rate    | 5.5%     | 5.2%     | 5.2%     |
| Expected lives             | 7 years  | 7 years  | 7 years  |
| Expected volatility        | 24.9%    | 23.7%    | 19.3%    |
| Dividend yield             | 4.0%     | 4.5%     | 5.0%     |

Presented below is a summary of the stock options activity for 2001, 2000, and 1999.

| Stock Option Activity                     | 2001      |                        | 2000    |                        | 1999    |                        |
|---|-----------|------------------------|---------|------------------------|---------|------------------------|
|   | Options   | Average exercise price | Options | Average exercise price | Options | Average exercise price |
| Outstanding, beginning of year            | 787,316   | \$19.55                | 442,900 | \$19.25                | --      | \$ --                  |
| Granted                                   | 582,000   | 26.33                  | 360,000 | 19.75                  | 450,700 | 19.25                  |
| Exercised                                 | 74,936    | 19.44                  | 750     | 19.19                  | --      | --                     |
| Forfeited                                 | 29,338    | 22.17                  | 14,834  | 19.30                  | 7,800   | 19.19                  |
| Outstanding, year end                     | 1,265,042 | 22.39                  | 787,316 | 19.55                  | 442,900 | 19.25                  |
| Exercisable, year end                     | 257,269   | \$19.83                | 127,542 | \$19.25                | --      | \$ --                  |
| Fair value of options granted during year | \$ 5.88   |                        | \$ 3.79 |                        | \$ 2.79 |                        |

The following table summarizes information about options outstanding as of December 31, 2001:

| Range of exercise prices | Options outstanding        |   | Options exercisable             |                            |                                 |
|--------------------------|----------------------------|---|---------------------------------|----------------------------|---------------------------------|
|                          | Outstanding as of 12/31/01 | Weighted-average remaining contractual life | weighted-average exercise price | Exercisable as of 12/31/01 | Weighted-average exercise price |
| \$17.84-\$20.82          | 687,542                    | 7.6   | \$19.46                         | 238,769                    | \$19.38                         |
| \$20.83-\$23.79          | 7,500                      | 7.6   | \$21.75                         | 2,500                      | \$21.75                         |
| \$23.80-\$26.77          | 554,000                    | 9.3   | \$26.25                         | 16,000                     | \$26.25                         |
| \$26.78-\$29.74          | 16,000                     | 9.9   | \$29.34                         | --                         | --                              |

In addition to the stock options granted, 1,681, 12,415 and 2,298 shares of restricted stock were granted during 2001, 2000 and 1999, respectively.

Employee stock purchase plan--The 1999 Employee Stock Purchase Plan (Purchase Plan) allows eligible employees to purchase the Company's common shares at 85

percent of the lower market price at either the beginning or the end of each six-month purchase period. A total of 400,000 common shares are available for purchase by employees under the Purchase Plan. During 2001 56,612 common shares and in 2000, 53,630 common shares were purchased from the open market.

Dividend reinvestment and share purchase plan--On August 30, 1996, the Company filed a shelf registration statement with the Securities and Exchange Commission for the issuance of up to 2,000,000 common shares pursuant to the Company's Automatic Dividend Reinvestment and Share Purchase Plan (the Plan), which permits shares purchased by shareholders or customers who participate in the Plan to be either new issue common shares or common shares purchased on the open market. Since June 1999, common shares needed for this Plan have been purchased from the open market instead of issuing new shares. Prior to this the Company had been issuing newly issued common shares: 89,238 shares were issued in 1999.

Shareholder rights plan--On January 27, 1997, the Company's Board of Directors declared a dividend of one preferred share purchase right (Right) for each outstanding common share held of record as of February 10, 1997. One Right was also issued with respect to each common share issued after February 10, 1997. Each Right entitles the holder to purchase from the Company one one-hundredth of a share of newly created Series A Junior Participating Preferred Stock at a price of \$70, subject to certain adjustment. The Rights are exercisable when, and are not transferable apart from the Company's common shares until, a person or group has acquired 15 percent or more, or commenced a tender or exchange offer for 15 percent or more, of the Company's common shares. If the specified percentage of the Company's common shares is acquired, each Right will entitle the holder (other than the acquiring person or group) to receive, on exercise, common shares of either the Company or the acquiring company having value equal to two times the exercise price of the Right. The Rights are redeemable by the Company's Board of Directors in certain circumstances and expire on January 27, 2007.

