CONSTELLATION ENERGY GROUP INC
Form 10-K/A
April 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 2011

Commission file number	Exact name of registrant as specified in its charter	IRS Employer Identification No.
1-12869	**CONSTELLATION ENERGY GROUP, INC.**	**52-1964611**

MARYLAND

(States of incorporation)

100 CONSTELLATION WAY, BALTIMORE, MARYLAND 21202
(Address of principal executive offices) (Zip Code)

410-470-2800

(Registrants telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class		Name of each exchange on which registered
Constellation Energy Group, Inc. Common Stock Without Par Value		New York Stock Exchange, Inc. Chicago Stock Exchange, Inc.
Constellation Energy Group, Inc. Series A Junior Subordinated Debentures	}	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Not Applicable

Indicate by check mark if Constellation Energy Group, Inc. is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o.

Indicate by check mark if Constellation Energy Group, Inc. is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x.

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) have been subject to such filing requirements for the past 90 days. Yes x No o.

Indicate by check mark whether Constellation Energy Group, Inc. has submitted electronically and posted on its corporate Web-site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Indicate by check mark whether Constellation Energy Group, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether Constellation Energy Group, Inc. is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes o No x

Aggregate market value of Constellation Energy Group, Inc. Common Stock, without par value, held by non-affiliates as of June 30, 2011 was approximately $7,621,809,578 based upon New York Stock Exchange composite transaction closing price.

CONSTELLATION ENERGY GROUP, INC. COMMON STOCK, WITHOUT PAR VALUE

202,298,952 SHARES OUTSTANDING ON MARCH 12, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Explanatory Note

This Form 10-K/A amends Items 10, 11, 12, 13 and 14 and includes exhibits under Item 15 of the Annual Report on Form 10-K for the year ended December 31, 2011 filed by Constellation Energy Group, Inc. (Constellation Energy) on February 29, 2012. In this Report, these items were incorporated by reference from Constellation Energy s proxy statement. As a result of the transactions described below, Constellation Energy ceased to exist as a separate entity and will not file a proxy statement as it will not hold an annual meeting of shareholders. Accordingly, Items 10, 11, 12, 13 and 14 of Form 10-K are being filed via this Form 10-K/A, as well as Exhibits 31(e) and 31(f) under Item 15.

On March 12, 2012, Constellation Energy merged with Bolt Acquisition Corporation, a wholly-owned subsidiary of Exelon Corporation (Exelon), in accordance with an Agreement and Plan of Merger, dated as of April 28, 2011, by and among Constellation, Exelon and Bolt Acquisition Corporation, and became a wholly-owned subsidiary of Exelon (the Merger). Immediately following the completion of the Merger, Constellation Energy merged with and into Exelon, with Exelon surviving the merger (the Upstream Merger). The separate existence of Constellation Energy ceased and each share of Constellation Energy common stock issued and outstanding immediately prior to the Upstream Merger was cancelled and retired. Because Exelon survived the Upstream Merger, Exelon is signing this Form 10-K/A, and the principal executive and principal financial officers of Exelon are providing the required certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which are filed as Exhibits 31(e) and 31(f) under Item 15.

This Form 10-K/A does not amend or update any other information set forth in the Form 10-K originally filed by Constellation Energy on February 29, 2012.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

As discussed in the Explanatory Note, following the Upstream Merger on March 12, 2012, the separate existence of Constellation Energy ceased. As a result, Constellation Energy s Board of Directors ceased to exist and there are no directors for which to report the information required by this item.

The information required by this item with respect to executive officers of Constellation Energy, pursuant to Instruction 3 of paragraph (b) of Item 401 of Regulation S-K, is set forth following Item 4 of Part I of this Form 10-K under *Executive Officers of the Registrant*.

Committees of the Board of Directors

Prior to the Upstream Merger discussed in the Explanatory Note, the Board of Directors had the following committees:

Executive Committee: This committee was authorized to exercise all of the powers of the Board of Directors, except that it could not authorize dividends or the issuance of stock (except in certain limited circumstances authorized by the Board of Directors), recommend to shareholders any action requiring shareholder approval, amend the bylaws, or approve mergers or share exchanges that did not require shareholder approval. The committee met one time in 2011. Mayo A. Shattuck III was Chairman, and James T. Brady, James R. Curtiss, Robert J. Lawless and Freeman Hrabowski, III were members.

