MDU RESOURCES GROUP INC
Form PRE 14A
February 01, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

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Filed by a Party other than the Registrant o

Check the appropriate box:

x Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

MDU Resources Group, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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(3) Filing Party:

(4) Date Filed:

1200 West Century Avenue

Mailing Address:
P.O. Box 5650
Bismarck, ND 58506-5650
(701) 530-1000

Terry D. Hildestad
President and
Chief Executive Officer

March 12, 2010

To Our Stockholders:

Please join us for the 2010 Annual Meeting of Stockholders. The meeting will be held on Tuesday, April 27, 2010, at 11:00 a.m., Central Daylight Saving Time, at 909 Airport Road, Bismarck, North Dakota.

The formal matters are described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement. We also will have a brief report on current matters of interest. Lunch will be served following the meeting.

We were pleased with the stockholder response for the 2009 Annual Meeting at which 88.77 percent of the common stock was represented in person or by proxy. We hope for an even greater representation at the 2010 meeting.

You may vote your shares by telephone, by the Internet, or by returning the enclosed proxy card. Representation of your shares at the meeting is very important. We urge you to submit your proxy promptly.

Please note that the New York Stock Exchange rules have changed. Brokers may not vote your shares on the election of directors if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

All stockholders who find it convenient to do so are cordially invited and urged to attend the meeting in person. Registered stockholders will receive a request for admission ticket(s) with their proxy card that can be completed and returned to us postage-free. Stockholders whose shares are held in the name of a bank or broker will not receive a request for admission ticket(s). They should, instead, (1) call (701) 530-1000 to request an admission ticket(s), (2) bring a statement from their bank or broker showing proof of stock ownership as of [•] to the annual meeting, and (3) present their admission ticket(s) and photo identification, such as a driver's license. Directions to the meeting will be included with your admission ticket.

I hope you will find it possible to attend the meeting.

Sincerely yours,

Terry D. Hildestad

MDU RESOURCES GROUP, INC.
1200 West Century Avenue
Mailing Address:
P.O. Box 5650
Bismarck, ND 58506-5650
(701) 530-1000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD APRIL 27, 2010

Important Notice Regarding the Availability of Proxy Materials for the
Stockholder Meeting to Be Held on April 27, 2010

The 2010 Notice of Annual Meeting and Proxy Statement and 2009 Annual Report
to Stockholders are available at www.mdu.com/proxymaterials.

March 12, 2010

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MDU Resources Group, Inc. will be held at 909 Airport Road, Bismarck, North Dakota, on Tuesday, April 27, 2010, at 11:00 a.m., Central Daylight Saving Time, for the following purposes:

(1) To elect ten directors nominated by the board of directors to one-year terms;

(2) To repeal Article TWELFTH of our Restated Certificate of Incorporation, which contains provisions relating to business combinations with interested stockholders, and make related amendments to Articles THIRTEENTH and FOURTEENTH;

(3) To repeal Article FIFTEENTH of our Restated Certificate of Incorporation, which contains supermajority vote requirements for amendments to certain articles of our Restated Certificate of Incorporation;

(4) To repeal section (c) of Article THIRTEENTH of our Restated Certificate of Incorporation, which provides that directors may be removed by stockholders only for cause, and make technical amendments to section (a) of Article THIRTEENTH;

(5) To ratify the appointment of Deloitte & Touche LLP as our independent auditors for 2010;

(6) To act upon a stockholder proposal requesting a report on coal combustion waste; and

(7) To transact any other business that may properly come before the meeting or any adjournment or adjournments thereof.

The board of directors has set the close of business on [•] as the record date for the determination of common stockholders who will be entitled to notice of, and to vote at, the meeting.

All stockholders who find it convenient to do so are cordially invited and urged to attend the meeting in person. Registered stockholders will receive a request for admission ticket(s) with their proxy card that can be completed and

returned to us postage-free. Stockholders whose shares are held in the name of a bank or broker will not receive a request for admission ticket(s). They should, instead, (1) call (701) 530-1000 to request an admission ticket(s), (2) bring a statement from their bank or broker showing proof of stock ownership as of [•] to the annual meeting, and (3) present their admission ticket(s) and photo identification, such as a driver's license. Directions to the meeting will be included with your admission ticket. We look forward to seeing you.

By order of the Board of Directors,

Paul K. Sandness
Secretary

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PROXY STATEMENT

The board of directors of MDU Resources Group, Inc. is furnishing this proxy statement beginning March 12, 2010 to solicit your proxy for use at our annual meeting of stockholders on April 27, 2010.

We will pay the cost of soliciting your proxy and reimburse brokers and others for forwarding proxy material to you. Georgeson Inc. additionally will solicit proxies for approximately $8,000 plus out-of-pocket expenses.

The Securities and Exchange Commission's e-proxy rules allow companies to post their proxy materials on the Internet and provide only a Notice of Internet Availability of Proxy Materials to stockholders as an alternative to mailing full sets of proxy materials except upon request. For 2010, we have elected to use the Securities and Exchange Commission's full set delivery option, which means that while we are posting our proxy materials online, we are also mailing a full set of our proxy materials to our stockholders. We believe that mailing a full set of proxy materials will help ensure that a majority of outstanding shares of our common stock are present in person or represented by proxy at our meeting. We also hope to help maximize stockholder participation. Therefore, even if you previously consented to receiving your proxy materials electronically, you will receive a full set of proxy materials in the mail for this year's annual meeting. However, we will continue to evaluate the option of providing only a Notice of Internet Availability of Proxy Materials to some or all of our stockholders in the future.

VOTING INFORMATION

Who may vote? You may vote if you owned shares of our common stock at the close of business on [•]. You may vote each share that you owned on that date on each matter presented at the meeting. As of [•], we had [•] shares of common stock outstanding entitled to one vote per share.

What am I voting on? You are voting on:

- the election of ten directors nominated by the board of directors for one-year terms
- the repeal of article TWELFTH of our restated certificate of incorporation, which contains provisions relating to business combinations with interested stockholders, and related amendments to articles THIRTEENTH and FOURTEENTH
- the repeal of article FIFTEENTH of our restated certificate of incorporation, which contains supermajority vote requirements for amendments to certain articles of our restated certificate of incorporation
- the repeal of section (c) of article THIRTEENTH of our restated certificate of incorporation, which provides that directors may be removed by stockholders only for cause, and technical amendments to section (a) of article THIRTEENTH
- the ratification of the appointment of Deloitte & Touche as our independent auditors for 2010
- a stockholder proposal requesting a report on coal combustion waste and
- any other business that is properly brought before the meeting.

What vote is required to pass an item of business? A majority of our outstanding shares of common stock entitled to vote must be present in person or represented by proxy to hold the meeting.

If you hold shares through an account with a bank or broker, the bank or broker may vote your shares on some matters even if you do not provide voting instructions. Brokerage firms have the authority under the New York Stock Exchange rules to vote shares on certain matters when their customers do not provide voting instructions. However, on other matters, when the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that matter and a "broker non-vote" occurs. Please note that the New York Stock Exchange rules have changed and an uncontested election of directors is no longer considered a routine matter. This means that brokers

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may not vote your shares on the election of directors if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

Item 1—Election of Directors

A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast "for" a director's election must exceed the number of votes cast "against" the director's election. "Abstentions" and "broker non-votes" do not count as votes cast "for" or "against" the director's election. In a contested election, which is an election in which the number of nominees for director exceeds the number of directors to be elected, directors will be elected by a plurality of the votes cast. If a nominee becomes unavailable for any reason or if a vacancy should occur before the election, which we do not anticipate, the proxies will vote your shares in their discretion for another person nominated by the board.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for re-election as a director to tender to the board, prior to nomination, his or her irrevocable resignation from the board that will be effective, in an uncontested election of directors only, upon

- receipt of a greater number of votes "against" than votes "for" election at our annual meeting of stockholders and
- acceptance of such resignation by the board of directors.

Following certification of the stockholder vote, the nominating and governance committee will promptly recommend to the board whether or not to accept the tendered resignation. The board will act on the nominating and governance committee's recommendation no later than 90 days following the date of the annual meeting.

Item 2—Repeal of Article TWELFTH of our Restated Certificate of Incorporation, which Contains Provisions Relating to Business Combinations with Interested Stockholders, and Related Amendments to Articles THIRTEENTH and FOURTEENTH

Approval of Item 2 requires the affirmative vote of a majority of the outstanding shares of common stock. Abstentions will count as votes "against" the proposal.

Item 3—Repeal of Article FIFTEENTH of our Restated Certificate of Incorporation, which Contains Supermajority Vote Requirements for Amendments to Certain Articles of our Restated Certificate of Incorporation

Approval of Item 3 requires the affirmative vote of a majority of the outstanding shares of common stock. Abstentions will count as votes "against" the proposal.

Item 4—Repeal of Section (c) of Article THIRTEENTH of our Restated Certificate of Incorporation, which Provides That Directors May Be Removed by Stockholders Only for Cause, and Technical Amendments to Section (a) of Article THIRTEENTH

Approval of Item 4 requires the affirmative vote of a majority of the outstanding shares of common stock. Abstentions will count as votes "against" the proposal.

Item 5—Ratification of the Appointment of Deloitte & Touche LLP as our Independent Auditors for 2010

Approval of Item 5 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes "against" the proposal.

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Item 6—Stockholder Proposal Requesting a Report on Coal Combustion Waste

Approval of Item 6 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes "against" the proposal. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

Unless you specify otherwise when you submit your proxy, the proxies will vote your shares of common stock "for" all directors nominated by the board of directors, "for" proposals 2, 3, 4 and 5 and "against" proposal 6.

How do I vote? There are three ways to vote by proxy:

- by calling the toll free telephone number on the enclosed proxy card
- by using the Internet as described on the enclosed proxy card or
- by returning the enclosed proxy card in the envelope provided.

You may be able to vote by telephone or the Internet if your shares are held in the name of a bank or broker. Follow their instructions.

Can I revoke my proxy? Yes. You can revoke your proxy by:

- filing written revocation with the corporate secretary before the meeting
- filing a proxy bearing a later date with the corporate secretary before the meeting or
- revoking your proxy at the meeting and voting in person.

ITEM 1. ELECTION OF DIRECTORS

At our 2007 annual meeting of stockholders, our board of directors proposed and our stockholders approved the declassification of our board of directors. The declassification was phased in over a three-year period from 2008 - 2010. Directors elected at our 2007 annual meeting comprise the last class elected to serve a three-year term, and their terms will expire at this year's annual meeting. As a result, commencing with this year's annual meeting, our board will be completely declassified. All nominees for director are nominated to serve one-year terms, until the annual meeting of stockholders in 2011 and until their respective successors are elected and qualified, or until their earlier resignation, removal from office, or death. Effective as of the date of this year's annual meeting, the board of directors has set the number of directors at ten.

The board of directors expresses its thanks to John L. Olson and Sister Thomas Welder, O.S.B. Mr. Olson retired from the board effective August 13, 2009 after reaching the mandatory retirement age of 70 for outside directors. Mr. Olson served on the board for 24 years and on the audit committee for 23 years. He also served on the compensation and nominating and governance committees during his tenure. Sister Welder chose not to seek re-election at this annual meeting because, pursuant to our bylaws' mandatory retirement policy, she would be required to retire on May 13, 2010, which is the first regular meeting of the board after she attains the mandatory retirement age. Sister Welder served on the board for 22 years and on the nominating and governance committee for 21 years. She also served on the finance and audit committees during her tenure. Their dedicated service and expertise will be missed.

We have provided information below about our nominees, all of whom are incumbent directors, including their ages, years of service as directors, business experience, and service on other boards of directors, including any other directorships held during the past five years. We have also included information about each nominee's specific experience, qualifications, attributes, or skills that led the board to conclude that he or she should serve as a director of MDU Resources Group, Inc. at the time we file our proxy statement, in light of our business and structure. Unless we specifically note below, no corporation or organization referred to below is a subsidiary or other affiliate of ours.

DIRECTOR NOMINEES

Thomas Everist Age 60	Director Since 1995 Compensation Committee

Mr. Everist has served as president and chairman of The Everist Company, Sioux Falls, South Dakota, an aggregate, concrete, and asphalt production company, since April 15, 2002. He was previously president and chairman of L.G. Everist, Inc., Sioux Falls, South Dakota, an aggregate production company, from 1987 to April 15, 2002. He held a number of positions in the aggregate and construction industries prior to assuming his current position with The Everist Company. He is a director of Showplace Wood Products, Sioux Falls, South Dakota, a custom cabinets manufacturer, and has been a director of Raven Industries, Inc., Sioux Falls, South Dakota, a general manufacturer of electronics, flow controls, and engineered films since 1996, and its chairman of the board since April 1, 2009.

Mr. Everist attended Stanford University where he received a bachelor's degree in mechanical engineering and a master's degree in construction management. He is active in the Sioux Falls community and currently serves as a director on the Sanford Health Foundation, a non-profit charitable health services organization. From July 2001 to June 2006, he served on the South Dakota Investment Council, the state agency responsible for prudently investing state funds.

For the following reasons, the board concluded that Mr. Everist should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. A significant portion of MDU Resources Group, Inc.'s earnings is derived from its construction services and aggregate mining businesses. Mr. Everist has considerable business experience in this area, with more than 36 years in the aggregate and construction materials industry. He has also demonstrated success in his business and leadership skills, serving as president and chairman of his companies for over 22 years. We value other public company board service. Mr. Everist has experience serving as a director and now chairman of another public company, which enhances his contributions to our board. His leadership skills and experience with his own companies and on other boards enable him to be an effective board member and compensation committee chairman. With the retirement of John L. Olson and Sister Thomas Welder, Mr. Everist becomes our longest serving board member, providing 15 years of board experience as well as extensive knowledge of our business.