#### 5. Retained earnings restriction

The Company's Indenture of Mortgage and Articles of Incorporation, as amended, contain provisions that limit the amount of dividends that may be paid to common shareholders. Under the most restrictive of these provisions, retained earnings at December 31, 2001 were restricted by \$9,238,000.

#### 6. Commitments and contingencies

At December 31, 2001, the electric utility had commitments under contracts in connection with construction programs aggregating approximately \$16,234,000. For capacity and energy requirements the electric utility has agreements extending through 2006, at annual costs of approximately \$14,168,000 in 2002, \$12,241,000 in 2003, \$12,261,000 in 2004, \$10,762,000 in 2005, and \$10,028,000 in 2006.

The electric utility has contracts providing for the purchase and delivery of a significant portion of its current coal requirements. These contracts expire between 2002 and 2016. In total, the electric utility is committed to the minimum purchase of approximately \$105,927,000 or to make payments in lieu thereof, under these contracts. The cost of energy adjustment process in the rate-making provision lessens the risk of loss from market price changes because it provides for recovery of most fuel costs.

The amounts of future operating lease payments are as follows:

|             | Electric<br>utility | Diversified<br>companies | Total    |
|-------------|---------------------|--------------------------|----------|
|             | -----               | -----                    | -----    |
|             | (in thousands)      |                          |          |
| 2002        | \$ 1,445            | \$14,978                 | \$16,423 |
| 2003        | 1,440               | 11,091                   | 12,531   |
| 2004        | 1,151               | 7,958                    | 9,109    |
| 2005        | 944                 | 6,213                    | 7,157    |
| 2006        | 944                 | 1,542                    | 2,486    |
| Later years | 4,537               | 584                      | 5,121    |
|             | -----               | -----                    | -----    |
| Total       | \$10,461            | \$42,366                 | \$52,827 |
|             | =====               | =====                    | =====    |

Rent expense was \$20,242,000, \$16,595,000, and \$14,233,000, for 2001, 2000, and 1999, respectively.

The Company is occasionally a party to litigation arising in the normal course of business. The Company regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual

disposition of these matters. The Company believes the effect on its consolidated results of operations and financial position, if any, for the disposition of all currently pending matters will not be material.

#### 7. Long-term obligations

Long-term debt--All utility property, with certain minor exceptions, is subject to the lien of the Indenture of Mortgage of the Company securing its First Mortgage Bonds. The Company is required by the Indenture to make annual payments (exclusive of redemption premiums) for sinking fund purposes, except that the requirement with respect to certain series may be satisfied by the delivery of bonds of such series of equal principal amount. The Company issued First Mortgage Bonds of its pollution control series to secure payment of a like principal amount of revenue bonds that were issued by local governmental units to finance facilities leased or purchased and that the Company has capitalized. As a requirement of the issuance of the 6.63% Senior Notes, each of the subsidiaries of the Company has completed a guaranty agreement. Varistar's term notes and credit line borrowings are secured by a pledge of all of the common stock of the companies owned by Varistar. The aggregate amounts of maturities and sinking fund requirements on bonds outstanding and other long-term obligations at December 31, 2001, for each of the next five years are \$28,946,000 for 2002, \$7,378,000 for 2003, \$6,851,000 for 2004, \$6,122,000 for 2005, and \$4,222,000 for 2006.

#### 8. Pension plan and other postretirement benefits

Pension plan--The Company's noncontributory funded pension plan covers substantially all electric utility and corporate employees. The plan provides 100 percent vesting after 5 vesting years of service and for retirement compensation at age 65, with reduced compensation in cases of retirement prior to age 62. The Company reserves the right to discontinue the plan, but no change or discontinuance may affect the pensions theretofore vested. The Company's policy is to fund pension costs accrued. All past service costs have been provided for.

The pension plan has a trustee who is responsible for pension payments to retirees. Five investment managers are responsible for managing the plan's assets. In addition, an independent actuary performs the necessary actuarial valuations for the plan.