Audit Committee: This committee oversaw Constellation Energy s auditing, accounting, financial reporting, risk management, corporate compliance and internal control functions as set forth in its charter. The committee also approved the services provided by Constellation Energy s independent registered public accounting firm, and monitored and evaluated its performance, the fees paid, and the compatibility of the non-audit services provided by the firm with maintaining the firm s independence. Each member of the committee was an audit committee financial expert as that term is defined in the applicable rules of the Securities and Exchange Commission (SEC), and financially literate as that term is defined in the listing standards of the New York Stock Exchange (NYSE). The committee met eight times in 2011. Mr. Brady was Chairman, and John L. Skolds, Michael D. Sullivan and Ann C. Berzin were members.

Committee on Nuclear Power: This committee advised the Board of Directors on Constellation Energy s participation in a joint venture with Électricité de France, relating to a nuclear generation and operation business. The committee met five times in 2011. Mr. Curtiss was Chairman, and Nancy Lampton and Mr. Skolds were members.

Compensation Committee: With respect to compensation and benefits matters, this committee was responsible for:

- reviewing and recommending to the Board of Directors compensation for directors,
- establishing total compensation for the chief executive officer and other executive officers,
- reviewing and approving the goals and objectives relevant to the chief executive officer s compensation, evaluating the chief executive officer s performance in light of those goals and objectives and setting the chief executive officer s compensation level based on this evaluation,
- establishing the design of benefit plans in which directors and executive officers participate,
- establishing and periodically reviewing policies concerning perquisites and fringe benefits for the chief executive officer and other executive officers,
- approving the terms of any severance, change in control or employment contract for the chief executive officer and other executive officers,
- reviewing and discussing with management the Compensation Discussion and Analysis to be included in the proxy statement, recommending inclusion of the Compensation Discussion and Analysis in the proxy statement to the Board of Directors and reviewing any other material disclosure concerning compensation matters,
- reviewing and discussing with management Constellation Energy s disclosure controls and procedures relating to executive compensation matters,
- reviewing and discussing with management its assessment as to whether risks arising from Constellation Energy s compensation policies and practices for its employees are reasonably likely to have a material adverse effect on Constellation Energy and any proposed disclosures related to such assessment,
- reviewing and making recommendations to the Board of Directors with respect to proposals to be submitted for shareholder advisory votes relating to the compensation of Constellation Energy s named executive officers and the frequency of the vote on such compensation,

- reviewing and making recommendations to the Board of Directors with respect to executive incentive compensation plans and equity-based plans, and

- approving and periodically reviewing director and executive officer stock ownership guidelines.

This committee also reviewed the recommendations of the chief executive officer for candidates for positions as executive officers of Constellation Energy and recommended candidates to the Board of Directors. The committee also oversaw succession planning for the chief executive officer and senior management. The committee met six times in 2011. Mr. Lawless was Chairman, and Yves C. de Balmann and Dr. Hrabowski were members. Information on the roles of executive officers and compensation consultants in determining or recommending the amount or form of executive and director compensation is provided under *Compensation Discussion and Analysis* and *Director Compensation* in Item 11 below.

Nominating and Corporate Governance Committee: This committee considered and recommended to the Board of Directors nominees for election as directors, including nominees recommended by shareholders. It oversaw corporate governance, Board of Directors composition, annual evaluations of the Board of Directors and its committees, and committee structure, membership and functions. The committee periodically reviewed Constellation Energy s Corporate Governance Guidelines and Principles of Business Integrity. The committee met three times in 2011. Dr. Hrabowski was Chairman, and Messrs. de Balmann and Lawless were members.

The Audit, Compensation and Nominating and Corporate Governance Committees were composed entirely of independent directors under NYSE listing standards, SEC requirements and other applicable laws, rules and regulations.

Prior to the Upstream Merger, Constellation Energy maintained Principles of Business Integrity, a code of ethics which applied to all of our directors, officers and employees, including the chief executive officer, chief financial officer and chief accounting officer. Constellation Energy posted the Principles of Business Integrity and any amendments to, or waivers of, the Principles of Business Integrity applicable to its chief executive officer, chief financial officer or chief accounting officer on its website.

Section 16(a) Beneficial Ownership Reporting Compliance

Constellation Energy s directors and executive officers were required to file initial reports of ownership and reports of changes of ownership of Constellation Energy common stock with the SEC. Based upon a review of these filings and written representations from the Constellation Energy directors and executive officers, all required filings were timely made.

