MDU RESOURCES GROUP INC
Form DEF 14A
March 13, 2013

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.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x 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)

Payment of Filing Fee (Check the appropriate box):

x No fee required
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

1200 West Century Avenue

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

David L. Goodin
President and
Chief Executive Officer

March 13, 2013

To Our Stockholders:

Please join us for the 2013 Annual Meeting of Stockholders. The meeting will be held on Tuesday, April 23, 2013, 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 2012 Annual Meeting at which 89.72 percent of the common stock was represented in person or by proxy. We hope for an even greater representation at the 2013 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.

Brokers may not vote your shares on two of the three matters to be presented 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 February 25, 2013, 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,

David L. Goodin

Proxy Statement

MDU Resources Group, Inc.

1200 West Century Avenue
Mailing Address:
P.O. Box 5650
Bismarck, North Dakota 58506-5650
(701) 530-1000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD APRIL 23, 2013

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on April 23, 2013

The 2013 Notice of Annual Meeting and Proxy Statement and 2012 Annual Report to Stockholders are available at www.mdu.com/proxymaterials.

March 13, 2013

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 23, 2013, at 11:00 a.m., Central Daylight Saving Time, for the following purposes:

(1) Election of ten directors nominated by the board of directors for one-year terms;

(2) Ratification of the appointment of Deloitte & Touche LLP as the company s independent auditors for 2013;

(3) Approval, on a non-binding advisory basis, of the compensation of the company s named executive officers; and

(4) Transaction of any other business that may properly come before the meeting or any adjournment(s) thereof.

The board of directors has set the close of business on February 25, 2013, as the record date for the determination of common stockholders who will be entitled to notice of, and to vote at, the meeting and any adjournment(s) thereof.

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 February 25, 2013, 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

Proxy Statement

PROXY STATEMENT

The board of directors of MDU Resources Group, Inc. is furnishing this proxy statement beginning March 13, 2013, to solicit your proxy for use at our annual meeting of stockholders on April 23, 2013, and any adjournment(s) thereof. We are soliciting proxies principally by mail, but directors, officers, and employees of MDU Resources Group, Inc. or its subsidiaries may solicit proxies personally, by telephone, or by electronic media, without compensation other than their regular compensation. Okapi Partners LLC additionally will solicit proxies for approximately $7,000 plus out-of-pocket expenses. We will pay the cost of soliciting your proxy and reimburse brokers and others for forwarding proxy material to you.

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 2013, 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 February 25, 2013. You may vote each share that you owned on that date on each matter presented at the meeting and any adjournment(s) thereof. As of February 25, 2013, we had 188,830,529 shares of common stock outstanding entitled to one vote per share.

What am I voting on? You are voting on:

- election of ten directors nominated by the board of directors for one-year terms
- ratification of the appointment of Deloitte & Touche LLP as the company s independent auditors for 2013
- approval, on a non-binding advisory basis, of the compensation of the company s named executive officers and
- any other business that is properly brought before the meeting or any adjournment(s) thereof.

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. **This means that brokers may not vote your shares on items 1 and 3 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.**

Proxy Statement

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 contained in our corporate governance guidelines requires any proposed 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 Ratification of the Appointment of Deloitte & Touche LLP as the Company s Independent Auditors for 2013

Approval of Item 2 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.

Item 3 Approval, on a Non-Binding Advisory Basis, of the Compensation of the Company s Named Executive Officers

Approval of Item 3 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 item. Abstentions will count as votes against the item. 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 and for items 2 and 3.

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.

You may also vote in person at the meeting. However, if you are the beneficial owner of the shares, you must obtain a legal proxy from the holder of record of the shares, usually your bank or broker, and present it at the meeting. A legal proxy identifies you, states the number of shares you own, and gives you the right to vote those shares. Without a legal proxy we cannot identify you as the beneficial owner of the shares or know how many shares you have to vote.

Can I revoke my proxy? Yes.

If you are a stockholder of record, 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.

Proxy Statement

ITEM 1. ELECTION OF DIRECTORS

The board expresses its thanks to Terry D. Hildestad, who retired on January 3, 2013. He had served as president and chief executive officer of the company and as a director since August 17, 2006. He had served as president and chief operating officer from May 1, 2005 until August 17, 2006. He began his career with the company in 1974 at Knife River Corporation, where he served in several operating positions before becoming its chief executive officer in 1993 through April 2005.

The board also expresses its thanks to Richard H. Lewis for his service on the board, the audit committee, and the nominating and governance committee. Mr. Lewis also served on the compensation committee during his tenure. Mr. Lewis is not standing for reelection as a director after serving on the board since 2005.

All nominees for director are nominated to serve one-year terms until the annual meeting of stockholders in 2014 and until their respective successors are elected and qualified, or until their earlier resignation, removal from office, or death.

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 MDU Resources Group, Inc.

Director Nominees

Thomas Everist	Director Since 1995
Age 63	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 has been a managing member of South Maryland Creek Ranch, LLC, a land development company, since June 2006, and president of SMCR, Inc., an investment company, since June 2006. 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 has served as a director and chairman of the board of Everist Genomics, Inc., Ann Arbor, Michigan, which provides solutions for personalized medicines since 2002. He served as Everist Genomics chief executive officer from August 2012 to December 2012. He was a director of Angiologix Inc., Mountain View, California, a medical diagnostic device company, from July 2010 through October 2011 when it was acquired by Everist Genomics, Inc. He has been a director of Bell, Inc., Sioux Falls, South Dakota, a manufacturer of folding cartons and packages, since April 2011.

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, and as a member of the Council of Advisors for Searching for Solutions Institute, a non-profit public foundation that provides leaders with resources to address critical social issues. From July 2001 to June 2006, he served on the South Dakota Investment Council, the state agency responsible for prudently investing state funds.

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 for the following reasons. 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 39 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 25 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. Mr. Everist is our longest serving board member, providing 18 years of board experience as well as extensive knowledge of our business.

Proxy Statement

Karen B. Fagg	Director Since 2005
Age 59	Nominating and Governance Committee Compensation Committee

Ms. Fagg served as vice president of DOWL LLC, d/b/a DOWL HKM, an engineering and design firm, from April 2008 until her retirement on December 31, 2011. 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 from 1993 to April 1995 she served as vice president of operations and corporate development director. From 1989 through 1992, 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.

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, on the board of Deaconess Billings Clinic Health System from 1994 to 2002, as a member of the Board of Trustees of Carroll College from 2005 through 2010, and on the board of advisors of the Charles M. Bair Family Trust from 2008 to July 2011, including a term as board chair. She has been a member of the board of directors of the Billings Chamber of Commerce since July 2009 and a member of the Billings Catholic School Board since December 2011. From 2007 until December 31, 2011, she was 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 1998 to 2007, she served on the ZooMontana Board and as vice chair from 2005 to 2006.

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 for the following reasons. 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 17 years of construction and engineering experience at DOWL HKM and its predecessor, HKM Engineering, Inc., where she served as vice president, president, and chairman. Ms. Fagg has also had 14 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 13 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.