Net periodic pension cost/(income) for 2001, 2000, and 1999 includes the following components:

|  | 2001<br>-----       | 2000<br>-----<br>(in thousands) | 1999<br>-----    |
|--|---------------------|---------------------------------|------------------|
| Service cost--benefit earned during the period | \$ 2,544            | \$ 2,458                        | \$ 3,080         |
| Interest cost on projected benefit obligation  | 8,766               | 8,439                           | 8,150            |
| Expected return on assets                      | (14,610)            | (13,662)                        | (12,159)         |
| Amortization of transition asset               | (235)               | (235)                           | (235)            |
| Amortization of prior-service cost             | 1,107               | 1,107                           | 1,287            |
| Amortization of net gain                       | (1,900)             | (1,869)                         | (149)            |
| Net periodic pension cost/(income)             | \$ (4,328)<br>===== | \$ (3,762)<br>=====             | \$ (26)<br>===== |

The plan assets consist of common stock and bonds of public companies, U.S. Government Securities, cash, and cash equivalents.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and fair value of assets over the two-year period ending December 31, 2001, and a statement of the funded status as of December 31 of both years:

|                                       | 2001<br>----- | 2000<br>-----<br>(in thousands) |
|---------------------------------------|---------------|---------------------------------|
| Reconciliation of benefit obligation: |               |                                 |
| Obligation at January 1               | \$116,444     | \$114,445                       |
| Service cost                          | 2,544         | 2,458                           |
| Interest cost                         | 8,766         | 8,439                           |
| Actuarial loss (gain)                 | 4,332         | (1,502)                         |
| Benefit payments                      | (7,563)       | (7,396)                         |
| Obligation at December 31             | \$124,523     | \$116,444                       |

|  |           |           |
|--|-----------|-----------|
| Reconciliation of fair value of plan assets: |           |           |
| Fair value of plan assets at January 1       | \$153,649 | \$159,555 |
| Actual return on plan assets                 | (7,292)   | 1,490     |
| Benefit payments                             | (7,563)   | (7,396)   |
|  | -----     | -----     |
| Fair value of plan assets at December 31     | \$138,794 | \$153,649 |
|  | =====     | =====     |
| Funded status:                               |           |           |
| Over funded status at December 31            | \$ 14,271 | \$ 37,205 |
| Unrecognized transition asset                | (73)      | (309)     |
| Unrecognized prior-service cost              | 6,710     | 7,816     |
| Unrecognized net actuarial gain              | (13,831)  | (41,964)  |
|  | -----     | -----     |
| Net prepaid benefit cost recognized          | \$ 7,077  | \$ 2,748  |
|  | =====     | =====     |

The following table provides the amounts recognized in the Consolidated Balance Sheets as of December 31:

|                      | 2001           | 2000     |
|----------------------|----------------|----------|
|                      | -----          | -----    |
|                      | (in thousands) |          |
| Prepaid benefit cost | \$ 7,077       | \$ 2,748 |

The assumptions used for actuarial valuations were:

|   | 2001  | 2000  |
|---|-------|-------|
|   | ----- | ----- |
| Discount rate                                 | 7.75% | 7.75% |
| Rate of increase in future compensation level | 4.25% | 4.25% |
| Long-term rate of return on assets            | 9.50% | 9.50% |

Executive survivor and supplemental retirement plan--The Company has an unfunded, nonqualified benefit plan for executive officers and certain key management employees. This plan provides defined benefit payments to these employees on their retirements for life or to their beneficiaries on their death for a 15-year postretirement period. Life insurance carried on the plan participants is payable to the Company on the employee's death. There are no plan assets in this nonqualified benefit plan due to the nature of the plan.

Net periodic pension cost for 2001, 2000, and 1999 includes the following components:

|  | 2001           | 2000     | 1999    |
|--|----------------|----------|---------|
|  | -----          | -----    | -----   |
|  | (in thousands) |          |         |
| Service cost--benefit earned during the period | \$ (76)        | \$ (136) | \$ (99) |
| Interest cost on projected benefit obligation  | 956            | 798      | 569     |
| Amortization of transition obligation          | -              | 17       | 17      |
| Amortization of prior service cost             | 191            | 191      | 106     |
| Recognized net actuarial loss                  | 117            | 1        | 47      |
|  | -----          | -----    | -----   |
| Net periodic pension cost                      | \$ 1,188       | \$ 871   | \$ 640  |
| Early retirement and curtailment               | --             | 711      | --      |
|  | -----          | -----    | -----   |
| Total  | \$ 1,188       | \$ 1,582 | \$ 640  |
|  | =====          | =====    | =====   |