Item 11. Executive Compensation

Compensation Discussion and Analysis

In this compensation discussion and analysis, we explain our general compensation philosophy for the executives named in the *2011 Summary Compensation Table,* our named executive officers, as well as provide an overview and analysis of the different material elements of compensation that we provide our named executive officers. We have organized our discussion and analysis as follows:

- First, we provide an executive summary of the 2011 compensation decisions for our named executive officers.

- Second, we discuss our 2011 strategic business objectives and how they affected executive compensation.

- Next, we give a broad overview of our compensation philosophy, the objectives of our compensation program and what our compensation program is designed to reward.

- Then, we discuss our use of compensation consultants and our approach to benchmarking the compensation for each of the named executive officers.

- Finally, we describe each material element of compensation that we pay to our named executive officers, how we selected the various elements and amounts of compensation, how decisions we make about one element of compensation fit into our overall compensation program and affect decisions regarding other elements of compensation.

Executive Summary

<u>Constellation Energy 2011 Performance</u>

On April 28, 2011, Constellation Energy agreed to merge with Exelon Corporation (Exelon). The merger was completed on March 12, 2012, creating the nation s leading competitive energy producer and America s largest clean energy fleet. Much of our focus during 2011 was on supporting the activities that would help us to complete the merger and drive successful integration. Notwithstanding the significant merger related efforts during 2011, we continued to focus on successful achievement of our 2011 stand-alone company financial and operational objectives.

- We achieved earnings that, excluding Hurricane Irene storm costs and mark-to-market accounting timing losses that do not affect the underlying solid performance of our business, were within our guidance range.

- We supported the continued growth of our wholesale and retail energy supply business:

  - We expanded our national customer base to more than 1 million retail customers through organic growth and our acquisitions of MXenergy Holdings, Inc. and Star Electricity, Inc. We further diversified the geographic scope of our business, gaining a stronger foothold in markets where we see expanding opportunities.

  - We strengthened our position as a leading provider of clean energy and innovative products and services aimed at helping our customers more effectively manage their costs.

- Our regulated electric and gas utility, Baltimore Gas and Electric Company (BGE), continued to invest in safety and reliability, and is an industry leader in operating efficiency. In particular, BGE:

  - Delivered steady performance and improved year-over-year adjusted earnings (excluding Hurricane Irene storm costs for 2011),

  - Mobilized a restoration force in the devastating aftermath of Hurricane Irene which resulted in power restoration at a pace 20% faster than during Hurricane Isabel in 2003, and

  - Remains on track to deploy its ambitious Smart Grid initiative that is intended to improve service and reliability and facilitate customer savings.

- Our fossil generation business successfully integrated recently acquired power plants as part of a continuing strategy to balance our load obligations in markets where we have a growing competitive presence.

- Our nuclear generation business continued to lead the industry in reliability as evidenced by a capability factor of 91 percent.

Pay for Performance Philosophy

*C*onstellation Energy rewards executives through compensation programs that are designed to establish a strong relationship between executive pay and Company performance based on the achievement of enterprise-wide goals. As a result, a high proportion (85%) of our named executive officers compensation is performance-based in the form of short-term and long-term incentive opportunities that maintain the link between compensation and performance.

Base salary and target incentive opportunity are set based on the market median. An executive may earn above-median pay based upon company and executive performance against pre-established target objectives.

Short-term incentive metrics are aligned with and support the corporate strategic plan and provide potential payouts based on meeting annual objectives. As described in *Material Elements of Compensation* beginning on page 10, Constellation Energy met or exceeded all but three of the 29 short-term incentive performance goals, resulting in the creation of the incentive pool from which the short-term incentive award payouts to the named executive officers for 2011 performance were made.

The long-term incentive opportunity rewards sustained total shareholder return (TSR) and stock price performance. For 2011, long-term incentive awards were split evenly between: 1) performance units that vest at the end of three years and reward our named executive officers only if the value delivered to Constellation Energy shareholders exceeds the value delivered by the peer companies; and 2) stock options that vest ratably over three years and only create value for the recipients when the stock price increases.