Karen B. Fagg Age 56	Director Since 2005 Nominating and Governance Committee Compensation Committee

Ms. Fagg has served as vice president of DOWL LLC, d/b/a DOWL HKM, an engineering and design firm, since April 2008. Ms. Fagg was president from April 1, 1995 through March 2008, and chairman and majority owner from June 2000 through March 2008 of HKM Engineering, Inc., Billings, Montana, an engineering and physical science services firm. HKM Engineering, Inc. merged with DOWL LLC on April 1, 2008. Ms. Fagg was employed with MSE, Inc., Butte, Montana, an energy research and development company, from 1976 through 1988 and served as vice

president of operations and corporate development director. Ms. Fagg served a four-year term as director of the Montana Department of Natural Resources and Conservation, Helena, Montana, the state agency charged with promoting stewardship of Montana's water, soil, energy, and rangeland resources; regulating oil and gas exploration and production; and administering several grant and loan programs from 1989 through 1992.

Ms. Fagg has a bachelor's degree in mathematics from Carroll College in Helena, Montana. She served on the board for St. Vincent's Healthcare from October 2003 until October 2009, including a term as board chair and on the board of Deaconess Billings Clinic Health System from 1994 to 2003. She is a member of the Board of Trustees of Carroll College, the Board of Advisors of the Charles M. Bair Family Trust, and a member of the Board of Directors of the Billings Chamber of Commerce. She is also a member of the Montana State University Engineering Advisory Council, whose responsibilities include evaluating the mission and goals of the College of Engineering and assisting in the development and implementation of the college's strategic plan. From 2002 through 2006, she served on the Montana Board of Investments, the state agency responsible for prudently investing state funds. From 2001 to 2005, she served on the board of Montana State University's Advanced Technology Park. From 2000 to 2007, she served on the ZooMontana Board and as vice chair from 2006 to 2007.

For the following reasons, the board concluded that Ms. Fagg should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. Construction and engineering, energy, and the responsible development of natural resources are all important aspects of our business. Ms. Fagg has business experience in all these areas, including 15 years of construction and engineering experience at DOWL, HKM and its predecessor, HKM Engineering, Inc., where she has served as vice president, president, and chairman. Ms. Fagg has also had 12 years of experience in energy research and development at MSE, Inc., where she served as vice president of operations and corporate development director, and four years focusing on stewardship of natural resources as director of the Montana Department of Natural Resources and Conservation. In addition to her industry experience, Ms. Fagg brings to our board 12 years of business leadership and management experience as president and chairman of her own company, as well as knowledge and experience acquired through her service on a number of Montana state and community boards.

Terry D. Hildestad	Director Since 2006
Age 60	President and Chief Executive Officer

Mr. Hildestad was elected president and chief executive officer and a director of the company effective August 17, 2006. He had served as president and chief operating officer from May 1, 2005 until August 17, 2006. Prior to that, he served as president and chief executive officer of our subsidiary, Knife River Corporation, from 1993 until May 1, 2005. He began his career with the company in 1974 at Knife River, where he served in several operating positions before becoming its president. He additionally serves as an executive officer and as chairman of the company's principal subsidiaries and of the managing committees of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co.

Mr. Hildestad has a bachelor's degree from Dickinson State University and has completed the Advanced Management Program at Harvard School of Business. Mr. Hildestad is a member of the U.S. Bancorp Western North Dakota Advisory Board of Directors.

For the following reasons, the board concluded that Mr. Hildestad should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. As chief executive officer of MDU Resources Group, Inc., Mr. Hildestad is the only officer of the company to sit on our board, consistent with our past practice. With over 35 years of experience at our company, Mr. Hildestad has a deep knowledge and understanding of MDU Resources Group, Inc., its operating companies and its lines of business. Mr. Hildestad has demonstrated his leadership abilities and his commitment to our company since he was elected president and chief executive officer and a director in 2006 and prior to that time through his long service as chief operating officer of the company and as president and chief executive officer at Knife River, our construction materials and contracting subsidiary. The board also believes that Mr. Hildestad's integrity, values, and good judgment make him well-suited to serve on our board.

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A. Bart Holaday — Director Since 2008
Age 67 — Audit Committee

Mr. Holaday headed the Private Markets Group of UBS Asset Management and its predecessor entities for 15 years prior to his retirement in 2001, during which time he managed more than $19 billion in investments. Prior to that he was vice president and principal of the InnoVen Venture Capital Group. He was founder and president of Tenax Oil and Gas Corporation, an onshore Gulf Coast exploration and production company, from 1980 through 1982. He has four years of senior management experience with Gulf Oil Corporation, a global energy and petrochemical company, and eight years of senior management with the federal government, including the Department of Defense, Department of the Interior, and the Federal Energy Administration. He is currently the president and owner of Dakota Renewable Energy Fund, LLC, which invests in small companies in North Dakota. He is a member of the investment advisory board of Commons Capital LLC, a venture capital firm; a member of the board of directors of Adams Street Partners, LLC, a private equity investment firm; Alerus Financial, a financial services company; Jamestown College; the United States Air Force Academy Endowment (chairman); the Falcon Foundation (vice president), which provides scholarships to Air Force Academy applicants; the Center for Innovation Foundation at the University of North Dakota (chairman and trustee) and the University of North Dakota Foundation; and is chairman and CEO of the Dakota Foundation. He is a past member of the board of directors of the National Venture Capital Association, Walden University, and the U.S. Securities and Exchange Commission advisory committee on the regulation of capital markets.

Mr. Holaday has a bachelor’s degree in engineering sciences from the U.S. Air Force Academy. He was a Rhodes Scholar, earning a bachelor’s degree and a master’s degree in politics, philosophy, and economics from Oxford University. He also earned a law degree from George Washington Law School and is a Chartered Financial Analyst. In 2005, he was awarded an honorary Doctor of Letters from the University of North Dakota.

For the following reasons, the board concluded that Mr. Holaday should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. MDU Resources Group, Inc. has significant operations in the natural gas and oil industry. Mr. Holaday has knowledge and experience in this industry. He founded and served as president of Tenax Oil and Gas Corporation. He has four years experience in senior management with Gulf Oil Corporation and 15 years of experience managing private equity investments, including investments in oil and gas, as the head of the Private Markets Group of UBS Asset Management and its predecessor organizations. This business experience demonstrates his leadership skills and success in the oil and gas industry. Mr. Holaday brings to the board his extensive finance and investment experience as well as his business development skills acquired through his work at UBS Asset Management, Tenax Oil and Gas Corporation, Gulf Oil Corporation, and several private equity investment firms. This will enhance the knowledge of the board and provide useful insights to management in connection not only with our natural gas and oil business, but with all of our businesses.

Dennis W. Johnson	Director Since 2001
Age 60	Audit Committee

Mr. Johnson is chairman, chief executive officer and president of TMI Corporation, and chairman and chief executive officer of TMI Systems Design Corporation, TMI Transport Corporation and TMI Storage Systems Corporation, all of Dickinson, North Dakota, manufacturers of casework and architectural woodwork. He has been employed at TMI since 1974 serving as president or chief executive officer since 1982 and has been the majority stockholder since 1985. Mr. Johnson is serving his ninth year as president of the Dickinson City Commission. He previously was a director of the Federal Reserve Bank of Minneapolis. He is a past member and chairman of the Theodore Roosevelt Medora Foundation.

Mr. Johnson has a bachelor of science degree in electrical and electronics engineering as well as a master of science degree in industrial engineering from North Dakota State University. He has served on numerous industry, state, and community boards, including the North Dakota Workforce Development Council (chairperson), the Decorative Laminate Products Association, the North Dakota Technology Corporation, St. Joseph Hospital Life Care Foundation, St. John Evangelical Lutheran Church, Dickinson State University, the executive operations committee of the University of Mary Harold Shafer Leadership Center, and the Dickinson United Way. He also served on North Dakota Governor Sinner's Education Action Commission, the North Dakota Job Service Advisory Council, the North Dakota State University President's Advisory Council, North Dakota Governor Schafer's Transition Team, and chaired North Dakota Governor Hoeven's Transition Team. He has received numerous awards including the 1991 Regional Small Business Person of the Year Award and the Greater North Dakotan Award.

For the following reasons, the board concluded that Mr. Johnson should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. Mr. Johnson has over 27 years of experience in business management, manufacturing, and finance, and has demonstrated his success in these areas, through his positions as chairman, president, and CEO of TMI, as well as through his prior service as a director of the Federal Reserve Bank of Minneapolis. His finance experience and leadership skills enable him to make valuable contributions to our audit committee, which he has chaired for six years. As a result of his service on a number of state and local organizations in North Dakota, Mr. Johnson has significant knowledge of local, state, and regional issues involving North Dakota, a state where we have significant operations and assets.

Thomas C. Knudson	Director Since 2008
Age 63	Compensation Committee

Mr. Knudson has been president of Tom Knudson Interests, LLC, since its formation on January 14, 2004. Tom Knudson Interests, LLC, provides consulting services in energy, sustainable development, and leadership. Mr. Knudson began employment with Conoco Oil Company (Conoco) in May 1975 and retired in 2004 from Conoco's successor, ConocoPhillips, as senior vice president of human resources, government affairs and communications, and information technology. Mr. Knudson served as a member of ConocoPhillips' management committee. His diverse career at Conoco and

ConocoPhillips included engineering, operations, business development, and commercial assignments. He was the founding chairman of the Business Council for Sustainable Development in both the United States and the United Kingdom. He has been a director of Bristow Group Inc. since June 2004 and its chairman of the board of directors since August 2006, and was a director of Natco Group Inc. from April 2005 to November 2009 and Williams Partners LP from November 2005 to September 2007. Bristow Group Inc. is a leading provider of helicopter services to the offshore oil industry. Natco Group Inc. is a leading manufacturer of oil and gas processing equipment. Williams Partners LP owns natural gas gathering, transportation, processing, and treating assets, and also has natural gas liquids fractionating and storage assets.

Mr. Knudson has a bachelor's degree in aerospace engineering from the U.S. Naval Academy and a master's degree in aerospace engineering from the U.S. Naval Postgraduate School. He served as a naval aviator, flying combat missions in Vietnam, and was a lieutenant commander in 1974 when he was honorably discharged. Mr. Knudson has served on the boards of a number of petroleum industry associations, Covenant House Texas, The Houston Museum of Natural Science, and Alpha USA/Houston. He has served as an adjunct professor at the Jones Graduate School of Management at Rice University.

For the following reasons, the board concluded that Mr. Knudson should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. A significant portion of our earnings is derived from natural gas and oil production and the transportation, storage, and gathering of natural gas. Mr. Knudson has extensive knowledge and experience in this industry as a result of his prior employment with Conoco, as well as through his service on the boards of Natco Group, Inc. and Williams Partners LP. Mr. Knudson has a broad background in engineering, operations, and business development, as well as service on the management committee at Conoco and ConocoPhillips, which bring additional experience and perspective to our board. His service as senior vice president of human resources at ConocoPhillips makes him an excellent fit for our compensation committee. Sustainable business development is also an important aspect of our business, and Mr. Knudson, as the founding chairman of the Business Council for Sustainable Development, brings to our board significant experience and knowledge in this area. Mr. Knudson also has significant knowledge of local, state, and regional issues involving Texas, a state where we have important operations and assets.

Richard H. Lewis	Director Since 2005
Age 60	Audit Committee
	Nominating and Governance Committee

Mr. Lewis has been the managing general partner of Brakemaka LLLP, a private investment partnership for managing family investments, and president of the Lewis Family Foundation since August 2004. Mr. Lewis serves as chairman of the board of Entre Pure Industries, Inc., a privately held company involved in the purified water and ice business. He serves as a director of Colorado State Bank and Trust and on the senior advisory board of TPH Partners, L.P., a private equity fund with an energy-only focus. Mr. Lewis founded Prima Energy Corporation, a natural gas and oil exploration and production company in 1980, and served as chairman and chief executive officer of the company until its sale in July 2004. During his tenure, Prima Energy was named to Forbes Magazine’s 200 Best Small Companies in America list seven times and was ranked the No. 1 Colorado public company for the decade of the 1990’s in terms of market return. Mr. Lewis represented natural gas producers on a panel that studied electric restructuring in Colorado and has testified before Congressional committees on industry matters. He worked in private practice as a certified public accountant for eight years prior to founding Prima Energy.

Mr. Lewis has a bachelor’s degree in finance and accounting from the University of Colorado. He served as a board member on the Colorado Oil and Gas Association from November 1999 to November 2009, including a term as its president. In 2000, Mr. Lewis was inducted into the Ernst & Young Entrepreneur of the Year Hall of Fame and in 2004 was inducted into the Rocky Mountain Oil and Gas Hall of Fame. Mr. Lewis serves as the chairman of the Development Board of Colorado Uplift, a non-profit organization whose mission is to build long-term, life-changing relationships with urban youth. He also serves on the Board of Trustees of Alliance for Choice in Education, which provides scholarships to inner city youth. He has also served on the Board of Trustees of the Metro Denver YMCA, the Advisory Council to the Leeds School of Business at the University of Colorado, and as a director for the Partnership for the West.

For the following reasons, the board concluded that Mr. Lewis should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. MDU Resources Group, Inc. derives a significant portion of its earnings from natural gas and oil production, one of our business segments. Mr. Lewis has extensive business experience, recognized excellence, and demonstrated success in this industry through almost 25 years at his company, Prima Energy Corporation, and ten years on the board of the Colorado Oil and Gas Association. In addition to his industry experience, he brings investment experience to our board through his service on the senior advisory board of an energy-only private equity fund. As a certified public accountant and a director of Colorado State Bank and Trust, Mr. Lewis also contributes significant finance and accounting knowledge to our board and audit committee. Mr. Lewis also brings to the board his knowledge of local, state, and regional issues involving Colorado and the Rocky Mountain region, where we have important operations.