David L. Goodin	Director Since January 4, 2013
Age 51	President and Chief Executive Officer

Mr. Goodin was elected president and chief executive officer and a director of the company effective January 4, 2013. Prior to that, he served as chief executive officer and president of Intermountain Gas Company effective October 2008, chief executive officer of Cascade Natural Gas Corporation, Montana-Dakota Utilities Co., and Great Plains Natural Gas Co. effective June 2008, president of

Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. effective March 2008, and president of Cascade Natural Gas Corporation effective July 2007. He began his career with the company in 1983 at Montana-Dakota Utilities Co., where he served as a division electrical engineer effective May 1983, division electric superintendent effective February 1989, electric systems supervisor effective August 1993, electric systems manager effective April 1999, vice president-operations effective January 2000, and executive vice president-operations and acquisitions effective January 2007. 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. Goodin has a bachelor of science degree in electrical and electronics engineering from North Dakota State University, a masters in business administration from the University of North Dakota, and has completed the Advanced Management Program at Harvard School of Business. Mr. Goodin is a registered professional engineer in North Dakota. He is a member of the U.S. Bancorp Western North Dakota Advisory Board. Mr. Goodin is involved in numerous civic organizations, including serving on the board of directors of Sanford Bismarck, the Missouri Valley YMCA, and as trustee for the Bismarck State College Foundation. He is a past board member of several industry associations, including the American Gas Association, the Edison Electric Institute, the North Central Electric Association, the Midwest ENERGY Association, and the North Dakota Lignite Council. Mr. Goodin received the University of Mary Entrepreneurship Award in 2009.

The board concluded that Mr. Goodin 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 for the following reasons. As chief executive officer of MDU Resources Group, Inc., Mr. Goodin is one of only two officers of the company to sit on our board. With over 29 years of significant, hands-on experience at our company, Mr. Goodin s long history and deep knowledge and understanding of MDU Resources Group, Inc., its operating companies, and its lines of business will bring continuity to the board. Mr. Goodin has demonstrated his leadership abilities and his commitment to our company through his long service to the company and more recently as chief executive officer and president of the four utility companies. He demonstrated strong leadership skills in integrating Cascade Natural Gas Corporation and Intermountain Gas Company while meeting and exceeding profitability goals. The board s unanimous election of Mr. Goodin to succeed Mr. Hildestad as our president and chief executive officer was a result of our comprehensive succession planning process led by the board of directors during which the board had the opportunity to interact with and evaluate our executive officers. The board selected Mr. Goodin because it became clear to the board through this process that he had the strategic vision, operational experience, passion, and values to lead the future growth of the company. The board believes these characteristics make him well-suited to serve on our board, particularly in this challenging economic environment.

A. Bart Holaday	Director Since 2008
Age 70	Audit Committee Nominating and Governance 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, a venture capital investment firm. 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 experience 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; is a director of Hull Investments, LLC, a private entity that combines nonprofit activities and investments; is 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 (former chairman), the Falcon Foundation (director and former vice president), which provides scholarships to Air Force Academy applicants, the Center for Innovation Foundation at the University of North Dakota (trustee and former chairman) and the University of North Dakota Foundation; is chairman and chief executive officer of the Dakota Foundation, a nonprofit foundation that fosters social entrepreneurship; and is a member of the board of trustees for The Colorado Springs Child Nursery Centers Foundation, a non-profit organization that supports the operations of Early Connections Learning Centers, a non-profit child care organization in Colorado, and Discover Goodwill of southern and western Colorado, a non-profit organization providing job training, placement, and retention programs for people transitioning from welfare to work. 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.

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 for the following reasons. MDU Resources Group, Inc. has significant operations in the natural gas and oil industry where Mr. Holaday has knowledge and experience. 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 16 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 and guidance to management in connection not only with our natural gas and oil business, but with all of our businesses.

Proxy Statement

Dennis W. Johnson
Age 63

Director Since 2001
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. Mr. Johnson is serving his thirteenth year as president of the Dickinson City Commission. He served as a director of the Federal Reserve Bank of Minneapolis from 1993 to 1998. 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 Foundation, the executive operations committee of the University of Mary Harold Schafer Leadership Center, the Dickinson United Way, and the business advisory council of the Steffes Corporation, a metal manufacturing and engineering firm. 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.

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 for the following reasons. Mr. Johnson has over 38 years of experience in business management, manufacturing, and finance, and has demonstrated his success in these areas, holding positions as chairman, president, and chief executive officer of TMI for 31 years, 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 nine 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
Age 66

Director Since 2008
Compensation Committee

Mr. Knudson has been president of Tom Knudson Interests since its formation on January 14, 2004. Tom Knudson Interests 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 and government affairs and communications. 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. He has served as an adjunct professor at the Jones Graduate School of Management at Rice University. Mr. Knudson has served on the boards of a number of petroleum industry associations, Covenant House Texas, and The Houston Museum of Natural Science. He has served on the National Council of Methodist Neurological Institute since October 2011, as a Trustee of the Episcopal Seminary of the Southwest, Austin, Texas, since February 2012, and as a board member of the National Association of Corporate Directors (NACD), Texas Tri-Cities Chapter, since December 2012. He holds the designation of Board Leadership Fellow from the NACD.

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 for the following reasons. 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 and ConocoPhillips, 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.

Patricia L. Moss	Director Since 2003
Age 59	Compensation Committee Nominating and Governance Committee

Ms. Moss served as the president and chief executive officer of Cascade Bancorp, a financial holding company in Bend, Oregon, from 1998 to January 3, 2012. She served as the chief executive officer of Cascade Bancorp s principal subsidiary, Bank of the Cascades, from 1993 to January 3, 2012, serving also as president from 1993 to 2003. From 1987 to 1998, Ms. Moss served as chief operating officer, chief financial officer, and corporate secretary of Cascade Bancorp. Ms. Moss has been a director of Cascade Bancorp since 1993 and a director of Bank of the Cascades since 1998 and was elected vice chairman of both boards effective January 3, 2012. Ms. Moss 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, co-chairs the Oregon Growth Board, a state agency created to provide recommendations to connect businesses to sources of capital, and serves on the City of Bend s Juniper Ridge management advisory board.

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; Clear Choice Health Plans Inc., a multi-state insurance company; 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 of the Cascades. Cascade Bancorp reported in its third quarter 2012 Form 10-Q that at December 31, 2011, Cascade Bancorp and the Bank did not meet the written agreement s leverage ratio requirement and as a result they had filed a required update to their capital plan, which was accepted by their regulators. On September 30, 2012, Bancorp and the Bank had met this requirement. The order remains in place until lifted by the regulators.

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 for the following reasons. 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 executive positions at Cascade Bancorp and Bank of the Cascades, where she gained over 30 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, the Oregon Business Council, and the Oregon Growth Board. This business experience demonstrates her leadership abilities and success in the finance and banking industry. 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.

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Harry J. Pearce	Director Since 1997
Age 70	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, and was general counsel from 1987 to 1994. 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, North Dakota. 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. Mr. Pearce received a bachelor s degree in engineering sciences from the U.S. Air Force Academy and a juris doctor degree from Northwestern University s School of Law.

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 for the following reasons. 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 Corporation, as well as through his extensive service on the boards of large public companies, including Marriott International, Inc.; Hughes Electronics Corporation, where he was chairman; and Nortel Networks Corporation, 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.

J. Kent Wells	Director Since January 4, 2013
Age 56	Vice Chairman of the Corporation President and Chief Executive Officer of Fidelity Exploration & Production Company

Mr. Wells was elected vice chairman of the company and a director effective January 4, 2013, and continues to serve as president and chief executive officer of Fidelity Exploration & Production Company, our natural gas and oil production business, the position for which he was hired effective May 2, 2011. Prior to that he was senior vice president of exploration and production for BP America, Inc. (BP) from June 2007 until October 2010, when he was named BP s group senior vice president for global deepwater response until March 31, 2011. He also served as general manager of Abu Dhabi Company for Onshore Oil Operations from February 2005 until June 2007; vice president, Gulf of Mexico shelf, for BP from 2002 to 2005; vice president, Rockies, for BP from 2000 to 2002; general manager of Crescendo Resources LP from 1997 to 2000; manager, Hugoton, for Amoco Production Company, Inc. (Amoco) from 1993 to 1996; manager, operations, for Amoco in 1993; resource manager for Amoco from 1988 to 1993; executive assistant for Amoco from 1987 to 1988; engineering supervisor for Amoco Canada Petroleum Company (Amoco Canada) from 1983 to 1987; and petroleum engineer for Amoco Canada from 1979 to 1983. Mr. Wells received a bachelor s degree in mechanical engineering from the Queen s University, Kingston, Ontario, Canada in 1979.