The following tables provide a reconciliation of the changes in the plan's benefit obligations over the two-year period ending December 31, 2001 and a statement of the funded status as of December 31:

|                                       | 2001           | 2000      |
|---------------------------------------|----------------|-----------|
|                                       | -----          | -----     |
|                                       | (in thousands) |           |
| Reconciliation of benefit obligation: |                |           |
| Obligation at January 1               | \$ 12,713      | \$ 10,412 |
| Service cost                          | (76)           | (136)     |
| Interest cost                         | 956            | 798       |

|                                    |            |             |
|------------------------------------|------------|-------------|
| Plan amendments                    | (939)      | (359)       |
| Actuarial loss                     | 2,451      | 1,732       |
| Early retirement                   | --         | 711         |
| Benefit payments                   | (740)      | (445)       |
|                                    | -----      | -----       |
| Obligation at December 31          | \$ 14,365  | \$ 12,713   |
|                                    | =====      | =====       |
| Funded status:                     |            |             |
| Funded status at December 31       | \$(14,365) | \$ (12,713) |
| Unrecognized transition obligation | --         | --          |
| Unrecognized prior-service cost    | 1,104      | 2,234       |
| Unrecognized net actuarial loss    | 5,124      | 2,789       |
|                                    | -----      | -----       |
| Net amount recognized              | \$ (8,137) | \$ (7,690)  |
|                                    | =====      | =====       |

The following table provides the amounts recognized in the Consolidated Balance Sheet as of December 31:

|   |                |             |
|---|----------------|-------------|
|   | 2001           | 2000        |
|   | -----          | -----       |
|   | (in thousands) |             |
| Accrued benefit liability               | \$ (11,216)    | \$ (10,144) |
| Intangible asset                        | 1,104          | 2,234       |
| Accumulated other comprehensive expense | 1,975          | 220         |
|   | -----          | -----       |
| Net amount recognized                   | \$ (8,137)     | \$ (7,690)  |
|   | =====          | =====       |

The assumptions used for actuarial valuations were:

|   |       |       |
|---|-------|-------|
|   | 2001  | 2000  |
|   | ----- | ----- |
| Discount rate                                 | 7.75% | 7.75% |
| Rate of increase in future compensation level | 4.50% | 4.50% |

Postretirement benefits--The Company provides a portion of health insurance and life insurance benefits for retired electric utility and corporate employees. Substantially all of the Company's electric utility and corporate employees may become eligible for health insurance benefits if they reach age 55 and have 10 years of service. On adoption of SFAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, in January 1993, the Company elected to recognize its transition obligation related to postretirement benefits earned of approximately \$14,964,000 over a period of 20 years. There are no plan assets.

The net periodic postretirement benefit cost for 2001, 2000, and 1999 includes the following components:

|  |                |         |         |
|--|----------------|---------|---------|
|  | 2001           | 2000    | 1999    |
|  | -----          | -----   | -----   |
|  | (in thousands) |         |         |
| Service cost - benefit earned during the period                | \$ 681         | \$ 688  | \$ 753  |
| Interest cost on accumulated postretirement benefit obligation | 1,768          | 1,701   | 1,432   |
| Amortization of transition obligation                          | 748            | 748     | 748     |
| Amortization of prior service cost                             | 111            | 111     | 111     |
| Life insurance benefits  | --             | 865     | --      |
| Amortization of net gain                                       | (51)           | --      | --      |
|  | -----          | -----   | -----   |
| Net periodic postretirement benefit cost                       | \$3,257        | \$4,113 | \$3,044 |

The following tables provide a reconciliation of the changes in the plan's benefit obligations over the two-year period ending December 31, 2001 and a statement of the funded status as of December 31:

|                                       |                |           |
|---------------------------------------|----------------|-----------|
|                                       | 2001           | 2000      |
|                                       | -----          | -----     |
|                                       | (in thousands) |           |
| Reconciliation of benefit obligation: |                |           |
| Obligation at January 1               | \$ 24,606      | \$ 20,251 |
| Service cost                          | 681            | 688       |
| Interest cost                         | 1,768          | 1,701     |

|                                    |            |            |
|------------------------------------|------------|------------|
| Actuarial loss                     | 3,077      | 2,396      |
| Benefit payments                   | (2,264)    | (1,937)    |
| Life insurance benefits            | --         | 865        |
| Participant premium payments       | 682        | 642        |
|                                    | -----      | -----      |
| Obligation at December 31          | \$ 28,550  | \$ 24,606  |
|                                    | =====      | =====      |
| Funded status:                     |            |            |
| Funded status at December 31       | \$(28,550) | \$(24,606) |
| Unrecognized transition obligation | 8,230      | 8,978      |
| Unrecognized prior service cost    | 375        | 486        |
| Unrecognized loss (gain)           | 1,304      | (1,825)    |
|                                    | -----      | -----      |
| Net amount recognized              | \$(18,641) | \$(16,967) |
|                                    | =====      | =====      |