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Patricia L. Moss	Director Since 2003
Age 56	Compensation Committee

Ms. Moss has served as the president and chief executive officer of Cascade Bancorp, a financial holding company in Bend, Oregon, since 1998, chief executive officer of Cascade Bancorp's principal subsidiary, Bank of the Cascades, since 1993, serving also as president from 1993 to 2003, and a director of Cascade Bancorp since 1993. She also serves as a director of the Oregon Investment Fund Advisory Council, a state-sponsored program to encourage the growth of small businesses within Oregon, and a director of Clear Choice Health Plans Inc., a multi-state insurance company.

Ms. Moss graduated magna cum laude with a bachelor of science degree in business administration from Linfield College in Oregon and did master's studies at Portland State University. She received commercial banking school certification at the ABA Commercial Banking School at the University of Oklahoma. She served as a director of the Oregon Business Council, whose mission is to mobilize business leaders to contribute to Oregon's quality of life and economic prosperity; the Cascades Campus Advisory Board of the Oregon State University; the North Pacific Group, Inc., a wholesale distributor of building materials, industrial and hardwood products, and other specialty products; the Aquila Tax Free Trust of Oregon, a mutual fund created especially for the benefit of Oregon residents; and as a director and chair of the St. Charles Medical Center.

In August 2009, the Federal Deposit Insurance Corporation and the Oregon Division of Finance and Corporate Securities entered into a consent agreement with Bank of the Cascades that requires the bank to develop and adopt a plan to maintain the capital necessary for it to be "well-capitalized," to improve its lending policies and its allowance for loan losses, to increase its liquidity, to retain qualified management, and to increase the participation of its board of directors in the affairs of the bank. In October 2009, the bank's parent, Cascade Bancorp, entered into a written agreement with the Federal Reserve Bank of San Francisco and the Oregon Division relating largely to improving the financial condition of Cascade Bancorp and the bank.

For the following reasons, the board concluded that Ms. Moss should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. A significant portion of MDU Resources Group, Inc.'s utility, construction services, and contracting operations are located in the Pacific Northwest. Ms. Moss has first-hand business experience and knowledge of the Pacific Northwest economy and local, state, and regional issues through her position as president, chief executive officer, and a director at Cascade Bancorp and Bank of the Cascades, where she has over 28 years of experience. Ms. Moss provides to our board her experience in finance and banking as well as her experience in business development through her work at Cascade Bancorp and on the Oregon Investment Advisory Council and the Oregon Business Council. Ms. Moss is also certified as a Senior Professional in Human Resources, which makes her well-suited for our compensation committee. In deciding that Ms. Moss should be renominated as a director, the board was mindful of the consent agreement with Bank of the

Cascades, but concluded that Ms. Moss brought the many skills and experiences discussed above to our board and had proved herself to be a dedicated and hard-working director.

Harry J. Pearce Director Since 1997
Age 67 Chairman of the Board

Mr. Pearce was elected chairman of the board of the company on August 17, 2006. Prior to that, he served as lead director effective February 15, 2001 and was vice chairman of the board from November 16, 2000 until February 15, 2001. Mr. Pearce has been a director of Marriott International, Inc., a major hotel chain, since 1995. He was a director of Nortel Networks Corporation, a global telecommunications company, from January 11, 2005 to August 10, 2009, serving as chairman of the board from June 29, 2005. He retired on December 19, 2003, as chairman of Hughes Electronics Corporation, a General Motors Corporation subsidiary and provider of digital television entertainment, broadband satellite network, and global video and data broadcasting. He had served as chairman since June 1, 2001. Mr. Pearce was vice chairman and a director of General Motors Corporation, one of the world's largest automakers, from January 1, 1996 to May 31, 2001. He served on the President's Council on Sustainable Development and co-chaired the President's Commission on the United States Postal Service. Prior to joining General Motors, he was a senior partner in the Pearce & Durick law firm in Bismarck, ND. Mr. Pearce is a director of the United States Air Force Academy Endowment, and a member of the Advisory Board of the University of Michigan Cancer Center. He is a Fellow of the American College of Trial Lawyers and a member of the International Society of Barristers. He also serves on the Board of Trustees of Northwestern University. He has served as a chairman or director on the boards of numerous nonprofit organizations, including as chairman of the board of Visitors of the U.S. Air Force Academy, chairman of the National Defense University Foundation, and chairman of the Marrow Foundation. He currently serves as a director of the National Bone Marrow Transplant Link and New York Marrow Foundation. Mr. Pearce received a bachelor's degree in engineering sciences from the U.S. Air Force Academy and his law degree from Northwestern University's School of Law.

For the following reasons, the board concluded that Mr. Pearce should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. MDU Resources Group, Inc. values public company leadership and the experience directors gain through such leadership. Mr. Pearce is recognized nationally as well as in the State of North Dakota as a business leader and for his business acumen. He has multinational business management experience and proven leadership skills through his position as vice chairman at General Motors, as well as through his extensive service on the boards of large public companies, including Marriott International; Hughes Electronics, where he was chairman; and Nortel Networks, where he also was chairman. He also brings to our board his long experience as a practicing attorney. In addition, Mr. Pearce is focused on corporate governance issues and is the founding chair of the Chairmen's Forum, an organization comprised of non-executive chairmen of publicly-traded companies. Participants in the Chairmen's Forum discuss ways to enhance the accountability of corporations to owners and promote a deeper understanding of independent board leadership and effective practices of board chairmanship. The board also believes that Mr. Pearce's values and commitment to excellence make him well-suited to serve as chairman of our board.

John K. Wilson	Director Since 2003
Age 55	Audit Committee

Mr. Wilson was president of Durham Resources, LLC, a privately held financial management company, in Omaha, Nebraska, from 1994 to December 31, 2008. He previously was president of Great Plains Energy Corp., a public utility holding company and an affiliate of Durham Resources, LLC, from 1994 to July 1, 2000. He was vice president of Great Plains Natural Gas Co., an affiliate company of Durham Resources, LLC, until July 1, 2000. The company bought Great Plains Energy Corp. and Great Plains Natural Gas Co. on July 1, 2000. Mr. Wilson also served as president of the Durham Foundation and was a director of Bridges Investment Fund, a mutual fund, and the Greater Omaha Chamber of Commerce. He is presently a director of HDR, Inc., an international architecture and engineering firm based in Omaha, and serves on the advisory boards of US Bank NA Omaha and Duncan Aviation, an aircraft service provider, headquartered in Lincoln, Nebraska. He also serves as deputy director of the Robert B. Daugherty Charitable Foundation.

Mr. Wilson is a certified public accountant. He received his bachelor’s degree in business administration, cum laude, from the University of Nebraska – Omaha. During his career, he was a member of the audit staff and an audit manager at Peat, Marwick, Mitchell (now known as KPMG), controller for Great Plains Natural Gas Co., and chief financial officer and treasurer for all Durham Resources entities.

For the following reasons, the board concluded that Mr. Wilson should serve as a director of MDU Resources Group, Inc., in light of our business and structure, at the time we file our proxy statement. Mr. Wilson has an extensive background in finance and accounting as well as extensive experience with mergers and acquisitions through his education and work experience at a major accounting firm and his later positions as controller and vice president of Great Plains Natural Gas Co.; president of Great Plains Energy Corp.; and president, chief financial officer, and treasurer for Durham Resources, LLC and all Durham Resources entities. The electric and natural gas utility business was our core business when our company was founded in 1924. That business now operates through four utilities: Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company. Mr. Wilson is our only non-employee director with direct experience in this area through his prior positions at Great Plains Natural Gas Co. and Great Plains Energy. In addition, Mr. Wilson’s extensive finance and accounting experience make him well-suited for our audit committee.

The board of directors recommends a vote “for” each nominee.

A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast "for" a director's election must exceed the number of votes cast "against" the director's election. "Abstentions" and "broker non-votes" do not count as votes cast "for" or "against" the director's election. In a contested election, which is an election in which the number of nominees for director exceeds the number of directors to be elected and which we do not anticipate, directors will be elected by a plurality of the votes cast.

Unless you specify otherwise when you submit your proxy, the proxies will vote your shares of common stock "for" all directors nominated by the board of directors. If a nominee becomes unavailable for any reason or if a vacancy should occur before the election, which we do not anticipate, the proxies will vote your shares in their discretion for another person nominated by the board.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for re-election as a director to tender to the board, prior to nomination, his or her irrevocable resignation from the board that will be effective, in an uncontested election of directors only, upon:

- receipt of a greater number of votes "against" than votes "for" election at our annual meeting of stockholders and
- acceptance of such resignation by the board of directors.

Following certification of the stockholder vote, the nominating and governance committee will promptly recommend to the board whether or not to accept the tendered resignation. The board will act on the nominating and governance committee's recommendation no later than 90 days following the date of the annual meeting.

Please note that the New York Stock Exchange rules have changed. Brokers may not vote your shares on the election of directors if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

ITEM 2. REPEAL OF ARTICLE TWELFTH OF OUR RESTATED CERTIFICATE OF INCORPORATION, WHICH CONTAINS PROVISIONS RELATING TO BUSINESS COMBINATIONS WITH INTERESTED STOCKHOLDERS, AND RELATED AMENDMENTS TO ARTICLES THIRTEENTH AND FOURTEENTH

In November 2009, we received a stockholder proposal requesting that the board of directors take the steps necessary to change the stockholder vote requirements that call for a greater than simple majority vote in our restated certificate of incorporation, as amended, and bylaws to a majority of votes cast for or against any proposal.

Article TWELFTH of our restated certificate of incorporation, which has "fair price" provisions relating to business combinations with interested stockholders, contains a supermajority vote requirement. Article TWELFTH provides that, unless the transaction is approved by two-thirds of the continuing directors, the fair price and procedural requirements of article TWELFTH will apply to the business combination, and the business combination must be approved by at least 80% of the voting power of the outstanding voting stock. In this proxy statement, we sometimes refer to the provisions of article TWELFTH as the "fair price" provisions.

Article TWELFTH requires the affirmative vote of at least 80% of the voting power of our outstanding voting stock to approve certain transactions involving an "interested stockholder," which is a person or group that beneficially owns more than 10% of our outstanding voting stock.

The supermajority vote requirement applies to the following transactions:

- a merger or consolidation with an interested stockholder

- a sale, lease, exchange or other disposition of assets of the company with an aggregate fair market value of $5 million or more to an interested stockholder

- the issuance of securities by the company with an aggregate fair market value of $5 million or more to an interested stockholder
- a voluntary plan of liquidation or dissolution proposed by an interested stockholder and
- a reclassification, recapitalization, merger or any other transaction that increases the proportionate share of outstanding shares of the company owned by an interested stockholder.

The supermajority vote requirement does not apply to transactions that have been approved by two-thirds of the continuing directors. Continuing directors are members of the board who are unaffiliated with, and not nominees of, an interested stockholder and who were members of the board prior to the time the interested stockholder became an interested stockholder. Continuing directors also include directors designated to succeed continuing directors.

We added article TWELFTH to our restated certificate of incorporation in 1985. As we discussed in our proxy statement at that time, there had been a number of instances in which an unsolicited bidder had acquired control of a company over the objections of management and, after acquiring control, had compelled a merger, consolidation or sale of assets without an arm's length negotiation of the terms. While tender offers or other takeover attempts could be made at a price substantially above the market price of a company's common stock, they frequently were made for less than all of the outstanding shares of a target company. Such partial offers could present stockholders with the alternative of either partially liquidating their investment at a time when that may be disadvantageous or retaining an investment in an enterprise under new management whose objectives may differ from those of the remaining stockholders. Article TWELFTH was designed to deal with then recently-developed takeover strategies such as two-tiered transactions that often resulted in inequitable treatment of long-term stockholders. Article TWELFTH was designed to encourage a person making an unsolicited bid for the company to negotiate with our board of directors to reach terms that were fair and in the best interests of the stockholders.

In more recent years, however, some investors have viewed fair price provisions as inconsistent with principles of good corporate governance and believe that these provisions make it more difficult for stockholders to effect change and participate in important decisions affecting the company. These investors believe that the supermajority vote requirement that is part of the fair price provisions limits the ability of a majority of stockholders to effect change by providing a veto right to a large minority stockholder or group of stockholders. They also assert that supermajority vote provisions cause boards and management to be less responsive or accountable to stockholders. Others have argued that supermajority vote requirements not only offer little, if any, protection to minority stockholders, but also have the effect of discouraging legitimate offers for a company by making them more expensive.

After receiving the stockholder proposal, the board of directors reviewed the advantages and disadvantages of the provisions contained in article TWELFTH and after this review decided to propose the repeal of article TWELFTH to further our goal of ensuring that our corporate governance policies maximize our accountability to stockholders.

The company will continue to be subject to Section 203 of the Delaware General Corporation Law, whether or not the proposed amendments are approved. With some exceptions, Section 203 provides that a business combination, as defined in Section 203, with an interested stockholder, which is a person owning 15% or more of a company's outstanding voting stock, cannot be completed for a three-year period after the date the person became an interested stockholder, unless

- prior to the time the person became an interested stockholder, the board of directors approved either the business combination or the transaction that resulted in the person becoming an interested stockholder
-

upon consummation of the transaction that resulted in the person becoming an interested stockholder, that person owned at least 85% of the outstanding voting stock, excluding certain shares or

- the business combination was approved by the board of directors and by at least two-thirds of the outstanding voting stock not owned by the interested stockholder.

In addition to the deletion of article TWELFTH, the board of directors has proposed related amendments to articles THIRTEENTH and FOURTEENTH of our restated certificate of incorporation. These amendments add to article THIRTEENTH some definitions of terms currently included in article TWELFTH that are relevant to other articles of our restated certificate of incorporation. These definitions of terms have been modified to reflect the repeal of article

TWELFTH. In addition, in article FOURTEENTH, the amendments substitute the term "business combination" that was previously defined in article TWELFTH with a description of the term's meaning, which is no longer limited to transactions with "interested stockholders."