The board concluded that Mr. Wells should serve as director of MDU Resources Group, Inc. in light of our business and structure, at the time we file our proxy statement for the following reasons. A significant portion of our earnings is derived from natural gas and oil production. One of the company s strategic objectives is to achieve product diversity in the midstream segment of the oil and gas industry. Mr. Wells brings to our board significant experience and knowledge of the oil and gas business, including the midstream segment. He has more than 33 years of natural gas and oil experience, including several years in senior leadership positions at BP, the world s third largest integrated oil company, and a publicly traded company. He was senior vice president of exploration and production for BP s U.S. natural gas operations from 2007 until October 2010 with responsibility for BP s onshore natural gas business throughout the United States, encompassing both exploration and production, and midstream business. His strong track record in natural gas and oil production includes experience in shale formations similar to the company s current development focus. He has firsthand experience in the Rockies and Texas, where a large portion of Fidelity Exploration & Production Company s reserves are concentrated. Mr. Wells combination of expertise and experience, along with his success in leadership roles with a large publicly traded company, will complement the skills of the current board members.

John K. Wilson	Director Since 2003
Age 58	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, Tetrad Corporation, a privately held investment company, both based in Omaha, and serves on the advisory board of Duncan Aviation, an aircraft service provider, headquartered in Lincoln, Nebraska. He currently serves as executive director of the Robert B. Daugherty Charitable Foundation, Omaha, Nebraska, and formerly served on the advisory board of U.S. Bank NA Omaha.

Mr. Wilson is a certified public accountant, on inactive status. He received his bachelor s degree in business administration, cum laude, from the University of Nebraska Omaha. During his career, he was 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.

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 for the following reasons. 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 Corp. 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 contained in our corporate governance guidelines requires any proposed 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.

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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.

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. RATIFICATION OF INDEPENDENT AUDITORS

The audit committee at its February 2013 meeting appointed Deloitte & Touche LLP as our independent auditors for fiscal year 2013. 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 2013, 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 2013.

Ratification of the appointment of Deloitte & Touche LLP as our independent auditors for 2013 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.

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 2012 and 2011:

	2012	**2011***
Audit Fees (a)	$ 2,400,000	$ 2,456,046
Audit-Related Fees(b)	63,110	216,410
Tax Fees(c)	23,566	0
All Other Fees(d)	0	0
Total Fees(e)	$ 2,486,676	$ 2,672,456
Ratio of Tax and All Other Fees to Audit and Audit-Related Fees	0.96%	0.00%

* The 2011 amounts were adjusted from amounts shown in the 2012 proxy statement to reflect actual amounts.

(a) Audit fees for 2012 and 2011 consisted of services rendered for the audit of our annual financial statements, reviews of quarterly financial statements, statutory and regulatory audits, compliance with loan covenants, reviews of financial statements for MDU Construction Services Group, Inc. and subsidiaries, agreed upon procedures associated with the annual submission of financial assurance to the North Dakota Department of Health, filing Form S-3 registration statements (2011 only), and work related to responding to a comment letter from the Securities and Exchange Commission (2011 only).

(b) Audit-related fees for 2012 and 2011 are associated with accounting research assistance, workpaper review requested by the Idaho Public Utilities Commission (2012 only), the compliance audit for the U.S. Department of Energy (2012 only), and accounting consultation in connection with due diligence (2011 only).

(c) Tax fees for 2012 relate to the review of permanent tax benefits associated with Medicare Part D subsidies. There were no tax fees for 2011.

(d) There were no all other fees for 2012 and 2011.

(e) Total fees reported above include out-of-pocket expenses related to the services provided of $332,210 for 2012 and $305,346 for 2011.

Pre-Approval Policy

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2012 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 3. APPROVAL, ON A NON-BINDING ADVISORY BASIS, OF THE COMPENSATION OF THE COMPANY S NAMED EXECUTIVE OFFICERS

In accordance with Section 14A of the Securities Exchange Act of 1934 and Rule 14a-21(a), we are asking our stockholders to approve, in a separate advisory vote, the compensation of our named executive officers as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K. As discussed in the compensation discussion and analysis, our compensation committee and board of directors believe that our current executive compensation program directly links compensation of our named executive officers to our financial performance and aligns the interests of our named executive officers with those of our stockholders. Our compensation committee and board of directors also believe that our executive compensation program provides our named executive officers with a balanced compensation package that includes an appropriate base salary along with competitive annual and long-term incentive compensation targets. These incentive programs are designed to reward our named executive officers on both an annual and long-term basis if they attain specified goals.

Our overall compensation program and philosophy is built on a foundation of these guiding principles:

- we pay for performance, with over 50% of our 2012 total target direct compensation in the form of incentive compensation
- we assess the relationship between our named executive officers pay and performance on key financial metrics revenue, profit, return on invested capital, and stockholder return in comparison to our performance graph peer group
- we review competitive compensation data for our named executive officers, to the extent available, and incorporate internal equity in the final determination of target compensation levels
- we determine annual performance incentives based on financial criteria that are important to stockholder value, including earnings per share and return on invested capital and
- we determine long-term performance incentives based on total stockholder return relative to our performance graph peer group.

We are asking our stockholders to indicate their approval of our named executive officer compensation as disclosed in this proxy statement, including the compensation discussion and analysis, the executive compensation tables, and narrative discussion. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers for 2012. Accordingly, the following resolution is submitted for stockholder vote at the 2013 annual meeting:

RESOLVED, that the compensation paid to the company s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

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As this is an advisory vote, the results will not be binding on the company, the board of directors, or the compensation committee and will not require us to take any action. The final decision on the compensation of our named executive officers remains with our compensation committee and our board of directors, although our board and compensation committee will consider the outcome of this vote when making future compensation decisions. As the board of directors determined at its meeting in May 2011, we will provide our stockholders with the opportunity to vote on our named executive officer compensation at every annual meeting until the next required vote on the frequency of stockholder votes on named executive officer compensation. The next required vote on frequency will occur at the 2017 annual meeting of stockholders.

The board of directors recommends a vote for the approval, on a non-binding advisory basis, of the compensation of our named executive officers, as disclosed in this proxy statement.

Approval of the compensation of our named executive officers 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.

Summary of Company Performance and Named Executive Officer Compensation 2012 Compared to 2011
Our named executive officers for 2012 were:

- Terry D. Hildestad, our president and chief executive officer, who retired January 3, 2013
- Doran N. Schwartz, our vice president and chief financial officer
- William E. Schneider, our executive vice president of Bakken development, a role he assumed on January 1, 2012
- J. Kent Wells, who led our exploration and production segment as president and chief executive officer of Fidelity Exploration & Production Company, a direct wholly-owned subsidiary of WBI Holdings, Inc., and
- Steven L. Bietz, who led our pipeline and energy services segment as president and chief executive officer of WBI Holdings, Inc., which is the parent company of WBI Energy, Inc. and WBI Energy Services, Inc.

In addition to the business segments above, we have the following business segments:

- electric and natural gas distribution[1] under the leadership of David L. Goodin, who was during 2012 the president and chief executive officer of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company, and who was promoted, effective January 4, 2013, to be president and chief executive officer of MDU Resources Group, Inc., and
- construction services segment and construction materials and contracting segment under the leadership of John G. Harp, who is the chief executive officer of MDU Construction Services Group, Inc. and Knife River Corporation.