Differences between Constellation Energy Compensation Approach and SEC Reporting Requirements

We note that several of the elements and the timing of the compensation program as administered annually by the Compensation Committee do not directly correspond to the information set forth in the tables required to be included in this disclosure pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). As discussed below in *Use of Compensation Consultants and Benchmarking*, each February after performance results for the prior year are finalized and publicly announced, short- and long-term incentive payouts for the prior performance period are determined and base salary changes and long-term incentive grants are approved for each executive officer, including the named executive officers, by the Compensation Committee.

As a result, the way in which the Compensation Committee makes compensation decisions for our named executive officers differs from the SEC reporting requirements. These differences are highlighted in the treatment of our CEO s 2011 short- and long-term incentive awards.

- The total value of the 2011 short-term incentive awarded by the Committee is $5.5 million delivered in fully vested stock units with a sale restriction that expires December 26, 2012. A portion ($3.0 million) of the shares received by Mr. Shattuck upon lapse of the sale restriction, net of any shares withheld to pay taxes, must be held by him until he terminates employment. The Committee structured the short-term incentive award in this way to align this award with ongoing shareholder interests. The SEC requires that the stock award be reflected in the Stock Awards column in the year in which it was granted, regardless of the performance year for which the stock was awarded, therefore the value of this award will not be shown in the *2011 Summary Compensation Table*.

• The Compensation Committee s approach with respect to long-term incentive awards is to determine the long-term incentive grant amount based on the prior year s performance and the Committee s consideration of current executive compensation trends and other information. However, the SEC requires that the stock and option awards be reflected in the *Summary Compensation Table* in the year they were granted.

To demonstrate the Compensation Committee s approach to executive compensation administration, the table below summarizes, for our chief executive officer, the Committee s total reward approach as administered in 2008 through 2012 for performance in 2007 through 2011. This table includes base salary paid during the year indicated and the short- and long-term incentives awarded in the February following the year indicated.

Performance Year	Salary ($)	Short-Term Incentive ($)	Long-Term Incentives (Grant Date Value) ($)	Total ($)
2011	1,300,000	5,500,000	5,200,000	12,000,000
2010	1,300,000	5,500,000	5,200,000	12,000,000
2009	1,300,000	4,500,000	6,200,000	12,000,000
2008	1,290,385		6,500,000	7,790,385
2007	1,201,923	5,500,000	8,500,000	15,201,923

Another area that highlights the difference between Constellation Energy s view of compensation and the way the SEC requires information to be reported relates to the change in pension value. The *2011 Summary Compensation Table* includes a change in value associated with retirement plans which is factored into the *Total* column. As described later in this disclosure, Mr. Shattuck is vested in a supplemental retirement plan that is designed to provide a competitive total compensation and benefits package. In 2011 Mr. Shattuck s supplemental retirement benefit value increased; however, Mr. Shattuck has received no distribution of funds from the plan. While the value of his benefit will increase or decrease from year to year, the plan was offered to Mr. Shattuck when he was recruited to manage the company in 2001 and the plan benefit formula has not been modified during Mr. Shattuck s tenure with Constellation Energy**.** While the Compensation Committee considers the value of Mr. Shattuck s pension in determining his overall compensation, the year-over-year change in value may increase or decrease each year based upon factors such as discount rates, age and mortality assumptions that are beyond the control of the Compensation Committee. The change in value is therefore not included in the table above.

Relationship between Executive Compensation and Performance for 2011 and Past Five Years

In February 2012, the Compensation Committee determined not to increase Mr. Shattuck s base pay and awarded him short- and long-term incentive awards with a value equal to those awarded in February 2011, as shown in the table above.

In making these compensation determinations, the Compensation Committee considered that Mr. Shattuck directed Constellation Energy in a manner that enabled it to meet or exceed all but three of the 29 metrics established for 2011 performance. The Committee also noted that Constellation Energy performed well in a challenging economic environment in which power prices remained low and severe weather affected operations from Maryland to Texas, increasing total shareholder return during 2011 as compared to 2010. Despite these significant achievements and Mr. Shattuck s extraordinary contributions to the merger negotiations and subsequent integration planning, the Compensation Committee concluded that total CEO compensation should remain flat. The Committee also delivered Mr. Shattuck s short-term incentive award in equity, a portion of which that may not be sold by him prior to termination of employment, so that the value he ultimately receives is tied directly to Constellation Energy s (and now Exelon s) stock price.