The board of directors has approved the proposed amendments to our restated certificate of incorporation described above. The board resolution setting forth the proposed amendments to our restated certificate of incorporation is included in exhibit A to this proxy statement and shows the changes that would result from the amendments. If approved by our stockholders, the amendments will become effective upon filing with the Secretary of State of the State of Delaware, which filing we would make promptly after the annual meeting.

The board of directors recommends a vote "for" the proposal to repeal article TWELFTH of our restated certificate of incorporation, which contains provisions relating to business combinations with interested stockholders, and related amendments to articles THIRTEENTH and FOURTEENTH.

Approval requires the affirmative vote of a majority of the outstanding shares of common stock. Abstentions will count as votes against this proposal.

ITEM 3. REPEAL OF ARTICLE FIFTEENTH OF OUR RESTATED CERTIFICATE OF INCORPORATION, WHICH CONTAINS SUPERMAJORITY VOTE REQUIREMENTS FOR AMENDMENTS TO CERTAIN ARTICLES OF OUR RESTATED CERTIFICATE OF INCORPORATION

As discussed above under Item 2, in November 2009, we received a stockholder proposal requesting that the board of directors take the steps necessary to change the stockholder vote requirements that call for a greater than simple majority vote in our restated certificate of incorporation and bylaws to a majority of votes cast for or against any proposal.

Article FIFTEENTH of our restated certificate of incorporation, as amended, requires the affirmative vote of at least 80% of the voting power of the outstanding voting stock to amend, alter, change or repeal, or to adopt any provision inconsistent with, the following provisions of our restated certificate of incorporation:

- article TWELFTH, which contains provisions relating to business combinations with interested stockholders and includes a supermajority vote requirement. As described under Item 2 above, article TWELFTH is proposed to be deleted.
- article THIRTEENTH, which contains provisions relating to the board of directors and establishes the range for the number of directors on the board, the authority of the board to fix the exact number of directors within the range, the provisions for annual election of directors, and the authority of the board to fill vacancies or newly created directorships
- article FOURTEENTH, which sets forth a list of factors for the board of directors to consider in evaluating a proposal by another party to make a tender or exchange offer for securities of the company or to effect a merger, consolidation or other business combination with the company
- article FIFTEENTH itself and
- article SIXTEENTH, which contains provisions setting forth how stockholder action must be effected and who is entitled to call special meetings of stockholders.

The supermajority vote requirement does not apply to amendments that are recommended to stockholders by two-thirds of the continuing directors.

We added article FIFTEENTH to our restated certificate of incorporation in 1985. The supermajority vote requirement was intended to prevent one or more stockholders controlling a simple majority of our voting stock from repealing the fair price and other provisions referred to in article FIFTEENTH and to give minority stockholders holding in the aggregate in excess of 20% of the voting power the ability to prevent amendments to the fair price and other provisions referred to in article FIFTEENTH.

However, as with fair price provisions, in more recent years, some investors have viewed supermajority vote requirements as inconsistent with principles of good corporate governance and argue that such provisions make it more difficult for stockholders to effect change and participate in important decisions affecting the company. These investors believe that supermajority vote requirements limit the ability of a majority of stockholders to effect change by providing a veto right to a large minority stockholder or group of stockholders. They also assert that supermajority vote provisions cause boards and management to be less responsive or accountable to stockholders. Others have argued that supermajority vote requirements not only offer little, if any, protection to minority stockholders, but also have the effect of discouraging legitimate offers for the company by making them more expensive. A number of major corporations have determined that, regardless of the merits of supermajority vote provisions, principles of good corporate governance dictate that such requirements be eliminated.

After receiving the stockholder proposal, the board of directors reviewed the advantages and disadvantages of supermajority vote requirements contained in article FIFTEENTH and, after this review, decided to propose the repeal of article FIFTEENTH to further our goal of ensuring that our corporate governance policies maximize our accountability to stockholders.

If article FIFTEENTH is repealed, the stockholder vote required to approve amendments to the provisions of our restated articles of incorporation identified in article FIFTEENTH not recommended to stockholders by two-thirds of our continuing directors would be reduced from an 80% supermajority vote to a majority of our outstanding voting stock. Section 242(b) of the Delaware General Corporation Law would apply to all amendments to our restated certificate of incorporation and require that charter amendments be approved by a majority of the outstanding stock entitled to vote thereon and by a majority of the outstanding stock of each class entitled to vote thereon as a class, unless the Delaware General Corporation Law or our restated certificate of incorporation specifically provides for a greater than majority vote.

The board of directors has approved the proposed amendment as described above. The board resolution setting forth the proposed amendment to our restated certificate of incorporation is included in exhibit A to this proxy statement and shows the changes that would result from the amendment. If approved by our stockholders, the amendment will become effective upon filing with the Secretary of State of the State of Delaware, which filing we would make promptly after the annual meeting.

The board of directors recommends a vote "for" the proposal to repeal article FIFTEENTH of our restated certificate of incorporation, which contains supermajority vote requirements for amendments to certain articles of our restated certificate of incorporation.

Approval requires the affirmative vote of a majority of the outstanding shares of common stock. Abstentions will count as votes against this proposal.

ITEM 4. REPEAL OF SECTION (c) OF ARTICLE THIRTEENTH OF OUR RESTATED CERTIFICATE OF INCORPORATION, WHICH PROVIDES THAT DIRECTORS MAY BE REMOVED BY STOCKHOLDERS ONLY FOR CAUSE, AND TECHNICAL AMENDMENTS TO SECTION (a) OF ARTICLE THIRTEENTH

Section (c) of article THIRTEENTH of our restated certificate of incorporation, as amended, provides that any director or the entire board of directors may be removed by stockholders only for cause and sets forth the requirements for such removal.

In 2007, our board of directors proposed and our stockholders approved the declassification of our board. The declassification has been phased in over a three-year period from 2008 to 2010. Directors elected at our 2007 annual

meeting comprise the last class of directors elected to serve a three-year term, and their terms will expire with this year's annual meeting. As a result, commencing with this year's annual meeting, our board will be completely declassified, and all directors at this year's annual meeting will be elected to serve one-year terms.

With the completion of the declassification of our board, section (c) of article THIRTEENTH will not be consistent with Section 141(k) of the Delaware General Corporation Law, which provides that the right of stockholders to remove directors may not be limited to removal for cause unless the board is classified.

The board of directors has therefore proposed to repeal section (c) of article THIRTEENTH and to make technical amendments to section (a) of article THIRTEENTH.

The board of directors has approved the proposed amendments to our restated certificate of incorporation described above. The board resolution setting forth the proposed amendments to our restated certificate of incorporation is included in exhibit A to this proxy statement and shows the changes that would result from the amendments. If approved by our stockholders, the amendments will become effective upon filing with the Secretary of State of the State of Delaware, which filing we would make promptly after the annual meeting. However, even if our stockholders do not approve the repeal of section (c), it will no longer have any effect because its provisions will be inconsistent with the Delaware General Corporation Law.

The board of directors recommends a vote "for" the proposal to repeal section (c) of article THIRTEENTH of our restated certificate of incorporation, which provides that directors may be removed by stockholders only for cause, and technical amendments to section (a) of article THIRTEENTH.

Approval requires the affirmative vote of a majority of the outstanding shares of common stock. Abstentions will count as votes against this proposal.

ITEM 5. RATIFICATION OF INDEPENDENT AUDITORS

The audit committee at its February 2010 meeting appointed Deloitte & Touche LLP as our independent auditors for fiscal year 2010. The board of directors concurred with the audit committee's decision. Deloitte & Touche LLP has served as our independent auditors since fiscal year 2002.

Although your ratification vote will not affect the appointment or retention of Deloitte & Touche LLP for 2010, the audit committee will consider your vote in determining its appointment of our independent auditors for the next fiscal year. The audit committee, in appointing our independent auditors, reserves the right, in its sole discretion, to change an appointment at any time during a fiscal year if it determines that such a change would be in our best interests.

A representative of Deloitte & Touche LLP will be present at the annual meeting and will be available to respond to appropriate questions. We do not anticipate that the representative will make a prepared statement at the meeting; however, he or she will be free to do so if he or she chooses.

The board of directors recommends a vote "for" the ratification of Deloitte & Touche LLP as our independent auditors for 2010.

Ratification of the appointment of Deloitte & Touche LLP as our independent auditors for 2010 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal.

In connection with the audit of our financial statements for 2010, the parties have drafted an agreement for audit committee approval that contains provisions for alternative dispute resolution and for the exclusion of punitive damages. The agreement provides that disputes arising out of our engagement of Deloitte & Touche LLP are resolved

through mediation or arbitration, commonly referred to as alternative dispute resolution procedures, and that the company's and Deloitte & Touche LLP's rights to pursue punitive damages or other forms of relief not based upon actual damages are waived. The alternative dispute resolution provisions do not apply to claims by third parties, such as our stockholders or creditors.

ACCOUNTING AND AUDITING MATTERS

Fees

The following table summarizes the aggregate fees that our independent auditors, Deloitte & Touche LLP, billed or are expected to bill us for professional services rendered for 2009 and 2008:

	2009	2008*
Audit Fees(a)	$ 2,393,800	$ 2,535,253
Audit-Related Fees(b)	52,292	78,511
Tax Fees(c)	17,600	33,653
All Other Fees(d)	130,016	0
Total Fees(e)	$ 2,593,708	$ 2,647,417
Ratio of Tax and All Other Fees to Audit and Audit-Related Fees	6.03%	1.29%

* The 2008 amounts were adjusted from amounts shown in the 2009 proxy statement to reflect actual amounts.

(a) Audit fees for both 2009 and 2008 consisted of services rendered for the audit of our annual financial statements; reviews of our quarterly financial statements; comfort letters; statutory and regulatory audits and consents and other services related to Securities and Exchange Commission matters.

(b) Audit-related fees for 2009 are associated with the audit of the Intermountain Gas Company's benefit plans and accounting research assistance. Audit-related fees for 2008 are associated with accounting research assistance; consultation on accounting process improvements, including recommended practices and opportunities for control improvement; and assistance in the transition of benefit plan audits to another accounting firm.

(c) Tax fees for 2009 include support services associated with the Cascade Natural Gas Corporation IRS audit. Tax fees for 2008 are associated with tax planning, compliance, and support services.

(d) All other fees for 2009 are for services provided by Deloitte FAS, LLP in connection with the review of accounting practices and procedures at one of the company's operating locations. No fees under the category of all other fees were incurred during 2008.

(e) Total fees reported above include out-of-pocket expenses related to the services provided of $267,708 for 2009 and $269,618 for 2008.

Pre-Approval Policy

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2009 in accordance with the pre-approval policy and procedures the audit committee adopted at its August 12, 2003 meeting. This policy is designed to achieve the continued independence of Deloitte & Touche LLP and to assist in our compliance with Sections 201 and 202 of the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission.

The policy defines the permitted services in each of the audit, audit-related, tax and all other services categories as well as prohibited services. The pre-approval policy requires management to submit annually for approval to the audit committee a service plan describing the scope of work and anticipated cost associated with each category of service. At each regular audit committee meeting, management reports on services performed by Deloitte & Touche LLP and the fees paid or accrued through the end of the quarter preceding the meeting. Management may submit requests for additional permitted services before the next scheduled audit committee meeting to the designated member of the audit committee, Dennis W. Johnson, for approval. The designated member updates the audit committee at the next regularly scheduled meeting regarding any services that he approved during the interim period. At each regular audit committee meeting, management may submit to the audit committee for approval a supplement to the service plan containing any request for additional permitted services.

In addition, prior to approving any request for audit-related, tax or all other services of more than $50,000, Deloitte & Touche LLP will provide a statement setting forth the reasons why rendering of the proposed services does not compromise Deloitte & Touche LLP's independence. This description and statement by Deloitte & Touche LLP may be incorporated into the service plan or as an exhibit thereto or may be delivered in a separate written statement.

ITEM 6. STOCKHOLDER PROPOSAL REQUESTING A REPORT ON COAL COMBUSTION WASTE

A stockholder has notified us that it intends to present a resolution for action by the stockholders at the annual meeting. We will provide the name, address and stock ownership of the proponent to stockholders promptly after receiving an oral or written request. The text of the resolution and the supporting statement submitted by the proponent are as follows.

Stockholder Proposal

Report On Risks Associated With Coal Combustion Waste

WHEREAS: Coal combustion waste (CCW) is a by-product of burning coal that contains high concentrations of arsenic, mercury, heavy metals and other toxins that pollution control equipment filters out of smokestacks. Across the country, over 130 million tons of CCW are being stored in surface waste ponds, impoundments and abandoned mines.

Our company's electricity generation mix is 54% coal, 17% Gas, 4% Renewables, and 26% Purchased power/capacity agreements.

According to the company, our company operates CCW impoundment sites. CCW is therefore a significant issue for our company.

In 2007, the U.S. Environmental Protection Agency (EPA) published a draft risk assessment that found extremely high risks to human health from the disposal of CCW in waste ponds and landfills. EPA's analyses of the behavior of CCW in unlined disposal sites predict that some metals will migrate and contaminate nearby groundwater to levels extremely dangerous to people.

The EPA has found ample evidence at over 60 sites in the U.S. that CCW has polluted ground and surface waters.

EPA has identified over 580 CCW impoundment facilities around the country. At least 49 of these have been labeled "high hazard potential" sites where a dam breach and subsequent spill of CCW material would likely result in a loss of human life and significant environmental consequences.

Recent reports by the New York Times and others have drawn attention to the impactful presence of CCW in the nation's air and waterways, through leakage from CCW impoundments and through direct discharge to surrounding rivers and streams.