1 Natural gas distribution is a separate business segment, although we are showing it combined in this discussion.

Financial Results for 2012 and 2011

Our consolidated financial results for 2012 was a loss of $1.4 million compared to 2011 earnings of $212.3 million. Adjusted earnings were $216.8 million for 2012, compared to 2011 adjusted earnings of $225.2 million. The following table compares 2012 results to 2011 results on a business segment basis. Adjusted earnings and information in the table below contain non-GAAP numbers. Please refer to the Use of Non-GAAP Financial Measures and Reconciliation of GAAP to Adjusted Earnings sections below.

Business Segment	2012 Earnings ($) (millions)	2011 Earnings ($) (millions)
Electric and Natural Gas Distribution	60.0	67.6
Pipeline and Energy Services	11.6	23.1
Exploration and Production	69.6	80.3
Construction Materials and Services	70.8	48.0
Other	4.8	6.2
Earnings Before Discontinued Operations, Noncash Write-Downs of Oil and Natural Gas Properties, and Net Benefit Related to Natural Gas Gathering Operations Litigation	**216.8**	**225.2**
Income (Loss) from Discontinued Operations, Net of Tax*	13.6	(12.9)
Effects of Noncash Write-Downs of Oil and Natural Gas Properties	(246.8)	
Net Benefit Related to Natural Gas Gathering Operations Litigation	15.0	
Earnings (Loss) on Common Stock	(1.4)	212.3

* Reflects a 2012 reversal of a 2011 arbitration charge of $13.0 million after tax related to a guarantee of a construction contract

Use of Non-GAAP Financial Measures

As noted above, the company, in addition to presenting its earnings information in conformity with Generally Accepted Accounting Principles (GAAP), has provided non-GAAP earnings data that reflects an adjustment to exclude a fourth quarter 2012 $145.9 million after-tax noncash ceiling test write-down, a third quarter 2012 $100.9 million after-tax noncash ceiling test write-down, as well as an adjustment to exclude a second quarter 2012 reversal of an arbitration charge of $15.0 million after-tax. The company believes that these non-GAAP financial measures are useful to investors because the items excluded are not indicative of the company s continuing operating results. Also, the company s management uses these non-GAAP financial measures as indicators for planning and forecasting future periods. The presentation of this additional information is not meant to be considered a substitute for financial measures prepared in accordance with GAAP.

Reconciliation of GAAP to Adjusted Earnings

	2012 Earnings ($) (millions)	2011 Earnings ($) (millions)	2012 Earnings Per Share	2011 Earnings Per Share
Earnings (Loss) on Common Stock	(1.4)	212.3	(0.01)	1.12
Discontinued Operations	(13.6)	12.9	(0.07)	0.07
Noncash Write-Downs of Oil and Natural Gas Properties	246.8		1.31	
Net Benefit Related to Natural Gas Gathering Operations Litigation	(15.0)		(0.08)	
Adjusted Earnings	216.8	225.2	1.15	1.19

Total Realized Pay in 2012 and 2011

The compensation committee believes considering total realized pay is equally as important as considering total compensation as presented in the summary compensation table. Total compensation as presented in the summary compensation table contains estimated values of grants of performance shares based on multiple assumptions that may or may not come to fruition. Also, the summary compensation table shows an increase in change in pension value and above-market earnings on nonqualified deferred compensation. The pension plan was frozen as of December 31, 2009, and none of the named executives benefit levels in the Supplemental Income Security Plan, our non-qualified retirement program, increased for 2012. The primary reason for increases in the change in pension value is due to a lower discount rate used to calculate the values.

Total realized pay, on the other hand, reflects the compensation actually earned, including the value of incentive awards if the goals are met and excluding the value of incentive awards if the goals are not met. Because we have not met certain performance measures in the last several years, our named executive officers total realized pay excludes the value of incentive awards that were not earned. We define total realized pay as the sum of base salary, annual incentive award paid, the value realized upon the vesting of long-term incentive awards of performance shares, and all other compensation as reported in the summary compensation table.

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The following table compares total realized pay for our named executives in 2012 to 2011.

Named Executive Officer	Year	Base Salary ($)	Annual Incentive Awards and Bonus Paid ($)	Value Realized upon Vesting of Performance Shares ($)	All Other Compensation ($)	Total Realized Pay ($)
Terry D. Hildestad	2012	750,000	518,250	0(1)	38,224	1,306,474
	2011	750,000	954,750	0(2)	37,499	1,742,249
Doran N. Schwartz	2012	300,000	103,650	0(1)	34,224	437,874
	2011	273,000	173,765	0(2)	33,549	480,314
Steven L. Bietz	2012	360,500	347,973	0(1)	37,884	746,357
	2011	360,500	229,198	0(2)	37,159	626,857
J. Kent Wells	2012	550,000	934,042(3)	N/A	96,470	1,580,512
	2011	367,671	1,923,991(4)	N/A	84,580	2,376,242
William E. Schneider	2012	447,400	200,950	0(1)	38,224	686,574
	2011	447,400	436,215	0(2)	37,499	921,114

(1) Performance shares and dividend equivalents granted for the 2009-2011 performance period that did not vest and were forfeited because performance was below threshold.

(2) Performance shares and dividend equivalents granted for the 2008-2010 performance period that did not vest and were forfeited because performance was below threshold.

(3) Reflects the value of the portion of Mr. Wells additional 2011 annual incentive award that was paid in shares of our common stock based on our closing stock price of $21.67 on the vesting date, February 16, 2012.

(4) Mr. Wells was hired as president and chief executive officer of Fidelity Exploration & Production Company effective May 2, 2011. Includes a cash recruitment payment of $550,000, annual incentive payment of $448,981, and additional annual incentive payment of $925,010.

Our named executive officers forfeited all performance shares and dividend equivalents for the 2009-2011 performance period because our total stockholder return in comparison to our peer group was at the 25th percentile. With respect to the annual incentive awards, our 2012 results in the construction services segment, construction materials and contracting segment, and the pipeline and energy services segment were above their performance targets, and, conversely, 2012 results for the exploration and production segment and the electric and gas distribution segments were below their threshold performance goals, with 2012 consolidated earnings per share results also below threshold. Since the corporate named executives annual incentives depend on achievement of the foregoing performance goals, Messrs. Hildestad s, Schwartz s, and Schneider s 2012 annual incentives were paid below the target amount.

With respect to our chief executive officer, the following table further demonstrates our pay for performance approach by comparing:

- his total realized pay, which is the sum of base salary, annual incentive awards paid, all other compensation, and the value realized upon the
  - o vesting of restricted stock during 2010
  - o vesting of performance shares during 2008, 2009, and 2010 (none vested in 2011 or 2012)
- his total compensation as reported in the summary compensation table and
- one-year total stockholder returns for 2008 through 2012.

5 Year CEO Compensation and Total Stockholder Return

	2008	2009	2010	2011	2012
Total Realized Pay	$1,689,799	$2,657,250	$2,344,221	$1,742,249	$1,306,474
Total Compensation from Summary Compensation Table	$3,119,702	$4,203,004	$2,860,918	$3,566,327	$2,558,778
1 Year Total Stockholder Return	-20.1%	12.9%	-11.3%	9.1%	2.1%

The yearly changes in total compensation from the summary compensation table and total realized pay align very closely with the yearly changes in total stockholder return.

Overview of 2012 Compensation for our Named Executive Officers

In 2012, we continued our approach of referencing market data to establish competitive pay levels for base salary, total annual cash, which is base salary plus target annual incentive, and total direct compensation, which is the sum of total annual cash plus the expected value of target long-term incentives. We discuss this competitive assessment in the Role of Management section below. To ensure compensation awarded to named executive officers was commensurate with competitive performance levels, we continued to compare:

- total stockholder return results to the results of our performance graph peer group to determine payouts under our performance share program and
- on a historical basis, our targeted and actual results on return on invested capital to the results of our performance graph peer group when the compensation committee established performance targets for annual incentives of our business segment leaders.