Following the economic recession that began during 2008, Constellation Energy implemented a series of strategic and restructuring initiatives to improve liquidity, reduce business risk, focus on core strengths and maintain credit metrics consistent with an investment grade rating. The success of these efforts is reflected in Constellation Energy s TSR which has significantly improved such that a $100 investment in Constellation Energy common stock at the end of 2008 had a value of $173 at the end of 2011. The table below shows Constellation Energy s TSR over this time period as compared to Mr. Shattuck s compensation based on the Compensation Committee s approach to executive compensation, which has remained flat.

Pay-for-Performance

<u>Executive Compensation Practices</u>

In addition to establishing a pay-for-performance culture, Constellation Energy has instituted the following exemplary executive compensation practices:

- Constellation Energy has no individual change in control or employment agreements with any executive officer. All named executive officers are currently covered under the same standard severance arrangements as the employees in their respective business units.

- The Compensation Committee has adopted a claw back policy that applies to all executive officers with respect to all short-term and long-term incentives as more fully described in *Claw Back Policy* on page 18.

- Constellation Energy does not provide tax gross-ups on perquisites received by our executive officers, except for relocation benefits, which gross-up is provided to all employees.

- Perquisites provided to executives are reviewed annually by the Compensation Committee and are not excessive in form or amount as compared to the Energy Peers listed in *Benchmarking*.

- Constellation Energy s insider trading policy prohibits all employees, including the named executive officers, from using company stock in any hedging activities.

- The Compensation Committee has retained its own independent compensation consultant since 2007 and also retains its own legal counsel.

- Short- and long-term incentives are designed to mitigate unnecessary risk. Short-term incentives use multiple performance metrics that include qualitative as well as quantitative measures that align the focus of leaders across the organization on more than just financial goals. Long-term incentives focus on metrics that are directly tied to shareholder value and are delivered in overlapping three-year performance cycles, which decreases the focus on results in any one performance period.

- Constellation Energy s executive officers are subject to stock ownership requirements that exceed those of the Energy Peers listed in *Benchmarking* and create alignment with shareholder interests.

- Constellation Energy has never repriced outstanding stock options even at a time when a significant portion of outstanding options are out-of-the-money.

- Constellation Energy does not provide guaranteed bonuses to our named executive officers.

- The Compensation Committee has structured the payout for the 2011 short-term incentive award for the Chief Executive Officer such that the award is payable in fully vested stock units with a sale restriction. A portion of the shares received upon lapse of the sale restriction, net of any shares withheld to pay taxes, must be held by the CEO until he terminates employment, thus aligning the award with long-term shareholder interests.

- Constellation Energy benchmarks its named executive officers compensation target opportunity against the 50th percentile of the benchmark data for the peer groups (discussed in *Benchmarking* beginning on page 9).

Executive Compensation Framework

We began 2011 with a vision to grow our generation portfolio in strategic markets, leverage technology and innovation to strengthen customer relationships, improve system reliability, and continue to drive corporate-wide efficiency. As a result, the 2011 short-term incentive program consisted of financial, customer, process, and people and knowledge objectives to position the company for strong, sustained growth in 2011 and beyond. The funding mechanism for the 2011 short-term incentive pool was based on an assessment of successful achievement of several objectives including the following:

- Financial Objectives

  - Focus on profitable operations
  - Ensure capital availability and efficiency
  - Make disciplined investments to support a balanced portfolio

- Customer Objectives

  - Establish Constellation Energy as a respected brand

- Process Objectives

  - Practice environmental stewardship
  - Operate safely and reliably
  - Be a policy thought leader and advocate

- o Positively impact and actively engage the communities in which we live and work
- o Optimize generation to balance load
- o Grow the customer supply business

- People and Knowledge Objectives

- o Develop our people and leaders
- o Embrace diversity and inclusion
- o Drive a high-performance and collaborative culture

The Compensation Committee determined that the overall structure of the programs, including the use of annual performance-based awards and long-term awards consisting of stock options and performance units, continue to serve the Committee s stated purpose of paying for performance and alignment with shareholder interests. As a consequence, the overall structure of Constellation Energy s 2011 compensation program remained largely unchanged from prior years.

Following the 2011 advisory vote on compensation of named executive officers, the Compensation Committee determined that they would consider revising the short-term incentive program design for 2012 to make the connection between company performance and short-term incentive payouts more objective and establishing maximum payouts for each of the named executive officers. However, due to Constellation Energy s merger with Exelon, these changes were not implemented. In addition, in light of the advisory vote, the Committee also elected to deliver the 2011 short-term incentive award for Mr. Shattuck entirely in fully vested stock units with a sale restriction to align this award with ongoing shareholder interests.