The amounts recognized in the Consolidated Balance Sheets as of December 31:

|                           | 2001           | 2000        |
|---------------------------|----------------|-------------|
|                           | -----          | -----       |
|                           | (in thousands) |             |
| Accrued benefit liability | \$ (18,641)    | \$ (16,967) |

The assumed health-care cost-trend rate used in measuring the accumulated postretirement benefit obligation as of December 31, 2001 was 10.0 percent for 2002, decreasing linearly each successive year until it reaches 5.0 percent in 2007, after which it remains constant. The assumed discount rate used in determining the accumulated postretirement benefit obligation as of December 31, 2001 and 2000, was 7.75 for both years.

Assumed health-care cost-trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health-care cost-trend rates for 2001 would have the following effects:

|  | 1 percent<br>increase | 1 percent<br>decrease |
|--|-----------------------|-----------------------|
|  | -----                 | -----                 |
|  | (in thousands)        |                       |
| Effect on total of service and interest<br>cost components | \$ 402                | \$ (324)              |
| Effect on the postretirement benefit obligation            | \$3,615               | \$(3,011)             |

Leveraged employee stock ownership plan--The Company has a leveraged employee stock ownership plan for the benefit of all its electric utility and corporate employees. Contributions made by the Company were \$1,100,000 for 2001, \$1,130,000 for 2000, and \$1,110,000 for 1999.

#### 9. Compensating balances and short-term borrowings

The Company maintains formal bank lines of credit for its electric utility operations separate from lines of credit maintained by the diversified companies. The lines of credit make available to the Company bank loans for short-term financing and provide backup financing for commercial paper notes. At December 31, 2001, the Company maintained no compensating balances to support formal bank lines of credit. The Company's bank lines of credit totaled \$42,000,000, none of which was used at December 31, 2001.

#### 10. Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and short-term investments--The carrying amount approximates fair value because of the short-term maturity of those instruments.

Other investments--The carrying amount approximates fair value. A portion of other investments is in financial instruments that have variable interest rates that reflect fair value. The remainder of other investments is accounted for by the equity method which, in the case of operating losses, results in a reduction of the carrying amount.

Redeemable preferred stock--The fair value is estimated based on the current rates available to the Company for the issuance of redeemable preferred



stock.

Long-term debt--The fair value of the Company's long-term debt is estimated based on the current rates available to the Company for the issuance of debt. About \$17 million of the Company's long-term debt, which is subject to variable interest rates, approximates fair value.

|                                 | 2001            |            | 2000            |            |
|---------------------------------|-----------------|------------|-----------------|------------|
|                                 | (in thousands)  |            |                 |            |
|                                 | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and short-term investments | \$ 11,378       | \$ 11,378  | \$ 1,259        | \$ 1,259   |
| Other investments               | 18,009          | 18,009     | 17,966          | 17,966     |
| Redeemable preferred stock      | --              | --         | (18,000)        | (18,000)   |
| Long-term debt                  | (227,360)       | (255,785)  | (195,128)       | (202,942)  |

11. Property, plant, and equipment

|   | 2001                        | 2000       |
|---|-----------------------------|------------|
|   | (December 31, in thousands) |            |
| Electric plant:                                   |                             |            |
| Production  | \$ 313,013                  | \$ 310,956 |
| Transmission                                      | 158,639                     | 155,611    |
| Distribution                                      | 258,774                     | 251,753    |
| General   | 80,044                      | 77,037     |
| Electric plant                                    | 810,470                     | 795,357    |
| Less accumulated depreciation and amortization    | 376,241                     | 358,301    |
| Electric plant net of accumulated depreciation    | 434,229                     | 437,056    |
| Construction work in progress                     | 25,094                      | 10,539     |
| Net electric plant                                | \$ 459,323                  | \$ 447,595 |
| Diversified operations plant                      | \$ 145,712                  | \$ 129,716 |
| Less accumulated depreciation and amortization    | 65,622                      | 58,118     |
| Diversified plant net of accumulated depreciation | 80,090                      | 71,598     |
| Construction work in progress                     | 3,564                       | 2,578      |
| Net diversified operations plant                  | \$ 83,654                   | \$ 74,176  |
| Net plant   | \$ 542,977                  | \$ 521,771 |