Our overall compensation program and philosophy is built on a foundation of these guiding principles:

- we pay for performance, with 55.6% to 76.5% of our named executive officers 2012 total target direct compensation in the form of incentives
- we determine annual performance incentives based on financial criteria that are important to stockholder value, including earnings per share and return on invested capital
- we determine long-term performance incentives based on total stockholder return relative to our performance graph peer group
- we review competitive compensation data for our named executive officers, to the extent available, and incorporate internal equity in the final determination of target compensation levels and
- through our PEER Analysis, we compare our pay-for-performance results on key financial metrics revenue, profit, return on invested capital, and stockholder return in comparison to our performance graph peer group.

The compensation committee took the following actions with respect to 2012 compensation for our named executive officers:

- granted a salary increase to Mr. Hildestad to recognize his effective leadership during an extended period of economic softness. Mr. Hildestad subsequently rejected the salary increase because he felt accepting the increase would be out of place since five of the thirteen Section 16 officers did not receive an increase for 2012
- granted a salary increase to Mr. Schwartz to bring his salary closer to his salary grade midpoint

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- tied 25% of our business segment leaders 2012 annual incentive targets to the company s 2012 earnings per share results in order to more closely align amounts paid to these executives with total company results
- increased Mr. Wells annual incentive target from 100% to 125% of base salary to mitigate the impact of the added company earnings per share goal and to reflect his impact on overall company results
- continued to link our corporate executives i.e., Messrs. Hildestad, Schwartz, and Schneider 2012 annual incentive awards to the achievement of our business segments performance goals
- did not approve payment of any performance shares or dividend equivalents granted in 2009 for the 2009-2011 performance period due to our total stockholder return for the 2009-2011 performance period placing us in the 25th percentile compared to our performance graph peer group and
- granted no increases under our Supplemental Income Security Plan, which is a nonqualified retirement plan that provides benefits to our key managers and four of our named executive officers.

In addition, our Section 16 officers who had change of control employment agreements agreed to the early termination of their agreements, effective November 1, 2012.

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 s stated objectives are to:

- recruit, motivate, reward, and retain 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
- ensure effective utilization and development of talent by working in concert with other management processes for example, performance appraisal, succession planning, and management development and
- help ensure that compensation programs do not encourage or reward excessive or imprudent risk taking.

Elements of our Compensation Program

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
- opportunities to earn annual incentive compensation in order to be competitive from a total remuneration standpoint and ensure focus on annual financial and operating results and
- opportunities to earn long-term incentive compensation 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 55.6% to 76.5% of total target compensation for the named executive officers 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.

Proxy Statement

The following table shows the allocation of total target compensation for 2012 among the individual components of base salary, annual incentive, and long-term incentive:

Name	% of Total Target Compensation Allocated to Base Salary (%)	% of Total Target Compensation Allocated to Incentives		
		Annual (%)	Long-Term (%)	Annual + Long-Term(%)
Terry D. Hildestad	28.6	28.6	42.8	71.4
Doran N. Schwartz	44.4	22.2	33.4	55.6
Steven L. Bietz	39.2	25.5	35.3	60.8
J. Kent Wells	23.5	29.4	47.1	76.5
William E. Schneider	39.2	25.5	35.3	60.8

In order to reward long-term growth, the compensation committee generally allocates 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 retention requirements and stock ownership policy, 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.

Role of Management

Our executive compensation policy calls for an assessment of the competitive pay levels for base salary and incentive compensation for each Section 16 officer position to be conducted at least every two years by an independent consulting firm. Towers Watson conducted the study in 2010 for use by the compensation committee to determine 2011 compensation levels. In 2011, the compensation committee requested the competitive assessment be completed internally. They directed the vice president-human resources and the human resources department to prepare the competitive assessment in August 2011 on Section 16 officers for their use in establishing 2012 compensation.

The assessment included identifying any 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. The human resources department assessed competitive pay levels for base salary, total annual cash, which is base salary plus target annual incentives, and total direct compensation, which is the sum of total annual cash and the expected value of target long-term incentives. The competitive assessment compared our positions to like positions contained in general industry compensation surveys and industry-specific compensation surveys. The human resources department aged the survey data from the date of the survey by 2.5% annualized to estimate the 2012 competitive targets.

The compensation surveys are listed on the following table:

Survey*	Number of Companies Participating (#)	Median Number of Employees (#)(1)	Number of Publicly-Traded Companies (#)	Median Revenue (000s) ($)
Towers Watson 2010 General Industry Executive Database	430	16,400	312	5,112,000
Towers Watson 2010 U.S. CDB Energy Services Executive Database	102	3,012	67	2,818,000
2010 Effective Compensation, Inc. Oil & Gas Exploration Compensation Survey	121	439	48	Not Reported
Mercer s 2010 Total Compensation Survey for the Energy Sector	297	Not Reported	201	823,000
Towers Watson 2010/2011 Report on Top Management Compensation	3,422	(2)	(2)	(2)

(1) For the 2010 Effective Compensation, Inc. Oil & Gas Exploration Compensation Survey, the number reported as the Median Number of Employees is the average number of employees.

(2) The 3,422 organizations participating in Towers Watson s 2010/2011 Top Management Compensation Survey included 394 organizations with 2,000 to 4,999 employees; 308 organizations with 5,000 to 9,999 employees; 205 organizations with 10,000 to 19,999 employees; and 87 organizations with 20,000 or more employees. Towers Watson did not provide a revenue breakdown or the number of publicly-traded companies participating in its survey.

* 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. For a list of companies that participated in the compensation surveys and databases, see Exhibit A.

In billions of dollars our revenues for 2010, 2011, and 2012 were approximately $3.9, $4.0, and $4.1, respectively.

Proxy Statement

The human resources department also augmented the competitive analysis by using Equilar to provide information on what was reported by companies in our performance graph peer group and by other public companies in relevant industries, as selected by the human resources department and as determined by SIC codes and as disclosed in their SEC filings. The companies referenced via Equilar and the positions for which they were used are found in Exhibit B.

For our president and chief executive officer, the Equilar companies included all companies in our performance graph peer group and data on 68 additional chief executive officers from public companies in the energy, construction, and utility industries with revenues ranging from $1 billion to $8 billion.

For our vice president and chief financial officer, the Equilar companies included all companies in our performance graph peer group and data on 55 additional chief financial officers from public companies in the energy, construction, and utility industries with revenues ranging from $1 billion to $8 billion.

For the president and chief executive officer of our exploration and production segment, the Equilar companies included the exploration and production companies in our performance graph peer group and data on 27 additional chief executive officers from public companies in the oil and gas exploration and production industries with revenues ranging from $250 million to $850 million.

For the president and chief executive officer of the pipeline and energy services segment, the Equilar companies included the pipeline and energy services companies in our performance graph peer group and data on 13 chief executive officers from public companies in the pipeline and energy services industry with revenues of $1 billion or less.

The chief executive officer played an important role in recommending 2012 compensation to the committee for the other named executive officers. The chief executive officer assessed the performance of the named executive officers and considered the relative value of the named executive officers positions and their salary grade classifications. He then reviewed the competitive assessment prepared by the human resources department to formulate 2012 compensation recommendations for the compensation committee, other than for himself. The chief executive officer attended compensation committee meetings; however, he was not present during discussions regarding his compensation.