Executive Compensation Objectives and Major Policies

In structuring the compensation program for our named executive officers, the Compensation Committee traditionally has taken into account that we have multiple businesses. For 2011, that included considering:

- BGE, a regulated electric and gas public utility in central Maryland

- Constellation Energy s Generation business, which:

o develops, owns, owns interests in and operates electric generation facilities and a fuel processing facility located in various regions of the United States and Canada; and

o manages certain contractually controlled physical assets, including generating facilities and owns an interest in a joint venture that owns and operates nuclear generating facilities.

- Constellation Energy s NewEnergy business, which:

o is a competitive provider of energy-related products and services for a variety of customers and focuses on selling electricity, natural gas, and other energy-related products to serve customers requirements (load-serving), and providing other energy products and risk management services;

o manages our upstream natural gas activities; and

o designs, constructs, and operates renewable energy, heating, cooling, and cogeneration facilities and provides home improvements, sales of electric and gas appliances, and servicing of heating, air conditioning, plumbing, electrical, and indoor air quality systems.

As a result of these multiple businesses, we compete for executive talent from a variety of labor market pools.

In general, executive compensation is highly leveraged so that executives are rewarded for achieving and exceeding metrics that support our corporate strategy. The compensation policies are designed to meet the following objectives:

- encourage our executives to manage Constellation Energy in the long-term best interests of its shareholders by aligning their interests with our shareholders interests and rewarding them for sustained stock price appreciation and total shareholder return over multiple year performance periods;

- maintain strong links between executive compensation and both short-term and long-term performance by rewarding our executives for successful achievement of financial, strategic and operational goals;

- compete for, attract and retain highly motivated employees with outstanding skills who are best suited to drive our success over the long term;

- reflect the differences among our businesses; and

- ensure that risks arising from compensation programs are not reasonably likely to have a material adverse effect on Constellation Energy (see *Compensation Risk Assessment* on page 35).

To accomplish these objectives, the Compensation Committee, taking into account corporate, staff and business unit and individual performance, administers the compensation program so that:

- A high proportion of our executive officers compensation is at risk in the form of short-term and long-term incentive opportunities which maintains a strong link between compensation and performance. For example, for 2011, on average approximately 85% of our named executive officers total direct compensation (i.e., base salary plus short-term plus long-term incentives) was contingent on performance as set forth in the chart below.

Average Compensation Mix for Named Executive Officers*

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* Consists of base salary as of December 31, 2011, 2011 short-term incentive award paid in March 2012 (as reported in the *Non-Equity Incentive Plan Compensation* column and footnote 4 of the *2011 Summary Compensation Table)* and long-term incentive award granted in February 2011 (as reported in the *Stock Awards* and *Options Awards* columns of the *2011 Summary Compensation Table*).

- Generally speaking, executive base salaries are established with reference to compensation data at the 50th percentile for comparable positions in the labor pools from which we recruit. Short-term cash incentive awards also are expected to approximate the 50th percentile in a year of good, but not exceptional, company and individual performance as determined by the Compensation Committee. The incentive program is sufficiently related to performance results such that the total cash compensation (i.e., base salary plus short-term incentives) should attain the top quartile of the market when the Committee determines that individual and company performance have been exceptional. We use this approach because it allows Constellation Energy to provide competitive base salaries and short-term incentive awards that promote exceptional performance by virtue of the opportunity for higher incentive payments, which allows us to compete for, attract and retain executive talent.

- As discussed more fully below, long-term incentive award grants generally provide the opportunity, based on company actual long-term performance, for total direct compensation in a year of good but not exceptional performance to approximate the 50th percentile of the market, and generally vest over a period of three years to provide retention incentives.

- Approximately 43% of each named executive officer s annual total direct compensation is in the form of stock-based or stock-linked awards, such as stock options and performance units, so as to tie a significant portion of long-term compensation to stock price appreciation realized by all Constellation Energy shareholders.