12. Income taxes

The total income tax expense differs from the amount computed by applying the federal income tax rate (35 percent in 2001, 2000 and 1999) to net income before total income tax expense for the following reasons:

|  | 2001           | 2000     | 1999     |
|--|----------------|----------|----------|
|  | (in thousands) |          |          |
| Tax computed at federal statutory rate               | \$22,290       | \$20,789 | \$24,424 |
| Increases (decreases) in tax from:                   |                |          |          |
| State income taxes net of federal income tax benefit | 2,564          | 2,279    | 2,652    |
| Investment tax credit amortization                   | (1,176)        | (1,183)  | (1,185)  |
| Differences reversing in excess of federal rates     | (503)          | (774)    | (384)    |
| Dividend received/paid deduction                     | (674)          | (670)    | (667)    |
| Affordable housing tax credits                       | (1,418)        | (1,414)  | (1,393)  |
| Permanent and other differences                      | (1,000)        | (672)    | 1,042    |
| Total income tax expense                             | \$20,083       | \$18,355 | \$24,489 |
| Overall effective federal and state income tax rate  | 31.5%          | 30.9%    | 35.1%    |
| Income tax expense includes the following:           |                |          |          |
| Current federal income taxes                         | \$21,110       | \$21,835 | \$25,875 |
| Current state income taxes                           | 3,107          | 4,162    | 5,099    |

|                                    |          |          |          |
|------------------------------------|----------|----------|----------|
| Deferred federal income taxes      | (2,247)  | (4,717)  | (3,431)  |
| Deferred state income taxes        | 707      | (328)    | (476)    |
| Affordable housing tax credits     | (1,418)  | (1,414)  | (1,393)  |
| Investment tax credit amortization | (1,176)  | (1,183)  | (1,185)  |
|                                    | -----    | -----    | -----    |
| Total                              | \$20,083 | \$18,355 | \$24,489 |
|                                    | =====    | =====    | =====    |

The Company's deferred tax assets and liabilities were composed of the following on December 31, 2001 and 2000:

|                                  | 2001           | 2000        |
|----------------------------------|----------------|-------------|
|                                  | -----          | -----       |
|                                  | (in thousands) |             |
| Deferred tax assets              |                |             |
| Amortization of tax credits      | \$ 9,098       | \$ 9,849    |
| Vacation accrual                 | 1,892          | 1,623       |
| Unearned revenue                 | 1,850          | 1,715       |
| Operating reserves               | 13,552         | 12,537      |
| Differences related to property  | 4,394          | 3,067       |
| Transfer to regulatory liability | 577            | 539         |
| Other                            | 2,025          | 1,642       |
|                                  | -----          | -----       |
| Total deferred tax assets        | \$ 33,388      | \$ 30,972   |
|                                  | -----          | -----       |
| Deferred tax liabilities         |                |             |
| Differences related to property  | (104,764)      | (105,539)   |
| Excess tax over book pension     | (2,812)        | (1,113)     |
| Transfer to regulatory asset     | (5,053)        | (5,510)     |
| Other                            | (2,330)        | (1,523)     |
|                                  | -----          | -----       |
| Total deferred tax liabilities   | \$(114,959)    | \$(113,685) |
|                                  | -----          | -----       |
| Deferred income taxes            | \$ (81,571)    | \$ (82,713) |
|                                  | =====          | =====       |

### 13. Quarterly information (unaudited)

Because of changes in the number of common shares outstanding and the impact of diluted shares, the sum of the quarterly earnings per common share may not equal total earnings per common share.