Timing of Compensation Decisions for 2012

The compensation committee, in conjunction with the board of directors, determined all compensation for each named executive officer for 2012 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 the competitive assessment and established 2012 salary grades at its August 2011 meeting. At the November 2011 meeting, it established individual base salaries, target annual incentive award levels, and target long-term incentive award levels for 2012. At their February and March 2012 meetings, the compensation committee and the board of directors increased the target annual incentive award level for Mr. Wells and determined annual and long-term incentive awards, along with the payouts based on performance from the recently completed performance period for prior annual and long-term awards. The February and March 2012 meetings occurred after the release of earnings for the prior year.

Stockholder Advisory Vote (Say on Pay)

Our stockholders had their second advisory vote on our named executive officers compensation at the 2012 Annual Meeting of Stockholders. Approximately 92% of the shares present in person or represented by proxy and entitled to vote on the matter approved the named executive officers compensation. The 92% approval is consistent with the results of our say on pay vote at the 2011 Annual Meeting. The compensation committee and the board of directors considered the results of the votes at their November 2011 and November 2012 meetings and did not change our executive compensation program as a result of the votes.

Salary Grades for 2012

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 the competitive assessment data 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 base salary. We generally place named executive officers into a salary grade based on historical classification of their positions; however, the compensation committee 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. Individual executives may be paid below, equal to, or above the salary grade midpoint. Mr. Wells 2011 compensation was determined pursuant to his letter agreement in connection with his hiring effective May 2, 2011, and served as a basis for his 2012 compensation, rather than the business segment leaders salary grade.

The salary grades give the compensation committee flexibility to assign different salaries to individual executives within a salary grade to reflect one or more of the following:

- executive s performance on financial goals and 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 segment.

No changes were made in the salary grade classifications of the named executive officers for 2012, and after reviewing the competitive analysis, the compensation committee made no changes in the base salary ranges associated with each named executive officer s salary grade classification.

Our named executive officers salary grade classifications for 2012 are listed below, along with the base salary ranges associated with each classification:

Position	Grade	Name	2012 Base Salary (000s) Minimum ($)	Midpoint ($)	Maximum ($)
President and CEO	K	Terry D. Hildestad	620	775	930
Vice President and CFO	I	Doran N. Schwartz	260	325	390
President and CEO, WBI Holdings, Inc.	J	Steven L. Bietz	312	390	468
President and CEO, Fidelity Exploration & Production Company	J	J. Kent Wells	312	390	468
Executive Vice President Bakken Development	J	William E. Schneider	312	390	468

Performance Assessment Program

Our performance assessment program rates performance of our executive officers, except for our chief executive officer, 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
- risk management

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 other 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.

Proxy Statement

The board of directors rates our chief executive officer s performance in the following areas:

- leadership
- integrity and values
- strategic planning
- financial results
- communications
- succession planning
- human resources
- external relations
- board relations
- risk management

Our chief executive officer s performance was rated on a scale of one to five, with five as the highest rating denoting performance well above expectations.

Base Salaries of the Named Executive Officers for 2012

Terry D. Hildestad
The compensation committee recommended a 6.67% salary increase for Mr. Hildestad for 2012, which would have raised his salary from $750,000 to $800,000 ($775,000 being the market median). The compensation committee s rationale for the increase was

- his high performance evaluation
- his high integrity, excellent business know how, and ability to work effectively with the management team and the board
- his effectiveness in navigating the company through a difficult economic environment and
- his salary had been frozen since January 1, 2009.

Mr. Hildestad, however, did not accept his base salary increase for 2012 in order to be treated the same as other Section 16 officers who did not receive a salary increase for 2012.

Doran N. Schwartz
Mr. Schwartz was elected vice president and chief financial officer effective February 17, 2010. For 2012, the compensation committee awarded Mr. Schwartz a 9.9% increase, raising his 2012 salary from $273,000 to $300,000, or 92% of the midpoint of salary grade I for 2012. The compensation committee s rationale for the increase was in recognition of:

- his assistance in the company achieving a return on invested capital of 6.9% for the twelve months ending June 2011 as compared to the median return on invested capital of 6.0% for companies in our performance graph peer group over the same time period
- his success at building good working relationships with shareholders, rating agencies, and the financial community and
- moving his salary closer to the midpoint of salary grade I.

Steven L. Bietz
Mr. Bietz received no salary increase for 2012 because the compensation committee wanted to limit salary cost increases.

J. Kent Wells
Mr. Wells received no salary increase for 2012 because he had just started his employment with the company in May 2011 with a salary above the maximum for his salary grade.

William E. Schneider

Mr. Schneider received no salary increase for 2012 because his salary was 115% of the market value for his position and the compensation committee wanted to limit salary cost increases.

2012 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 segment and/or the corporation, as well as the value provided to our stockholders. For all business segment chief executive officers, including Messrs. Wells and Bietz, the performance measures for annual incentive awards are

- their respective business segment s annual return on invested capital results compared to target
- their respective business segment s allocated earnings per share results compared to target and
- the company s consolidated earnings per share compared to a target of $1.19.

The compensation committee added the third performance measure, consolidated earnings per share, for the first time in 2012. The compensation committee weighted the 2012 performance measures for Messrs. Wells and Bietz at 75% for their business segment performance measures (weighted evenly) and 25% for the company s earnings per share measure to more closely tie their annual incentive amounts to total company results.

For the named executive officers working at MDU Resources Group, Inc. in 2012, who were Messrs. Hildestad, Schwartz, and Schneider, the compensation committee based 2012 annual incentives on the achievement of performance goals at the business segments: (i) the construction materials and contracting and construction services segments, (ii) the pipeline and energy services segment, (iii) the exploration and production segment, and (iv) the electric and natural gas distribution segments. The compensation committee s rationale for this approach was to provide greater alignment between the MDU Resources Group, Inc. executives and business segment performance.

The compensation committee believes earnings per share and return on invested capital are very good measurements in assessing a business segment s performance and the company s performance from a financial perspective. 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 measure show efficiently and effectively management deploys capital. Sustained returns on invested capital in excess of a business segment s cost of capital create value for our stockholders.

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

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 compensation committee evaluates the projected results and uses this evaluation to establish the incentive plan performance targets based upon recommendation of the chief executive officer. In determining where to set the return on invested capital target, the compensation committee considers the business segment s weighted average cost of capital. The weighted average cost of capital is a composite cost of the individual sources of funds including equity and debt used to finance a company s assets. It is calculated by averaging the cost of debt plus the cost of equity by the proportion each represents in our, or the business segment s, capital structure. For 2012, the compensation committee chose to use the return on invested capital target for each business segment as approved by the board in the 2012 business plan, except for the construction services segment, which had a target higher than the 2012 business plan to incentivize efforts for that segment to achieve its weighted average cost of capital within five years. The compensation committee imposed an additional requirement for the 2012 return on invested capital portion of the annual incentives for the construction materials and contracting segment, the construction services segment, and the exploration and production segment. The additional requirement was the business segment needed to achieve its weighted average cost of capital in order to achieve 200% of the annual incentive target attributable to the return on invested capital portion of the annual incentive. However, payments with respect to 2012 return on invested capital results above the 2012 target but below the weighted average cost of capital would be interpolated, in order to motivate these executives to achieve performance levels between the return on invested capital performance targets and the weighted average cost of capital for their respective business segments.

Proxy Statement

Named Executive Officers 2012 Incentive Targets and Why We Chose Them

Targets
The compensation committee established the named executive officers annual incentive targets as a percentage of each officer s actual 2012 base salary.

Messrs. Hildestad s, Schwartz s, and Schneider s 2012 target annual incentives were 100%, 50%, and 65% of base salary, respectively. The compensation committee determined the 2012 annual incentive targets would remain unchanged from 2011 for these named executives based on the following reasons:

- For Mr. Hildestad, the annual incentive target of 100% of base salary was slightly above the 86% of base salary paid to chief executive officer positions based on salary survey data from the competitive assessment. The committee believed this difference was too small to warrant a change in Mr. Hildestad s 2012 incentive target.