The Tennessee Valley Authority's (TVA) 1.1 billion gallon CCW spill in December 2008 that covered over 300 acres in eastern Tennessee with toxic sludge highlights the serious environmental risks associated with storing CCW. TVA estimates a total cleanup cost of $1.2 billion. This figure does not contain the extensive litigation costs that ensued, including the large class action lawsuit filed against TVA in February 2009.

EPA officials have indicated that the agency will determine by the end of 2009 whether certain power plant by-products such as coal ash should be treated as hazardous waste, which would subject CCW to stricter regulations.

RESOLVED: Shareholders request that the board prepare a report, at reasonable cost and omitting proprietary information, on the company's efforts, above and beyond legal compliance, to reduce environmental and health hazards associated with coal combustion waste ponds, impoundments and mines, and how those efforts reduce risks to

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company's finance and operations. This report should be available to shareholders by August 2010.

Company Response

The board of directors recommends a vote "against" this proposal.

Our company and Montana-Dakota Utilities Co., a division of our company ("Montana-Dakota"), are committed to environmental stewardship and compliance with all applicable environmental laws and regulations.

Our company has three primary environmental goals:

- minimize waste and maximize resources
- support environmental laws and regulations that are based on sound science and cost-effective technology and
- comply with or exceed all applicable environmental laws, regulations and permit requirements.

Montana-Dakota's electric operations are subject to federal, state and local laws and regulations providing for air, water and solid waste pollution control; federal health and safety regulations; and state hazard communication standards.

The Environmental Protection Agency ("EPA") has previously determined that fossil fuel combustion wastes, including coal combustion waste ("CCW"), did not warrant regulation as a hazardous waste and exempted them from regulation under Subtitle C (hazardous waste) of the Resource Conservation and Recovery Act ("RCRA"). However, CCW disposed of in landfills and surface impoundments is regulated under Subtitle D (solid waste regulations) of the RCRA, and CCW used as minefill is regulated under Subtitle D and/or under the Surface Mining Control and Reclamation Act. The EPA announced its intention to propose new regulations in December 2009 governing management and storage of CCW in landfills and surface impoundments and to determine whether to continue to regulate CCW as a non-hazardous solid waste under Subtitle D or to designate it as hazardous and regulate it under Subtitle C of the RCRA. In December 2009, however, the EPA announced that it was deferring taking action on this for a short period of time due to the complexity of the analysis. The EPA has also announced its intention to revise existing standards under the Clean Water Act, which would include discharge from CCW ponds.

Four of Montana-Dakota's nine existing electric generating stations have steam turbines using coal for fuel. Montana-Dakota will also obtain electricity from Wygen III, a coal-fired electric generating station, when it becomes operational in spring 2010. Two stations, Coyote and Heskett, are located in North Dakota; Big Stone is located in South Dakota; Lewis & Clark is located in Montana; and Wygen III is located in Wyoming. Montana-Dakota is the owner and operator of Heskett and Lewis & Clark and has a 25 percent interest in Coyote, a 22.7 percent ownership interest in Big Stone and a 25 percent interest in Wygen III. CCW at these facilities is managed either in a wet state in ponds with dry disposal, or entirely in a dry state.

The states of North Dakota, South Dakota, and Wyoming have regulations relating to CCW that far exceed any current federal regulations. North Dakota, South Dakota, and Wyoming require facilities located within each state - Coyote and Heskett in North Dakota, Big Stone in South Dakota, and Wygen III in Wyoming - to obtain permits for managing CCW impoundments and for long-term CCW disposal. The permits for each facility require that impoundments for CCW be appropriately designed and that ground water be monitored. Site staff and state environmental agency staff routinely inspect each site. Annual reports for these facilities, summarizing ground water

results and activities conducted at these sites, are submitted to each respective regulatory agency: North Dakota Department of Health, South Dakota Department of Environment and Natural Resources, and Wyoming Department of Environmental Quality.

While the state of Montana has no requirements at this time for managing CCW, Montana-Dakota has adopted what it considers to be “best practices” at the Lewis & Clark Station, where it manages CCW in ponds and dewaters the waste prior to ultimate dry disposal at a naturally clay lined disposal area adjacent to the mine from which the plant receives its coal.

The ponds were designed and constructed under the supervision of a consulting professional engineer, requiring liners (clay or high density polyethylene), and appropriate stability and erosion prevention measures. There are ground water monitoring wells, which are sampled semiannually.

There are also weekly visual inspections of the ponds by plant technicians and a biennial visual inspection by the Montana Department of Environmental Quality Water Protection Bureau. The yard crews inspect the ash handling system daily, and in winter, the inspections are conducted twice daily.

The board of directors respects our stockholders' interest in environmental and health matters. However, the board believes that Montana-Dakota has already taken appropriate actions to manage its CCW and that the investment of human and financial resources that would be required to produce such a report would not be a necessary or prudent use of stockholder assets.

Therefore, the board of directors recommends a vote "against" this proposal.

Approval requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The following compensation discussion and analysis may contain statements regarding corporate performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. We specifically caution investors not to apply these statements to other contexts.

Introduction

In this compensation discussion and analysis, we discuss our compensation objectives, our decisions, and the reasons for our decisions relating to 2009 compensation for our named executive officers.

For 2009, our named executive officers were Terry D. Hildestad, Vernon A. Raile, John G. Harp, William E. Schneider, and Steven L. Bietz. Mr. Bietz, president and chief executive officer of WBI Holdings, Inc., is a named executive officer for the first time.

Each year we conduct a strategic analysis to identify opportunities and challenges associated with the operating environments in which we do business. Our strategy is to apply our expertise in three core lines of business – energy, construction materials, and utility resources – to increase market share, increase profitability, and enhance stockholder value through:

- organic growth as well as a continued disciplined approach to the acquisition of well-managed companies and properties

- the elimination of system-wide cost redundancies through increased focus on integration of operations and standardization and consolidation of various support services and functions

across companies within the organization and

- the development of projects that are accretive to earnings per share and return on invested capital.

Objectives of our Compensation Program

We structure our compensation program to help retain and reward the executive officers who we believe are critical to our long-term success. We have a written executive compensation policy for our Section 16 officers, including all our named executive officers. Our policy has the following stated objectives:

- recruit, motivate, reward, and retain the high performing executive talent required to create superior long-term total stockholder return in comparison to our peer group
- reward executives for short-term performance as well as the growth in enterprise value over the long-term
- provide a competitive package relative to industry-specific and general industry comparisons and internal equity, as appropriate, and
- ensure effective utilization and development of talent by working in concert with other management processes – for example, performance appraisal, succession planning, and management development.

We pay/grant

- base salaries in order to provide executive officers with sufficient, regularly-paid income and attract, recruit, and retain executives with the knowledge, skills, and abilities necessary to successfully execute their job duties and responsibilities
- annual incentives in order to be competitive from a total remuneration standpoint and ensure focus on annual financial and operating results and
- long-term incentives in order to be competitive from a total remuneration standpoint and ensure focus on stockholder return.

If earned, incentive compensation, which consists of annual cash incentive awards and three-year performance share awards under our Long-Term Performance-Based Incentive Plan, makes up the greatest portion of our named executive officers' total compensation. The compensation committee believes incentive compensation that comprised approximately 61% to 71% of total target compensation for the named executive officers for 2009 is appropriate because:

- our named executive officers are in positions to drive, and therefore bear high levels of responsibility for, our corporate performance
- incentive compensation is more variable than base salary and dependent upon our performance
- variable compensation helps ensure focus on the goals that are aligned with our overall strategy and
- the interests of our named executive officers will be aligned with those of our stockholders by making a majority of the named executive officers' target compensation contingent upon results that are beneficial to stockholders.

The following table shows the allocation of total target compensation for 2009 among the individual components of base salary, annual incentive, and long-term incentive:

Name	% of Total Target Compensation	% of Total Target Compensation Allocated to Incentives		
		Annual (%)	Long-Term (%)	Annual +

	Allocated to Base Salary (%)			Long-Term (%)
Terry D. Hildestad	28.6	28.6	42.8	71.4
Vernon A. Raile	39.2	25.5	35.3	60.8
John G. Harp *	39.2	25.5	35.3	60.8
William E. Schneider	39.2	25.5	35.3	60.8
Steven L. Bietz	39.2	25.5	35.3	60.8

* The percentages listed for Mr. Harp exclude the additional incentive opportunity of $200,000 in 2009, which is discussed in greater detail under the heading “John G. Harp’s Additional 2009 Incentive.” Including the additional incentive opportunity would yield the following percentages: Base Salary, 33.4%; Annual Incentive, 36.5%; Long-Term Incentive, 30.1%; and Annual + Long-Term, 66.6%.

In order to reward long-term growth as well as short-term results, the compensation committee establishes incentive targets that emphasize long-term compensation as much as or more than short-term compensation for all Section 16 officers. The annual incentive targets for 2009 range from 30% to 100% of base salary and the long-term incentive targets range from 30% to 150% of base salary, depending on the executive's salary grade. Generally, our approach is to allocate a higher percentage of total target compensation to the long-term incentive than to the short-term incentive for our higher level executives, since they are in a better position to influence our long-term performance.

Additionally, the long-term incentive, if earned, is paid in company common stock. These awards, combined with our stock ownership guidelines, promote ownership of our stock by the named executive officers. The compensation committee believes that, as stockholders, the named executive officers will be motivated to consistently deliver financial results that build wealth for all stockholders over the long-term.

We also offer our Section 16 officers, including all of our named executive officers, benefits under our pension plans and our non-qualified defined benefit retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. Historically, we have provided these programs because they have been instrumental in retaining executive talent; both have vesting requirements which call for minimum lengths of service to earn the full benefits. However, legislative changes relating to pension plans and cost reduction initiatives led to changes in both the pension plans and the SISP. The SISP was also changed to ensure the reductions in defined benefit retirement plans were consistent between executive and non-executive employees. Specifically, benefit accruals under our pension plans ceased after December 31, 2009. We discuss the modifications to both the pension plans and the SISP in the narrative following the "Pension Benefits for 2009" table.

All of our named executive officers have change of control employment agreements. The change of control employment agreements define "change of control" to include consummation of a merger or similar transaction rather than merely stockholder approval of the merger.

We believe it is important to encourage our executive officers to continue working for us during any change of control transaction periods and to provide severance payments and benefits if employment is terminated for no fault of the officer following a change of control. These agreements provide a measure of job and financial security so that potentially disruptive transactions do not affect the officers' judgment when working on behalf of the company and its stockholders prior to and after a change of control. We do not view the change of control agreements as additional compensation and do not take them into account when determining the amount of compensation provided because the events required to trigger these payments and benefits may never occur.

In addition to these agreements, the Long-Term Performance-Based Incentive Plan provides for accelerated vesting and payment of performance awards at the time of a change of control. In 2009, we amended the plan's "change of control" definition so that vesting and payment of awards are not triggered prematurely. The compensation committee believes that these protections are necessary to reassure the officers that they will not lose prior incentive awards or otherwise be adversely affected by a change of control. We discuss the amendments to the plan's change of control definition in "Potential Payments upon Termination or Change of Control."

Role of Compensation Consultants and Management

Role of Compensation Consultants

In 2008, the compensation committee retained Towers Perrin, a nationally recognized consulting firm, to assess the competitive pay levels for base salary and incentive compensation for each Section 16 officer position and to assist the compensation committee in establishing competitive 2009 compensation targets for our Section 16 officers. The assessment included identifying material changes to the positions analyzed, updating competitive compensation

information, gathering and analyzing relevant general and industry-specific survey data, and updating the base salary structure. Towers Perrin assessed competitive pay levels for base salary, total annual cash, which is base salary plus annual incentives, and total direct compensation, which is the sum of total annual cash and the expected value of long-term incentives. They compared our positions to like positions contained in general industry compensation surveys, industry-specific compensation surveys and, for our chief executive officer, the chief executive officers in our performance graph peer group. The compensation surveys used by Towers Perrin were:

Survey*	Number of Companies Participating (#)	Median Number of Employees (#)	Number of Publicly-Traded Companies (#)(1)	Median Revenue (000s) ($)
Towers Perrin's Executive Compensation Database	395	18,529	283	5,730,000
Towers Perrin's Energy Services Industry Executive Compensation Database	91	3,300	63	2,960,000
Effective Compensation, Inc.'s Oil & Gas Exploration and Production Survey	119	140	69	247,000
Mercer's Energy Compensation Survey	217	610	173	774,172
Watson Wyatt's Report on Top Management Compensation	2,309	(2)	(2)	(2)

(1) For the Towers Perrin Executive Compensation Database, the number listed in the table is the number of companies reporting market capitalization. For the Towers Perrin Energy Services Industry Executive Compensation Database, the number listed in the table is the number of companies reporting three-year stockholder return.

(2) The 2,309 organizations participating in the 2007/2008 Watson Wyatt Report included 368 organizations with 2,000 to 4,999 employees; 298 organizations with 5,000 to 9,999 employees; 309 organizations with 10,000 to 19,999 employees; and 372 organizations with 20,000 or more employees. Watson Wyatt did not provide a revenue breakdown or the number of publicly-traded companies participating in its survey. Towers Perrin utilized the 2007/2008 survey and aged the data to January 1, 2009.

*The information in the table is based solely upon information provided by the publishers of the surveys and is not deemed filed or a part of this compensation discussion and analysis for certification purposes.

Our revenues for 2007, 2008, and 2009 were approximately $4.2 billion, $5.0 billion, and [•] billion, respectively.