|  | Three Months Ended                   |           |           |           |              |           |             |           |
|--|--------------------------------------|-----------|-----------|-----------|--------------|-----------|-------------|-----------|
|  | March 31                             |           | June 30   |           | September 30 |           | December 31 |           |
|  | 2001                                 | 2000      | 2001      | 2000      | 2001         | 2000      | 2001        | 2000      |
|  | -----                                | -----     | -----     | -----     | -----        | -----     | -----       | -----     |
|  | (in thousands except per share data) |           |           |           |              |           |             |           |
| Operating revenues                                   | \$159,654                            | \$140,227 | \$157,332 | \$141,436 | \$177,674    | \$149,999 | \$159,472   | \$155,269 |
| Operating income                                     | \$ 22,438                            | \$ 20,789 | \$ 15,720 | \$ 17,932 | \$ 20,310    | \$ 19,796 | \$ 19,016   | \$ 15,731 |
| Net income   | \$ 12,000                            | \$ 11,004 | \$ 9,157  | \$ 9,303  | \$ 11,077    | \$ 10,915 | \$ 11,369   | \$ 9,820  |
| Earnings available for common shares                 | \$ 11,530                            | \$ 10,534 | \$ 8,688  | \$ 8,833  | \$ 10,607    | \$ 10,446 | \$ 10,785   | \$ 9,350  |
| Basic earnings per share                             | \$ .47                               | \$ .43    | \$ .35    | \$ .36    | \$ .43       | \$ .43    | \$ .44      | \$ .38    |
| Diluted earnings per share                           | \$ .47                               | \$ .43    | \$ .35    | \$ .36    | \$ .43       | \$ .42    | \$ .43      | \$ .38    |
| Dividends paid per common share                      | \$ .26                               | \$ .255   | \$ .26    | \$ .255   | \$ .26       | \$ .255   | \$ .26      | \$ .255   |
| Price range:   |                                      |           |           |           |              |           |             |           |
| High   | \$ 31.00                             | \$ 21.31  | \$ 30.10  | \$ 27.50  | \$ 30.00     | \$ 23.88  | \$ 29.45    | \$ 29.00  |
| Low  | \$ 23.00                             | \$ 17.75  | \$ 24.12  | \$ 19.00  | \$ 26.75     | \$ 20.75  | \$ 27.50    | \$ 21.19  |
| Average number of common shares outstanding--basic   | 24,577                               | 24,571    | 24,586    | 24,571    | 24,606       | 24,571    | 24,633      | 24,573    |
| Average number of common shares outstanding--diluted | 24,776                               | 24,575    | 24,799    | 24,642    | 24,881       | 24,645    | 24,912      | 24,725    |
|  | -----                                | -----     | -----     | -----     | -----        | -----     | -----       | -----     |

### Stock Listing

Otter Tail Corporation common stock trades on The Nasdaq Stock Market.

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## Section 7: EX-21.A (SUBSIDIARIES)

EXHIBIT 21-A

### OTTER TAIL CORPORATION

Subsidiaries of the Registrant  
March 1, 2002

| Company                                  | State of Organization |
|--|-----------------------|
| Minnesota-Dakota Generating Company      | Minnesota             |
| Otter Tail Realty Company                | Minnesota             |
| Otter Tail Energy Services Company, Inc. | Minnesota             |
| Otter Tail Energy Management Company     | Minnesota             |
| Otter Tail Management Corporation*       | Minnesota             |
| ORD Corporation*                         | Minnesota             |
| Quadrant Co.*                            | Minnesota             |
| Varistar Corporation                     | Minnesota             |
| Northern Pipe Products, Inc.             | North Dakota          |
| Vinyltech Corporation                    | Arizona               |
| T.O. Plastics, Inc.                      | Minnesota             |
| St. George Steel Fabrication, Inc.       | Utah                  |
| Precision Machine, Inc.                  | North Dakota          |
| DMI Industries, Inc.                     | North Dakota          |
| Dakota Engineering, Inc.*                | North Dakota          |
| BTD Manufacturing, Inc.                  | Minnesota             |
| Mid-States Testing Company*              | Minnesota             |
| DMS Health Technologies                  | North Dakota          |
| DMS Imaging, Inc.                        | North Dakota          |
| Nuclear Consultants, Inc.                | South Dakota          |
| Midwest Imaging L.L.C                    | Kansas                |
| Nuclear Imaging of Kansas, L.L.C         | Kansas                |
| Nuclear Imaging, Ltd.                    | South Dakota          |
| DMS Leasing Corporation                  | North Dakota          |
| Aerial Contractors, Inc.                 | North Dakota          |
| Moorhead Electric, Inc.                  | Minnesota             |
| Chassis Liner Corporation                | Minnesota             |
| Chassis Liner Credit Corp.*              | Minnesota             |
| Chart Automotive LLC                     | Minnesota             |
| Chart Liner U.L.C                        | Nova Scotia           |
| E. W. Wylie Corporation                  | North Dakota          |
| Midwest Information Systems, Inc.        | Minnesota             |
| Midwest Telephone Company                | Minnesota             |
| Osakis Telephone Company                 | Minnesota             |
| The Peoples Telephone Company of Bigfork | Minnesota             |
| Data Video Systems, Inc.                 | Minnesota             |
| MIS Investments, Inc.                    | Minnesota             |
| Otter Tail Communications SD, Inc.*      | South Dakota          |
| Fargo Baseball, LLC                      | Minnesota             |
| Fargo Sports Concession LLC              | Minnesota             |
| KFGO, Inc.*                              | North Dakota          |