- For Mr. Schwartz, the annual incentive target of 50% of base salary was slightly below 57% of base salary paid to chief financial officers based on salary survey data from the competitive assessment. The committee believed this difference was too small to warrant a change in Mr. Schwartz s 2012 incentive target.

- For Mr. Schneider, the compensation committee determined his 2012 incentive target should remain the same from 2011 because of the importance the company placed on his new role of leveraging opportunities in the Bakken that would cut across all of the company s business segments. There was no competitive data compiled on his position.

Mr. Bietz s 2012 target annual incentive was 65% of base salary. The compensation committee determined the 2012 annual incentive target would remain unchanged from 2011 for Mr. Bietz because the annual incentive based on salary survey data from the competitive assessment was 62% of base salary. The committee believed this difference was too small to warrant a change in Mr. Bietz s 2012 target annual incentive.

Mr. Wells 2012 incentive target was 125% of bases salary, which was increased from 100% of base salary. The committee raised Mr. Wells annual incentive target to mitigate the impact of the added company earnings per share goal and to reflect his business segment s impact on overall company results. The committee recognized the significant investment that his business segment will make and the desire to incentivize and motivate Mr. Wells to generate earnings that can greatly impact overall company earnings.

Named Executive Officers 2012 Incentive Payments

Terry D. Hildestad, Doran N. Schwartz, and William E. Schneider
As discussed above, Messrs. Hildestad, Schwartz, and Schneider were awarded 2012 incentives based on achievement of performance goals at the business segments. The award opportunities and results for the business segments are discussed below.

As a result of the performance goals achieved at the business segments, Messrs. Hildestad, Schwartz, and Schneider earned 69.1% of their target awards, resulting in a payment of $518,250 for Mr. Hildestad, $103,650 for Mr. Schwartz, and $200,950 for Mr. Schneider.

Pipeline and Energy Services Segment
For the pipeline and energy services segment, the 2012 award opportunity was comprised of three components:

- The pipeline and energy services segment component represented 75% of the target award, and payout could range from no payment if the results were below the 85% level to a 200% payout if:

  o the 2012 allocated earnings per share for the segment were at or above the 115% level and

  o the 2012 return on invested capital was at or above the 115% level.

- The MDU Resources Group, Inc. earnings per share component represented 25% of the award and payout could range from no payment if the results were below the $1.19 to a 200% payout if the results were $1.37 or higher.

The pipeline and energy services segment also had five individual goals relating to safety results with each goal that was not met reducing the annual incentive award by 1%. The five individual goals were:

- each established local safety committee will conduct eight meetings per year
- each established local safety committee must conduct four site assessments per year
- report vehicle accidents and personal injuries by the end of the next business day
- achieve the targeted vehicle accident incident rate of 2.25 or less and
- achieve the targeted personal injury incident rate of 2.0 or less.

The committee set the pipeline and energy services segment s 2012 allocated earnings per share and return on invested capital below the 2011 target levels and below the 2011 actual results. The 2012 target levels were based on lower natural gas prices and, as a result, lower storage and gas transmission activity.

The committee set the MDU Resources Group, Inc. earnings per share target at $1.19 because it was equal to the 2011 result, and the committee believed tying 25% of the incentive award to delivering at least $1.19 in 2012 was appropriate.

The pipeline and energy services segment s 2012 earnings per share and return on invested capital were 179.8% and 143.1% of their respective 2012 targets, equating to 200% of the target amount attributable to that component. Also, MDU Resources Group, Inc. s 2012 earnings per share results were $(.01), equating to 0% of the target amount attributable to that component.

Results at the pipeline and energy services segment (before adjustment for the five safety goals) were 150% of the 2012 target annual incentive. One of the five safety goals was not met because WBI Energy s personal injury incident rate was 2.67. Therefore, the incentive results were reduced from 150% to 148.5% of the 2012 target annual incentive.

Exploration and Production Segment
For the exploration and production segment, the 2012 award opportunity was comprised of two components:

The exploration and production business segment component represented 75% of the target award, and payout could range from no payment if the results were below the 85% level to a 200% payout if:

- o the 2012 allocated earnings per share for the segment were at or above the 115% level and
- o the 2012 return on invested capital was at least equal to the segment s 2012 weighted average cost of capital.

The MDU Resources Group, Inc. earnings per share component represented 25% of the award and payout could range from no payment if the results were below the $1.19 target to a 200% payout if the results were $1.37 or higher.

The committee set the exploration and production segment s 2012 allocated earnings per share and return on invested capital target levels below the 2011 actual results. The 2012 allocated earnings per share target level was above the 2011 target level, and the 2012 return on invested capital target level was below the 2011 target level. The 2012 target levels were based on lower natural gas prices and higher depletion, depreciation, and amortization amounts. The committee set the MDU Resources Group, Inc. earnings per share target at $1.19 because it was equal to the 2011 result, and the committee believed tying 25% of the incentive award to delivering at least $1.19 in 2012 was appropriate.

This segment s 2012 earnings per share and return on invested capital were negative equating to no payment on either component. Also, MDU Resources Group, Inc. s 2012 earnings per share results were $(.01), equating to 0% of the target amount attributable to that component.

Overall results for 2012 were 0%.

Construction Services and Construction Materials and Contracting Segments
For purposes of determining the annual incentive awards of the MDU Resources Group, Inc. executives and the chief executive officer of these segments, these segments were combined. The 2012 award opportunity was comprised of three components:

The construction services segment component represented 37.5% of the target award, and payout could range from no payment if the results were below the 85% level to a 200% payout if:

- o the 2012 allocated earnings per share for the segment were at or above the 115% level and
- o the 2012 return on invested capital was at least equal to the segment s 2012 weighted average cost of capital.

The construction materials and contracting segment component represented 37.5% of the award, and payment could range from no payment if the results were below the 85% level to a 200% payout if:

- o the 2012 allocated earnings per share for the segment were at or above the 115% level and

- o the 2012 return on invested capital was at least equal to the segment s 2012 weighted average cost of capital.

The MDU Resources Group, Inc. earnings per share component represented 25% of the award and payout could range from no payment if the results were below the $1.19 target to a 200% payout if the results were $1.37 or higher.

Proxy Statement

The committee set the construction services business segment s 2012 allocated earnings per share and return on invested capital target levels above the 2011 target levels and below the 2011 actual results. The construction materials and contracting business segment s 2012 allocated earnings per share target level was set below the 2011 target level and 2011 actual results, and the 2012 return on invested capital target level was set above the 2011 target level and equal to the 2011 actual results. The 2012 target levels reflected significant uncertainty in the overall construction market, including an absence of a federal highway bill and continued low margins due to competitive bids on construction projects. The committee set the MDU Resources Group, Inc. earnings per share target at $1.19 because it was equal to the 2011 result, and the committee believed tying 25% of the incentive award to delivering at least $1.19 in 2012 was appropriate.

The construction services segment s 2012 earnings per share and return on invested capital were 226.6% and 205.4% of their respective 2012 targets, equating to 200% of the target amount attributable to that component. The construction materials and contracting segment s 2012 earnings per share and return on invested capital were 158.1% and 117.1% of their respective 2012 targets, equating to 155.9% of the target amount attributable to that component. MDU Resources Group, Inc. s 2012 earnings per share results were $(.01), equating to 0% of the target amount attributable to that component.

Overall results for 2012 were 133.5% of the 2012 target annual incentive award.