In addition to the above compensation surveys, for the chief executive officer comparison, Towers Perrin used information for the chief executive officers at the following companies, which comprised our performance graph peer group in July of 2007:

- Alliant Energy Corporation
- Berry Petroleum Company
- Black Hills Corporation
- Comstock Resources, Inc.
- Dycom Industries, Inc.
- EMCOR Group, Inc.
- Encore Acquisition Company
- EQT Corporation (formerly Equitable Resources, Inc.)
- Florida Rock Industries, Inc.
- Granite Construction Inc.
- Martin Marietta Materials, Inc.
- National Fuel Gas Co.
- Northwest Natural Gas Company
- NSTAR
- OGE Energy Corp.
- ONEOK, Inc.
- Quanta Services, Inc.
- Questar Corporation
- SCANA Corporation
- Southwest Gas Corporation
- St. Mary Land & Exploration Company
- Swift Energy Company
- U.S. Concrete, Inc.
- Vectren Corporation
- Vulcan Materials Company
- Whiting Petroleum Corporation

Role of Management

The chief executive officer played an important role in recommending 2009 compensation to the committee for the other named executive officers. The chief executive officer attended compensation committee meetings; however, he was not present during discussions regarding his compensation. In addition, he assessed the performance of the named executive officers and worked with the human resources department and compensation consultants to recommend:

- base salary grades and individual salaries
- annual and long-term incentive targets and
- increases in the level of the SISP benefits to current participants.

Our human resources personnel also supported the chief executive officer and the compensation committee by:

- working with the outside compensation consultants and the chief executive officer on the determination of recommended salary grades, which have associated annual base salary ranges and incentive targets
- reviewing recommended salary increases and incentive targets submitted by executive officers for officers reporting to them for reasonableness and alignment with company or business unit objectives and to help ensure internal equity and
- designing and updating annual and long-term incentive programs.

Once performance goals are approved by the compensation committee, the committee generally does not modify the goals. However, if major unforeseen changes in economic and environmental conditions or other significant factors beyond the control of management substantially affected their ability to achieve the specified performance goals, the compensation committee, in consultation with the chief executive officer, may modify the performance goals. Such goal modifications will only be considered in years of unusually adverse or favorable external conditions.

Internal Equity – Relative Value of Named Executive Officer Positions

From an internal equity standpoint, the compensation committee considers, upon recommendation of the chief executive officer, the relative value of each named executive officer position when making compensation decisions. A position's relative value is determined by considering:

- participation on our management policy committee, which is the entity responsible for setting corporate-wide operating and management policies and procedures as well as our strategic direction
- the position's responsibilities relative to our total earnings, use of invested capital, and the stable generation of earnings and cash flow and
- the position's impact on key strategic initiatives.

This consideration impacts the assignment of a salary grade, short-term incentive targets, and long-term incentive targets. The compensation committee may make adjustments from competitive data in one or more of these items to ensure the pay differences between the chief executive officer and the other named executive officers are reasonable in their judgment in light of the internal equity factors described above. For example, the compensation committee has historically assigned a long-term incentive target percentage to the chief executive officer position that is lower than the competitive level indicated through market data. The committee's rationale is to have the chief executive officer's compensation closer to the compensation of his direct reports than what the market data would otherwise indicate.

To test the reasonableness of the company's approach on pay equity, the compensation committee measured the chief executive officer's compensation as a multiple of the compensation paid to our other four named executives, then

compared these multiples to competitive pay information provided by Towers Perrin. The chart below shows the company's pay multiples and the competitive pay multiples.

We calculated the four multiples in the chart by dividing our chief executive officer's target total direct compensation by the target total direct compensation of each of our four named executives. We calculated the four competitive pay multiples by dividing the target total direct compensation for the chief executive officer position, as provided by Towers Perrin, by the target total direct compensation of each position similar to each of our four named executives, as provided by Towers Perrin. For purposes of this comparison, target total direct compensation consists of base salary plus target annual incentive plus target long-term incentive.

The company's chief executive officer multiples are less than chief executive officer pay multiples as calculated with competitive data*. The committee views the lower multiples as support for the belief that compensation targets among the named executives are equitably distributed.

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*The information in the chart showing chief executive officer pay multiples from competitive data is based solely upon information provided by the publishers of the compensation surveys discussed earlier and is not deemed filed or a part of this compensation discussion and analysis for certification purposes.

Decisions for 2009

The compensation committee, in conjunction with the board of directors, determined all compensation for each named executive officer for 2009 and set overall and individual compensation targets for the three components of compensation — base salary, annual incentive, and long-term incentive. The compensation committee made recommendations to the board of directors regarding compensation of all Section 16 officers, and the board of directors then approved the recommendations.

The compensation committee reviewed competitive executive compensation data from Towers Perrin and established salary grades at its August 2008 meeting. At the November 2008 meeting, it established individual base salaries, target annual incentive award levels, and target long-term incentive award levels for 2009. At the February meetings of the compensation committee and the board of directors, annual and long-term incentive awards were determined, along with the payouts based on performance from the recently completed performance period for prior annual and long-term awards. The February meetings occur after the release of earnings for the prior year.

Salary Grades for 2009

The compensation committee determines the named executive officers' base salaries and annual and long-term incentive targets by reference to salary grades. Each salary grade has a minimum, midpoint, and maximum annual salary level with the midpoint targeted at approximately the 50th percentile of data provided by Towers Perrin for positions in the salary grade. The compensation committee may adjust the salary grades away from the 50th percentile in order to balance the

external market data with internal equity. The salary grades also have annual and long-term incentive target levels, which are expressed as a percentage of the individual's actual annual salary. We generally place named executive officers into a salary grade based on historical classification of their positions; however, the compensation committee, at its August meeting, reviews each classification and may place a position into a different salary grade if it determines that the targeted competitive compensation for the position changes significantly or the executive's responsibilities and/or performance warrants a different salary grade. The committee also considers, upon recommendation from the chief executive officer, a position's relative value as discussed above.

Our named executive officers' salary grade classifications are listed below along with the 2009 base salary ranges associated with each classification:

			2009 Base Salary (000s)		
Position	Grade	Name	Minimum ($)	Midpoint ($)	Maximum ($)
President and CEO	K	Terry D. Hildestad	620	775	930
Executive Vice President, Treasurer and CFO	J	Vernon A. Raile	312	390	468
President and CEO, MDU Construction Services Group, Inc.	J	John G. Harp	312	390	468
President and CEO, Knife River Corporation	J	William E. Schneider	312	390	468
President and CEO, WBI Holdings, Inc.	J	Steven L. Bietz	312	390	468

The executive vice president, treasurer and chief financial officer and the president and chief executive officers of Knife River Corporation, MDU Construction Services Group, Inc., and WBI Holdings, Inc. are assigned to salary grade "J." The committee believes that from an internal equity standpoint, these positions should carry the same salary grade. The salary grades for our named executive officers remained unchanged for 2009.

The compensation committee determines where, within each salary grade, an individual's base salary should be. The compensation committee believes that having a range of possible salaries within each salary grade gives the committee the flexibility to assign different salaries to individual executives within a salary grade to reflect one or more of the following:

- our performance on financial measurements as compared to our performance graph peer group
- executive's performance on financial goals
- executive's performance on non-financial goals, including the results of the performance assessment program
- executive's experience, tenure, and future potential
- position's relative value compared to other positions within the company
- relationship of the salary to the competitive salary market value

- internal equity with other executives and
- economic environment of the corporation or executive's business unit.

Our performance assessment program rates performance in the following areas, which help determine actual salaries within the range of salaries associated with the executive's salary grade:

- visionary leadership
- strategic thinking
- leading with integrity
- managing customer focus
- financial responsibility
- achievement focus
- judgment
- planning and organization
- leadership
- mentoring
- relationship building
- conflict resolution
- organizational savvy
- safety
- Great Place to Work®

An executive's overall performance in our performance assessment program is rated on a scale of one to five, with five as the highest rating denoting distinguished performance. An overall performance above 3.75 is considered commendable performance.

The chief executive officer assessed each named executive officer's performance under the performance assessment program, and the compensation committee, as well as the full board of directors, assessed the chief executive officer's performance.

Base Salaries of the Named Executive Officers for 2009

Terry D. Hildestad

Mr. Hildestad has served as chief executive officer since August 2006. For 2009, the committee increased his salary by 7.1%, from $700,000 to $750,000. The reasons for Mr. Hildestad's 2009 increase were:

- the company's 2008 forecasted financial results (based on 9 months' actual plus 3 months' estimate) on earnings per share (EPS) and return on invested capital (ROIC) were higher than 2008 targets by 12.4% and 6.6%, respectively

- the company's ROIC for the twelve months ended June 30, 2008 was 19.1% higher than the median ROIC for the performance graph peer companies over the same time period on a continuing operations basis

- the board recognized Mr. Hildestad's strong leadership during difficult economic times, as well as fostering a culture of integrity throughout the organization, and

- moving Mr. Hildestad's salary closer to the 2009 salary grade midpoint of $775,000.

Vernon A. Raile

Mr. Raile has served as executive vice president, treasurer and chief financial officer since January 2006. Mr. Raile's 2009 base salary was set at $450,000, representing an increase of 12.5% over his 2008 base salary of $400,000. The committee set his 2009 base salary at $450,000, above the midpoint of his salary grade, due to his commendable performance assessment rating, his years of service, and the results associated with these key achievements:

- the company's 2008 forecasted financial results (based on 9 months' actual plus 3 months' estimate) on EPS and ROIC were higher than 2008 targets by 12.4% and 6.6%, respectively

- the company's ROIC for the twelve months ended June 30, 2008 was 19.1% higher than the median ROIC for the performance graph peer companies over the same time period on a continuing operations basis, and

- key financing initiatives that were undertaken and Mr. Raile's experience and skill.

John G. Harp

Mr. Harp has served as president and chief executive officer of MDU Construction Services Group, Inc. since September 2004. For 2009, his base salary was set at $450,000, representing an increase of 12.5% over his 2008 base salary of $400,000. The committee set his 2009 base salary at $450,000, above the midpoint of his salary grade, due to

his commendable performance assessment rating and due to results associated with these key achievements:

- MDU Construction Services Group, Inc.'s 2008 forecasted financial results (based on 9 months' actual plus 3 months' estimate) on EPS and ROIC were higher than 2008 targets by 74.0% and 59.1%, respectively

- MDU Construction Services Group, Inc.'s ROIC for the twelve months ended June 30, 2008 was 115.9% higher than the median ROIC of construction services companies in our performance graph peer group, and

- Mr. Harp's strong grasp of all aspects of MDU Construction Services Group, Inc.'s business, including operations, collections, bidding, and personnel.

William E. Schneider

Mr. Schneider has served as president and chief executive officer of Knife River Corporation since May 2005. Mr. Schneider's 2009 base salary was maintained at $447,400, representing no increase from 2008. The committee did not grant Mr. Schneider a base salary increase because Knife River Corporation's 2008 nine-month financial results were less than target and because the committee wished to be consistent with the overall wage freeze imposed across Knife River Corporation.

Steven L. Bietz

Mr. Bietz has served as president and chief executive officer of WBI Holdings, Inc. since March 2006. For 2009, his base salary was set at $350,000, representing an increase of 11.8% over his 2008 base salary of $313,100. The committee set his 2009 base salary at $350,000, below the midpoint of his salary grade, due to his commendable performance assessment rating and due to results associated with these key achievements:

- WBI Holdings, Inc.'s 2008 forecasted financial results (based on 9 months' actual plus 3 months' estimate) on EPS and ROIC were higher than 2008 targets by 37.1% and 30.9%, respectively

- The ROIC associated with the oil and natural gas exploration and production unit of WBI Holdings, Inc. for the twelve month period ended June 30, 2008 was 58.4% higher than the median ROIC of oil and natural gas exploration and production companies in our performance graph peer group, and

- Mr. Bietz's leadership in the large-scale development of the Bakken Field.

The following table shows each named executive officer's base salary for 2008 and 2009 and the percentage change.

Name	Base Salary for 2008 (000s) ($)	Base Salary for 2009 (000s) ($)	% Change (%)
Terry D. Hildestad	700.0	750.0	7.1
Vernon A. Raile	400.0	450.0	12.5
John G. Harp	400.0	450.0	12.5
William E. Schneider	447.4	447.4	0.0
Steven L. Bietz	313.1	350.0	11.8

2009 Annual Incentives

What the Performance Measures Are and Why We Chose Them

The compensation committee develops and reviews financial and other corporate performance measures to help ensure that compensation to the executives reflects the success of their respective business unit and/or the corporation, as well as the value provided to our stockholders. For Messrs. Hildestad and Raile, the performance measures for annual incentive awards are our annual return on invested capital results compared to target and our annual earnings per share results compared to target. For Messrs. Schneider, Harp, and Bietz, the performance measures for annual incentive awards are their respective business unit's annual return on invested capital results compared to target and their respective business unit's allocated

earnings per share results compared to target. The 2009 safety results of WBI Holdings, Inc. was also a measure for Mr. Bietz's 2009 annual incentive.

The compensation committee believes earnings per share and return on invested capital are very good measurements in assessing company performance from a financial standpoint. Earnings per share is a generally accepted accounting principle measurement and is a key driver of stockholder return over the long-term. Return on invested capital measures how efficiently and effectively management deploys its capital. Sustained returns on invested capital in excess of our cost of capital create wealth for our stockholders.

Allocated earnings per share for a business unit is calculated by dividing that business unit's earnings by the business unit's portion of the total company weighted average shares outstanding. Return on invested capital for the company is calculated by dividing our earnings, without regard to after tax interest expense and preferred stock dividends, by our average capitalization for the calendar year. Return on invested capital for a business unit is calculated by dividing the business unit's earnings, without regard to after tax interest expense and preferred stock dividends, by the business unit's average capitalization for the calendar year.

The compensation committee determines the weighting of the performance measures each year based upon recommendations from the chief executive officer. The compensation committee weighted the 2009 performance measures for return on invested capital compared to targeted results and allocated earnings per share compared to targeted results each at 50%. The compensation committee believes both measures are equally important in driving stockholder value in the short term and over time.