\*Inactive

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## Section 8: EX-23 (CONSENT OF DELOITTE & TOUCHE LLP)

EXHIBIT 23

### INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-11145 on Form S-3 and 333-25261, 333-73041, 333-73075 on Form S-8 of Otter Tail Corporation of our report dated February 1, 2002, appearing in the 2001 Annual Report to Shareholders of Otter Tail Corporation and incorporated by

reference in this Annual Report on Form 10-K of Otter Tail Corporation for the year ended December 31, 2001.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota  
March 27, 2002

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## Section 9: EX-24.A (POWERS OF ATTORNEY)

EXHIBIT 24

POWER OF ATTORNEY

-----

I, JOHN C. MAC FARLANE, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Chief Executive Officer and Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: January 28, 2002.

/s/ John C. MacFarlane

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John C. MacFarlane

In Presence of:

Penny Mosher

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Diane Merz

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POWER OF ATTORNEY

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I, KEVIN MOUG, do hereby constitute and appoint JOHN D. ERICKSON my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Chief Financial Officer and Treasurer of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: February 6, 2002.

/s/ Kevin Moug

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Kevin Moug

In Presence of:

Susan Sorenson

Lauris N. Molbert

POWER OF ATTORNEY

I, THOMAS M. BROWN, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: January 28, 2002.

/s/ Thomas M. Brown

Thomas M. Brown

In Presence of:

Donna M. Hull

Vivian J. Brown

POWER OF ATTORNEY

I, DENNIS R. EMMEN, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: January 28, 2002.

/s/ Dennis R. Emmen

Dennis R. Emmen

In Presence of:

Penny Mosher

POWER OF ATTORNEY

I, MAYNARD D. HELGAAS, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: January 29, 2002.

/s/ Maynard D. Helgaas

Maynard D. Helgaas

In Presence of:

Sherri E. Olson

Julie Dunwoodie

POWER OF ATTORNEY

I, ARVID LIEBE, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: January 28, 2002.

/s/ Arvid Liebe

Arvid Liebe

In Presence of:

Carol Kichberg

Kathy Schweer

POWER OF ATTORNEY

-----  
I, KENNETH L. NELSON, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: January 30, 2002.

/s/ Kenneth L. Nelson  
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Kenneth L. Nelson

In Presence of:

Mike Holper  
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Wayne Cagheny  
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POWER OF ATTORNEY  
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I, NATHAN PARTAIN, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: January 29, 2002.

/s/ Nathan Partain  
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Nathan Partain

In Presence of:

Gary Spies  
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John Erickson  
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POWER OF ATTORNEY  
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I, GARY SPIES, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual

Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: February 4, 2002.

/s/ Gary Spies

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Gary Spies

In Presence of:

John Erickson  
-----

Lauris N. Molbert  
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POWER OF ATTORNEY  
-----

I, ROBERT N. SPOLUM, do hereby constitute and appoint JOHN D. ERICKSON and GEORGE A. KOECK, or any one of them, my Attorney-in-Fact for the purpose of signing, in my name and on my behalf as Director of Otter Tail Corporation, the Annual Report of Otter Tail Corporation on Form 10-K for its fiscal year ended December 31, 2001, and any and all amendments to said Annual Report, and to deliver on my behalf said Annual Report and any and all amendments thereto, as each thereof is so signed, for filing with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

Date: February 4, 2002.

/s/ Robert N. Spolum

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Robert N. Spolum

In Presence of:

Francine C. Johnson  
-----

Nancy M. Mazzella  
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