Electric and Natural Gas Distribution Segments

For the electric and natural gas distribution segments, the 2012 award opportunity was comprised of two components:

- the electric and natural gas distribution business segments component represented 75% of the target award, and payout could range from no payment if the allocated earnings per share and return on invested capital results were below the 85% level to a 200% payout if:
  - o the 2012 allocated earnings per share for the segment were at or above the 115% level and
  - o the 2012 return on invested capital was at or above the 115% level.
- The MDU Resources Group, Inc. earnings per share component represented 25% of the award and payout could range from no payment if the results were below the $1.19 target to a 200% payout if the results were $1.37 or higher.

The committee set the 2012 target for allocated earnings per share higher than the 2011 targets but lower than 2011 actual results to reflect a one-time income tax benefit in 2011. The committee set the 2012 return on invested capital target at the 2011 target level, which was below 2011 actual results to reflect a one-time income tax benefit in 2011. For 2012, the electric and natural gas distribution segments 2012 earnings per share and return on invested capital were 93.1% and 93.6% of their respective targets, equating to 66.7% of the target amount attributable to that component. MDU Resources Group, Inc. s 2012 earnings per share results were $(.01), equating to 0% of the target amount attributable to that component.

Overall results for these segments were 50% of the 2012 target annual incentive award.

The following table shows the changes in our performance targets and achievements for both 2011 and 2012:

2011 Incentive Plan Performance Targets		2011 Incentive Plan Results		2012 Incentive Plan Performance Targets			2012 Incentive Plan Results		
EPS	ROIC	EPS	ROIC	EPS Business Segment	ROIC	EPS MDU Resources	EPS Business Segment ($) / (% of	ROIC (%) / (% of	EPS MDU Resources ($) / (% of

Name	($)	(%)	($)	(%)	($)	(%)	($)	Target)	Target)	Target)
Pipeline and Energy Services	1.97	7.9	1.96	7.9	0.99	5.8	1.19	1.78 / 200	8.3 / 200	(.01) / 0
Exploration and Production	1.99	7.1	2.20	7.9	2.10	6.9	1.19	(4.81) / 0	(13.9) / 0	(.01) / 0
Construction Services	2.39	6.0	4.46	9.6	3.61	7.4	1.19	8.18 / 200	15.2 / 200	(.01) / 0
Construction Materials and Contracting	0.35	3.2	0.40	3.5	0.31	3.5	1.19	0.49 / 200	4.1 / 111.8	(.01) / 0
Electric and Natural Gas Distribution	1.14	6.2	1.21	6.5	1.16	6.2	1.19	1.08 / 65.5	5.8 / 67.8	(.01) / 0

Proxy Statement

The table below lists each named executive officer s 2012 base salary, annual incentive target percentage, and the annual incentive earned.

Name	2012 Base Salary (000s) ($)	2012 Annual Incentive Target (%)	2012 Annual Incentive Earned (% of Target)	2012 Annual Incentive Earned (000s) ($)
Terry D. Hildestad	750.0	100	69.1	518.3
Doran N. Schwartz	300.0	50	69.1	103.7
Steven L. Bietz	360.5	65	148.5	348.0
J. Kent Wells	550.0	125	0.0	0.0
William E. Schneider	447.4	65	69.1	201.0

Messrs. Hildestad s, Schwartz s, and Schneider s 2012 annual incentives were paid at 69.1% of target based on the following:

	Column A Percentage of Annual Incentive Target Achieved	Column B Percentage of Average Invested Capital	Column A x Column B
Construction Services Segment and Construction Materials and Contracting Segment	133.5%	29.2%	39.0%
Exploration and Production Segment	0.0%	28.1%	0.0%
Pipeline and Energy Services Segment	148.5%	8.8%	13.1%
Electric and Natural Gas Distribution Segments	50.0%	33.9%	17.0%
Total (Payout Percentage)			69.1%

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 2012, the committee chose to use the average of (i) the number that results from adding the daily Moody s U.S. Long-Term Corporate Bond Yield Average for A rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12 and (ii) the number that results from adding the daily Moody s U.S. Long-Term Corporate Bond Yield Average for BBB rated companies as of the last day of each month for the 12-month period ending October 31 and dividing by 12. This resulted in an interest rate of 5.46%. The compensation 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.

2012 Long-Term Incentives

Awards Granted in 2012 under the Long-Term Performance-Based Incentive Plan for Named Executives

We use the Long-Term Performance-Based Incentive Plan, which has been approved by our stockholders, for long-term incentive compensation. We use performance shares as the primary form of long-term incentive compensation. We have not granted stock options since 2001, and in 2011 we amended the plan to no longer permit the grant of stock options or stock appreciation rights; no stock options, stock appreciation rights, or restricted shares are outstanding.

The compensation committee used the performance graph peer group as the comparator group to determine relative stockholder return and potential payments for the 2012 performance share awards. The performance graph peer group consisted of the following companies when the committee granted performance shares in February 2012:

Alliant Energy Corporation	Martin Marietta Materials, Inc.	Southwest Gas Corporation
Atmos Energy	National Fuel Gas Company	Sterling Construction Company

Berry Petroleum Company
Black Hills Corporation
Comstock Resources, Inc.
EMCOR Group, Inc.
EQT Corporation
Granite Construction Incorporated
Northwest Natural Gas Company
Pike Electric Corporation
Quanta Services, Inc.
Questar Corporation
SCANA Corporation
Southern Union Company
SM Energy Company
Swift Energy Company
Texas Industries
Vectren Corporation
Vulcan Materials Company
Whiting Petroleum Corporation

Proxy Statement

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 the relative stockholder return performance measure 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. No dividend equivalents are paid on unvested performance shares.

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 in part from the competitive assessment and in part by the compensation committee s judgment on the impact each position has on our total stockholder return. From an internal equity standpoint, the committee believed positions in the same salary grade should have the same long-term incentive target level. From an internal equity standpoint, the committee believed in keeping the chief executive officer s long-term incentive target below a level indicated from the competitive assessment. Mr. Hildestad s target was 150% of base salary, below the salary survey median of 231% of base salary for chief executive officers. The compensation committee has historically set Mr. Hildestad s target long-term incentive compensation below the level indicated by the competitive assessment to offset his benefit under the Supplemental Income Security Plan, our nonqualified defined benefit plan, which prior assessments have shown to be higher than competitive levels. The 2012 long-term incentive targets as a percentage of base salary for Messrs. Schwartz, Bietz, and Schneider were unchanged from 2011 because the targets were in line with the competitive assessment s targets. Mr. Wells long-term incentive target is 200% of base salary, which is higher than the 90% long-term incentive target for other executives in salary grade J. The higher target for Mr. Wells was pursuant to his letter agreement and reflects the committee s judgment of offsetting Mr. Wells non-participation in our Supplemental Income Security Plan.

On February 16, 2012, 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 2012 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 1, 2012 through January 22, 2012, as shown in the following table:

Name	2012 Base Salary to Determine Target ($)	2012 Long-Term Incentive Target at Time of Grant (%)	2012 Long-Term Incentive Target at Time of Grant ($)	Average Closing Price of Our Stock From January 1 Through January 22 ($)	Resulting Number of Performance Shares Granted on February 16 (#)
Terry D. Hildestad	750,000	150	1,125,000	21.54	52,228
Doran N. Schwartz	300,000	75	225,000	21.54	10,445
Steven L. Bietz	360,500	90	324,450	21.54	15,062
J. Kent Wells	550,000	200	1,100,000	21.54	51,067
William E. Schneider	447,400	90	402,660	21.54	18,693

Assuming our three-year (2012 to 2014) total stockholder return is positive, from 0% to 200% of the target grant will be paid out in February 2015 depending on our 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:

Long-Term Incentive Payout Percentages

The Company s Percentile Rank	Payout Percentage of February 16, 2012 Grant

90th or higher