We limit the after-tax annual incentive compensation we will pay above the target amount to 20% of earnings in excess of planned earnings. We calculate the earnings in excess of planned earnings without regard to the after-tax annual incentive amounts above target. We measure the 20% limitation at the major business unit level for business unit executives, which include Messrs. Harp, Schneider and Bietz, and at the corporate level for corporate executives, which include Messrs. Hildestad and Raile. In 2009, the 20% limitation was calculated without regard to the noncash ceiling test impairment charge that we discuss later.

We establish our incentive plan performance targets in connection with our annual financial planning process, where we assess the economic environment, competitive outlook, industry trends, and company specific conditions to set projections of results. The committee evaluates the projected results and uses this evaluation to establish the incentive plan performance targets. The committee also considers annual improvement in the return on invested capital measure for incentive purposes to help ensure that return on invested capital will equal or exceed the weighted average cost of capital. Historically, this consideration took the form of a minimum annual increase in a business unit's and/or the company's return on invested capital incentive plan performance target(s). For 2009, the committee chose to use the stretch return on invested capital target approved by the board in the 2009 business plan rather than the required annual minimum increase in recognition of the soft economic environment and depressed commodity prices. In the committee's discretion, it may establish incentive plan performance targets higher, lower, or at the same level as the prior year's target and/or results.

What the Incentive Targets Are and Why We Chose Them

The compensation committee established the annual incentive targets as a percentage of the individual's actual base salary.

The chief executive officer's target annual incentive was 100% of his base salary. Messrs. Raile, Harp, Schneider, and Bietz's target annual incentives were 65% of their base salaries. These incentive targets were derived in part from competitive data provided by Towers Perrin and in part by the compensation committee's desire, based on internal

equity, to have a uniform annual incentive target for the business unit president and chief executive officer positions and the executive vice president, treasurer and chief financial officer position. The target annual incentives for the named executives did not change in 2009 from 2008. The award opportunities available to each named executive officer ranged from no payment if the goals were met below the 85% level to a 200% payout if the goals were met at or above the 115% level. In 2009, Mr. Bietz also had five individual goals relating to WBI Holdings, Inc.'s safety results, and each goal that was not met reduced his annual incentive award by 1%.

The table below lists each named executive officer's 2009 base salary, the 2009 annual incentive target percentage, the officer's 2009 incentive plan performance targets, the 2009 incentive plan results, and the annual incentive earned for 2009.

Name	2009 Base Salary (000s) ($)	2009 Annual Incentive Target (%)	2009 Incentive Plan Performance Targets EPS ($)	2009 Incentive Plan Performance Targets ROIC (%)	2009 Incentive Plan Results EPS ($)	2009 Incentive Plan Results ROIC (%)	2009 Annual Incentive Earned (000s) ($)
Terry D. Hildestad1	750.0	100	1.09	5.7	[•]	[•]	[•]
Vernon A. Raile1	450.0	65	1.09	5.7	[•]	[•]	[•]
John G. Harp2	450.0	65	3.17	10.2	[•]	[•]	[•]
William E. Schneider3	447.4	65	0.52	4.3	[•]	[•]	[•]
Steven L. Bietz4	350.0	65	1.69	5.6	[•]	[•]	[•]

(1) Based on earnings per share and return on invested capital for MDU Resources Group, Inc. The 2009 incentive plan results were adjusted to exclude the 2009 noncash impairment charge as discussed below.

(2) Based on allocated earnings per share and return on invested capital for MDU Construction Services Group, Inc. The amount for Mr. Harp includes an additional [•] incentive as described below.

(3) Based on allocated earnings per share and return on invested capital for Knife River Corporation.

(4) Based on allocated earnings per share and return on invested capital for WBI Holdings, Inc. The 2009 incentive plan results were adjusted to exclude the 2009 noncash impairment charge as discussed below. Also in 2009, WBI Holdings, Inc. met four of five safety goals, and therefore Mr. Bietz's 2009 Annual Incentive Earned reflects a reduction of 1% or [•].

The following table shows the changes in our performance targets and achievements for both 2008 and 2009.

Name	2008 Incentive Plan Performance Targets EPS ($)	2008 Incentive Plan Performance Targets ROIC (%)	2008 Incentive Plan Results EPS ($)	2008 Incentive Plan Results ROIC (%)	2009 Incentive Plan Performance Targets EPS ($)	2009 Incentive Plan Performance Targets ROIC (%)	2009 Incentive Plan Results EPS ($)	2009 Incentive Plan Results ROIC (%)
Terry D. Hildestad1	1.77	9.1	1.59	8.0	1.09	5.7	[•]	[•]
Vernon A. Raile1	1.77	9.1	1.59	8.0	1.09	5.7	[•]	[•]
John G. Harp2	2.73	10.5	5.03	17.7	3.17	10.2	[•]	[•]
	1.03	7.5	0.42	3.5	0.52	4.3	[•]	[•]

William E. Schneider3								
Steven L. Bietz4	-	-	-	-	1.69	5.6	[•]	[•]

(1) Based on earnings per share and return on invested capital for MDU Resources Group, Inc. The 2009 incentive plan results were adjusted to exclude the 2009 noncash impairment charge as discussed below.

(2) Based on allocated earnings per share and return on invested capital for MDU Construction Services Group, Inc.

(3) Based on allocated earnings per share and return on invested capital for Knife River Corporation.

(4) Based on allocated earnings per share and return on invested capital for WBI Holdings, Inc. The 2009 incentive plan results were adjusted to exclude the 2009 noncash impairment charge as discussed below.

2009 Annual Incentive Results and the Impact of the 2009 Noncash Impairment Charges

The company uses the full-cost method of accounting for its natural gas and oil activities. Under this method, the company is required to perform quarterly "ceiling tests" to compare the present value of the future net cash flow from proven reserves to the book value of those reserves at the balance sheet date.

Due to the low energy prices at the beginning of 2009, the compensation committee at the February 2009 meeting decided to disregard, for purposes of calculating 2009 annual incentives, the effects of any potential noncash ceiling test impairment charges related to the company's natural gas and oil properties. The committee's rationale for the decision was:

- operating cash flows are not affected by a ceiling test charge
- the underlying value of the business is not affected by a ceiling test charge,
- the ceiling test charge would be driven by a single day point in time price to value natural gas and oil reserves, which may not be reflective of the underlying long-term value of the assets, and
- recognition of the Securities and Exchange Commission's decision to change the "ceiling test" rules from using prices from the last day of the reporting period to a 12-month average of prices on the first day of the month during the reporting period effective December 31, 2009.

On March 31, 2009, the company recorded a $384.4 million after-tax noncash charge. If the committee had not excluded the noncash charge, our named executives would not have received an incentive payment for 2009.

Terry D. Hildestad's 2009 Annual Incentive Award

As president and chief executive officer of MDU Resources Group, Inc., Mr. Hildestad's 2009 incentive plan performance targets were based on our earnings per share and return on invested capital. We set his 2009 earnings per share target level and return on invested capital below his 2008 targets and actual results to reflect significantly lower commodity prices and the continued effects of the soft economic activity in the construction industries.

For 2009 incentive plan results, the company's 2009 earnings per share and return on invested capital results were [•] and [•] of their respective 2009 targets. Therefore, we paid [•] to Mr. Hildestad as a 2009 incentive.

Vernon A. Raile's 2009 Annual Incentive Award

As executive vice president, treasurer and chief financial officer of MDU Resources Group, Inc., Mr. Raile's 2009 incentive plan performance targets were based on our earnings per share and return on invested capital. As discussed above for Mr. Hildestad, we set his 2009 earnings per share target level and return on invested capital below his 2008 targets and actual results to reflect significantly lower commodity prices and the continued effects of the soft economic activity in the construction industries.

For 2009 incentive plan results, the company's 2009 earnings per share and return on invested capital results were [•] and [•] of their respective 2009 targets. Therefore, we paid [•] to Mr. Raile as a 2009 incentive.

John G. Harp's 2009 Annual Incentive Award

As president and chief executive officer of MDU Construction Services Group, Inc., we based Mr. Harp's 2009 incentive plan performance targets on allocated earnings per share and return on invested capital for MDU

Construction Services Group, Inc. We set his 2009 earnings per share target level above his 2008 earnings per share target level to reflect the 2009 planned dividend to MDU Resources Group, Inc., which we projected would reduce the allocated shares for MDU Construction Services Group, Inc. and therefore increase its allocated earnings per share. We set the 2009 return on invested capital target slightly lower than the 2008 return on invested capital target to reflect lower anticipated earnings. The 2009

earnings per share and return on invested capital targets were lower than the actual results for 2008 to reflect the downturn in the Las Vegas construction market.

For 2009 incentive plan results, MDU Construction Services Group, Inc.'s 2009 earnings per share results and return on invested capital results were [•] and [•] of their respective 2009 targets. These results would normally equate to an incentive payment of [•]. Therefore, we paid Mr. Harp [•] as a 2009 annual incentive.

John G. Harp's Additional 2009 Incentive

In addition to the 2009 annual incentive award, Mr. Harp had the opportunity to earn an additional incentive, which the compensation committee structured as follows:

Construction Services Group, Inc.'s 2009 Return on Invested Capital (ROIC) as compared to Construction Services Group, Inc.'s 2009 Weighted Average Cost of Capital (WACC)	Additional Incentive Amount
2009 ROIC is less than 100 basis points above 2009 WACC	$0
2009 ROIC is 100 to 199 basis points above 2009 WACC	$100,000
2009 ROIC is 200 basis points or more above 2009 WACC	$200,000

Throughout 2009, MDU Construction Services Group, Inc. accumulated significant amounts of cash through effective working capital management. These amounts exceeded the amounts anticipated at the beginning of 2009, resulting in the reduction of all of its commercial paper and more dividends to MDU Resources Group, Inc. than originally projected. In addition, MDU Construction Services Group, Inc. was able to lend the remaining excess cash to other MDU Resources subsidiaries, reducing debt at the MDU Resources Group, Inc. level. Although the remaining excess cash did not lower the invested capital at MDU Construction Services Group, Inc. on a stand alone basis, it did lower the overall invested capital of MDU Resources Group, Inc. Therefore, the compensation committee, upon recommendation from the chief executive officer, approved calculating MDU Construction Services Group, Inc.'s 2009 return on invested capital to reflect the excess cash accumulated. The committee's rationale for this decision was:

- recognition of, and rewarding for, effectively managing accounts receivable through timely collections and

- MDU Resources Group, Inc. benefited from the excess cash through lower average commercial paper balances in 2009.

MDU Construction Services Group, Inc.'s 2009 return on invested capital for purposes of determining Mr. Harp's additional 2009 incentive amount was [•] compared to its 2009 weighted average cost of capital of [•]. Because the 2009 return on invested capital of [•] was [•] the reported 2009 weighted average cost of capital of [•], Mr. Harp received [•] in additional incentive for 2009.

William E. Schneider's 2009 Annual Incentive Award

As president and chief executive officer of Knife River Corporation, Mr. Schneider's 2009 incentive plan performance targets were based on allocated earnings per share and return on invested capital for Knife River Corporation. We set his 2009 targets for allocated earnings per share and return on invested capital lower than his 2008 targets and higher than 2008 actual results. The compensation committee arrived at these targets based on the current economic softness in the construction markets, partially offset by a significant reduction in Knife River Corporation's cost structure.

For 2009, Knife River Corporation's 2009 earnings per share and return on invested capital results were [•] and [•] of their respective 2009 targets. Therefore, we paid Mr. Schneider [•] as a 2009 annual incentive.

Steven L. Bietz's 2009 Annual Incentive Award

As president and chief executive officer of WBI Holdings, Inc., Mr. Bietz's 2009 incentive plan performance targets were based on allocated earnings per share and return on invested capital for WBI Holdings, Inc. We set his 2009 earnings per share and return on invested capital target levels below his 2008 target and 2008 actual results largely to reflect lower commodity prices and lower anticipated production due to reduced capital expenditures.

For 2009 incentive plan results, the company's 2009 earnings per share and return on invested capital results were [•] and [•] of their respective 2009 targets. These results equated to an incentive of [•], which was reduced by [•] or 1% due to not achieving one of the five 2009 safety goals. Therefore, we paid [•] to Mr. Bietz as a 2009 incentive.

Deferral of Annual Incentive Compensation

We provide executives the opportunity to defer receipt of earned annual incentives. If an executive chooses to defer his or her annual incentive, we will credit the deferral with interest at a rate determined by the compensation committee. For 2009, the committee discontinued using the prime rate in favor of using Moody's U.S. Long-Term Corporate Bond Yield Average for "A" rated companies. The committee's reasons for using this approach recognized:

- incentive deferrals are a low-cost source of capital for the company and
- incentive deferrals are unsecured obligations and therefore carry a higher risk to the executives.

2009 Long-Term Incentives

Awards Granted in 2009 under the Long-Term Performance-Based Incentive Plan

We use the Long-Term Performance-Based Incentive Plan, which is an omnibus plan and has been approved by our stockholders, for long-term incentive compensation. We discontinued the use of stock options in 2003 and now use performance shares as the only form of long-term incentive compensation.

The compensation committee uses the performance graph peer group as the comparator group to determine relative stockholder return and potential payments under the Long-Term Performance-Based Incentive Plan for its 2009-2011 performance share award cycle. The companies comprising our performance graph peer group are the same companies listed above under the heading "Role of Compensation Consultants" with the exception of Florida Rock Industries, which was acquired in late 2007.

The performance measure is our total stockholder return over a three-year measurement period as compared to the total stockholder returns of the companies in our performance graph peer group over the same three-year period. The compensation committee selected this goal because it believes executive pay under a long-term, capital accumulation program such as this should mirror our long-term performance in stockholder return as compared to other public companies in our industries. Payments are made in company stock; dividend equivalents are paid in cash.

Total stockholder return is the percentage change in the value of an investment in the common stock of a company, from the closing price on the last trading day in the calendar year preceding the beginning of the performance period, through the last trading day in the final year of the performance period. It is assumed that dividends are reinvested in additional shares of common stock at the frequency paid.

As with the annual incentive target, we determined the long-term incentive target for a given position by reference to the salary grade. We derived these incentive targets in part from competitive data provided by Towers Perrin and in

part by the committee's judgment on the impact each position has on our total stockholder return. The committee also believed consistency across positions in the same salary grades and keeping the chief executive officer's long-term incentive target below a level indicated by competitive data were important from an internal equity standpoint. The 2009 long-term incentive targets for each named executive were unchanged from 2008.

On February 12, 2009, the board of directors, upon recommendation of the compensation committee, made performance share grants to the named executive officers. The compensation committee determined the target number of performance shares granted to each named executive officer by multiplying the named executive officer's 2009 base salary by his or her long-term incentive target and then dividing this product by the average of the closing prices of our stock from January 2, 2009 through January 22, 2009, as shown in the following table:

Name	2009 Base Salary to Determine Target ($)	2009 Long-Term Incentive Target at Time of Grant (%)	2009 Long-Term Incentive Target at Time of Grant ($)	Average Closing Price of Our Stock From January 2 Through January 22 ($)	Resulting Number of Performance Shares Granted on February 12 (#)
Terry D. Hildestad	750,000	150	1,125,000	20.52	54,824
Vernon A. Raile	450,000	90	405,000	20.52	19,736
John G. Harp	450,000	90	405,000	20.52	19,736
William E. Schneider	447,400	90	402,660	20.52	19,622
Steven L. Bietz	350,000	90	315,000	20.52	15,350

From 0% to 200% of the target grant will be paid out in February 2012 depending on our three-year 2009-2011 total stockholder return compared to the total three-year stockholder returns of companies in our performance graph peer group. The payout percentage will be a function of our rank against our performance graph peer group as follows:

The Company's Percentile Rank	Payout Percentage of February 12, 2009 Grant
100th	200%
75th	150%
50th	100%
40th	10%
Less than 40th	0%

Payouts for percentile ranks falling between the intervals will be interpolated. We also will pay dividend equivalents in cash on the number of shares actually earned for the performance period. The dividend equivalents will be paid in 2012 at the same time as the performance awards are paid.

Awards Paid on February 12, 2009 under the Long-Term Performance-Based Incentive Plan

We granted performance shares to our named executive officers under the Long-Term Performance-Based Incentive Plan on February 16, 2006 for the 2006 through 2008 performance period. Our total stockholder return for the 2006 through 2008 performance period was 5.46%, which corresponded to a percentile rank of 48% against our performance graph peer group. The percentile rank of 48% corresponded to a payout percentage of 82%, meaning 82% of the target shares originally granted plus dividend equivalents were paid to the named executive officers. The table below lists the shares granted on February 16, 2006, the shares paid on February 12, 2009 based on the payout percentage, and the dividend equivalents earned.

Name	Shares Granted on February 16,	Payout Percentage (%)	Shares Paid on February 12,	Dividend Equivalents ($)

	20061 (#)		20091 (#)	
Terry D. Hildestad	23,883	82	19,584	32,968
Vernon A. Raile	12,429	82	10,192	17,157
John G. Harp	10,072	82	8,259	13,903
William E. Schneider	15,285	82	12,534	21,100
Steven L. Bietz	7,018	82	5,755	9,688

(1) Shares are adjusted for the 3-for-2 stock split effective July 26, 2006.

PEER4 Analysi$: Comparison of Pay for Performance Ratios

Each year we compare our named executive officers' pay for performance ratios to the pay for performance ratios of the named executive officers in the performance graph peer group. This analysis looks at the relationship between our compensation levels and our average annual total stockholder return in comparison to the peer group over a five-year period. All data used in the analysis, including the valuation of long-term incentives and calculation of stockholder return, were compiled by Equilar, Inc., an independent service provider, which uses each company's annual filings as a basis of its data collection.

This analysis consisted of dividing what we paid our named executive officers for the years 2004 through 2008 by our average annual total stockholder return for the same five-year period to yield our pay ratio. Our pay ratio was then compared to the pay ratio of the companies in the performance graph peer group, which was calculated by dividing total direct compensation for all the proxy group executives by the sum of each company's average annual total stockholder return for the same five-year period. The results are shown in the following chart.

5 Year Total Direct Compensation to 5 Year Total Stockholder Return*

	MDU Resources Group, Inc. ($)	Performance Graph Peer Group ($)
Dollars of Total Direct Compensation1 per Point of Total Stockholder Return	5,489,386	5,390,223

(1) Total direct compensation is the sum of annual base salaries, annual incentives, the value of long-term incentives at grant and all other compensation as reported in the proxy statements. For 2006, 2007 and 2008, total direct compensation also includes the change in pension values and nonqualified deferred compensation earnings as reported in the proxy statements.

*The chart is not deemed filed or a part of this compensation discussion and analysis for certification purposes.

The results of the analysis showed that we paid our named executive officers slightly more than what the peer group companies paid their named executive officers for comparable levels of stockholder return over the five-year period. Specifically, as indicated in the chart, the data shows that we paid our named executive officers approximately $99,000 more per point of stockholder return than our performance graph peer group. We have been conducting our PEER4 Analysi$ since 2004.

Post-Termination Compensation and Benefits

Pension Plans

Effective 2006, we no longer offer defined benefit pension plans to new non-bargaining unit employees. The defined benefit plans available to employees hired before 2006 were amended to cease benefit accruals after December 31, 2009. The frozen benefit provided through our qualified defined benefit pension plans is determined by years of service and base salary. Effective 2010 for those employees who were participants in defined benefit pension plans

and for executives and other employees hired after 2006, the company offers increased company contributions to our 401(k) plan.

Supplemental Income Security Plan

Benefits Offered

We offer certain key managers and executives, including all of our named executive officers, benefits under our non-qualified retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. The SISP has a ten-year vesting schedule and was amended to add an additional vesting requirement for benefit level increases occurring on or after

January 1, 2010. The SISP provides participants with additional retirement income and death benefits. The additional retirement income may take two forms:

- a supplemental retirement benefit payable for fifteen years beginning at the later of age 65 or after employment ends. The company amended this portion of the benefit to reflect a 20% reduction in future benefit levels for employees who join the plan on or after January 1, 2010 or for current participants who receive benefit level increases on or after January 1, 2010.

- an additional retirement benefit to offset the Internal Revenue Code limitations placed on benefits payable under our qualified defined benefit pension plans. The company amended the additional retirement benefit to no longer allow new participants and to cease benefit accruals for existing participants after December 31, 2009. If eligible, the participants receive this retirement benefit after they separate from the company and until they reach age 65. In order to be eligible to receive the additional retirement benefit, participants must vest in their pension benefit, which requires five years of service, and their pension must be limited by the Internal Revenue Code. Mr. Harp has an additional qualification in that he must remain employed until age 60 in order to receive this additional retirement benefit.

A death benefit is provided if SISP participants die before their supplemental retirement benefits commence or if they elect to receive death benefits in lieu of all or a part of their supplemental retirement benefits. The death benefit is payable for 15 years.

We believe the SISP is critical in retaining the talent necessary to drive long-term stockholder value. In addition, we believe that the 10-year vesting provision of the SISP, augmented by an additional three years of vesting for benefit level increases occurring on or after January 1, 2010, helps promote retention of key executive officers.

Benefit Level Increases

The chief executive officer recommends benefit level increases to the compensation committee for participants except himself. The chief executive officer considers, among other things, the participant’s salary in relation to the salary ranges that correspond with the SISP benefit levels, the participant’s performance, the performance of the applicable business unit or the company, and the cost associated with the benefit level increase.

Each November, the compensation committee considers SISP benefit level increases for the upcoming year as recommended by the chief executive officer and also considers benefit level increases for the chief executive officer. In November 2008, Messrs. Raile, Harp, and Bietz each received an increase in their SISP benefit levels, which were effective on January 1, 2009. The benefit level increases recognized each named executive’s contribution to the success of the company and individual business unit, where applicable. The committee, however, approved the chief executive officer’s recommendation to limit the benefit increases for Messrs. Harp and Bietz to a level below the levels that corresponded to each named executive’s base salary. The chief executive officer’s rationale was to limit additional costs associated with the benefit level increases in light of the uncertain economic times. The committee believed Mr. Hildestad’s benefit level was appropriate and therefore did not grant him an increase.

In November 2009, Messrs. Harp, Schneider, and Bietz each received an increase in their SISP benefit levels which was effective on December 1, 2009. The committee’s rationale for Messrs. Harp and Bietz’s benefit level increases was recognition of their continued contribution to the financial success of the company and to bring their SISP benefit levels in line with their current salary. Mr. Schneider was awarded a benefit level increase to one level above the level corresponding to his current base salary in recognition of his leadership in the financial turnaround of Knife River

Corporation. The following table reflects our named executive officers' SISP levels, including the changes effective December 1, 2009:

Name	January 1, 2009 Annual SISP Benefits		December 31, 2009 Annual SISP Benefits	
	Survivors ($)	Retirement ($)	Survivors ($)	Retirement ($)
Terry D. Hildestad	1,025,040	512,520	1,025,040	512,520
Vernon A. Raile	548,400	274,200	548,400	274,200
John G. Harp	468,600	234,300	548,400	274,200
William E. Schneider	468,600	234,300	548,400	274,200
Steven L. Bietz	328,080	164,040	386,640	193,320

Clawback

In November 2005, we implemented a guideline for repayment of incentives due to accounting restatements, commonly referred to as a clawback policy, whereby the compensation committee may seek repayment of annual and long-term incentives paid to executives if accounting restatements occur within three years after the payment of incentives under the annual and long-term plans. Under our clawback policy, the compensation committee may require employees to forfeit awards and may rescind vesting, or the acceleration of vesting, of an award.

Impact of Tax and Accounting Treatment

The compensation committee may consider the impact of tax and/or accounting treatment in determining compensation. Section 162(m) of the Internal Revenue Code places a limit of $1 million on the amount of compensation paid to certain officers that we may deduct as a business expense in any tax year unless, among other things, the compensation qualifies as performance-based compensation, as that term is used in Section 162(m). Generally, long-term incentive compensation and annual incentive awards for our chief executive officer and those executive officers whose overall compensation is likely to exceed $1 million are structured to be deductible for purposes of Section 162(m) of the Internal Revenue Code, but we may pay compensation to an executive officer that is not deductible. All annual or long-term incentive compensation paid to our named executive officers for 2009 satisfied the requirements for deductibility.

Section 409A of the Internal Revenue Code imposes additional income taxes on executive officers for certain types of deferred compensation if the deferral does not comply with Section 409A. We have amended our compensation plans and arrangements affected by Section 409A with the objective of not triggering any additional income taxes under Section 409A.

Section 4999 of the Internal Revenue Code imposes an excise tax on payments to executives and others of amounts that are considered to be related to a change of control if they exceed levels specified in Section 280G of the Internal Revenue Code. The potential impact of the Section 4999 excise tax is addressed with the modified tax payment provisions in the change of control employment agreements, which are described earlier in this compensation discussion and analysis and later in the proxy statement under the heading "Potential Payments upon Termination or Change of Control." We do not consider the potential impact of Section 4999 or 280G when designing our compensation programs.

The compensation committee also considers the accounting and cash flow implications of various forms of executive compensation. In our financial statements, we record salaries and annual incentive compensation as expenses in the amount paid, or to be paid, to the named executive officers. For our equity awards, accounting rules also require that we record an expense in our financial statements. We calculate the accounting expense of equity awards to employees in accordance with FASB Accounting Standards Codification Topic 718.

Stock Ownership Guidelines

We instituted stock ownership guidelines on May 5, 1993, which we revised in February 2003, to encourage executives to own a multiple of their base salary in our common stock. All officers who participate in our Long-Term Performance-Based Incentive Plan are subject to the guidelines. The guidelines call for the executive to reach the multiple within five years. Unvested performance shares and other unvested equity awards do not count towards the guidelines. In 2009, the compensation committee reviewed these guidelines against the performance graph peer companies who published ownership guidelines, and determined no change was necessary. Each February, the compensation committee receives a report on the status of stock holdings by executives. The table shows the named executive officers' holdings as of December 31, 2009:

Name	Assigned Guideline Multiple of Base Salary	Actual Holdings as a Multiple of Base Salary	Number of Years at Guideline Multiple (#)
Terry D. Hildestad	4X	5.79	4.67
Vernon A. Raile	3X	2.96	4.00
John G. Harp	3X	4.06	5.25
William E. Schneider	3X	5.43	8.00
Steven L. Bietz	3X	3.95	7.33

The compensation committee may consider the guidelines and the executive's stock ownership in determining compensation. The committee, however, did not do so with respect to 2009 compensation.

Policy Regarding Hedging Stock Ownership

In our Executive Compensation Policy, we adopted a policy that prohibits executives from hedging their ownership of company common stock. Executives may not enter into transactions that allow the executive to benefit from devaluation of our stock or otherwise own stock technically but without the full benefits and risks of such ownership.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Reg. S-K, Item 402(b) with management. Based on the review and discussions referred to in the preceding sentence, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in our proxy statement on Schedule 14A.

Thomas Everist, Chairman
Karen B. Fagg
Thomas C. Knudson
Patricia L. Moss

Summary Compensation Table for 2009

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)(1)	Option Awards ($) (f)(1)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)(2)	All Other Compensation ($) (i)	Total ($) (j)
Terry D. Hildestad President and CEO	2009	750,000	—	1,117,861	—	[•]			
	2008	700,000	—	1,200,485	—	310,800			