Use of Compensation Consultants and Benchmarking

<u>Overview</u>

Constellation Energy administers compensation changes for all employees, including our named executive officers on an annual basis. Each February, after performance results for the prior year are finalized and publicly announced, short- and long-term incentive payouts for the prior performance period are determined and base salary changes and long-term incentive grants are approved by the Compensation Committee. This administration schedule permits compensation decisions to be made within a reasonable time after disclosure of Constellation Energy s financial and operational results, so that an assessment of business unit and individual contributions to corporate performance can provide alignment of pay with performance. This schedule also facilitates the establishment of short- and long-term performance metrics that are consistent with Constellation Energy s business plan objectives communicated to shareholders at the beginning of the year.

<u>Use of Compensation Consultants</u>

Our Compensation Committee retains a compensation consultant to assist the Committee in determining both the mix of compensation that we make available to our named executive officers and the amount of each element, taking into account the general goals of our compensation program. The compensation consultant also provides research and market data to the Compensation Committee and generally advises the Compensation Committee on matters relating to its executive compensation decision making. A representative of the compensation consultant generally attends meetings of the Compensation Committee and also communicates directly with the Compensation Committee Chair. For 2011 our Compensation Committee retained Exequity LLP (Exequity), which exclusively provides executive compensation consulting services to the Compensation Committee and no other consulting services to Constellation Energy.

Benchmarking

Excess Contributions Payable

The Plan is required to return contributions to participants in the event certain nondiscrimination tests and/or contribution limits defined under the Code are not satisfied. At December 31, 2015 and 2014, liabilities of $3,849 and $7,798, respectively, were recorded for amounts refundable to Plan participants and were included in excess contributions payable in the accompanying statements of net assets available for benefits, as well as reduced the participant contributions in the statement of changes in net assets available for benefits.

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MDU RESOURCES GROUP, INC.
401(k) RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

Administrative Expenses
Administrative expenses of the Plan related to Trustee, recordkeeping, legal and audit fees are paid primarily by the Employers. Fees or commissions associated with each of the investment options other than the MDU Resources Stock Fund are paid primarily by participants as a deduction from the amount invested or an offset to investment earnings and were approximately $3.1 million for the year ended December 31, 2015. Administrative expenses of the Plan were approximately $280,000 for the year ended December 31, 2015, including the MDU Resources Stock Fund commissions, loan fees and terminated participant account fees that were paid by participants through the Plan. Most other administrative expenses were paid by the Company.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties
Investments, in general, are subject to various risks, including credit, interest rate and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is likely that changes in values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Concentration of Investments
The following presents investments that represent 10 percent or more of the Plan’s net assets available for benefits at December 31:

	2015	2014
MDU Resources Stock Fund*	$159,297,200	$190,266,340
New York Life Insurance Anchor Account	88,806,420	90,901,034

* Indicates a party-in-interest investment.

Other
Securities transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned.

3. Cash Equivalents

Cash equivalents represent funds temporarily invested in either the PIMCO Money Market Institutional Fund, which provides liquidity for fund reallocations and distributions of the MDU Resources Stock Fund, or the PIMCO Money Market Administrative Fund, whose funds were pending investment in the New York Life Insurance Anchor Account at December 31, 2015.

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MDU RESOURCES GROUP, INC.
401(k) RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

4. Investment Contract with Insurance Company

The Plan has a fully benefit-responsive investment contract with New York Life Insurance Company (NYL Insurance). NYL Insurance maintains the contributions in a pooled separate account, which is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The contract is included in the financial statements at contract value. Contract value represents contributions made under the contract, plus interest and dividends credited, less participant withdrawals and administrative expenses. As of December 31, 2015 and 2014, the contract value of the traditional fully benefit-responsive contract with NYL Insurance was $88,806,420 and $90,901,034, respectively. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value. The contract has certain restrictions that impact the ability to collect the full contract value. For example, withdrawals due to events initiated by the Company including, but not limited to, total or partial termination of the Plan, group lay-offs or early retirement incentives, may result in a penalty if these withdrawals exceed limitations defined in the contract. The Company believes that the occurrence of events that would cause the plan to transact at less than contract value is not probable. NYL Insurance may not terminate the contract at any amount less than contract value.

NYL Insurance is contractually obligated to pay the principal and any interest and dividends that have been credited to the Plan. The crediting interest rate is based on a formula agreed upon with the issuer, but may not be less than zero percent. Such interest rates are reviewed not less frequently than quarterly nor more frequently than daily for resetting.

5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The FASB Accounting Standards Codification establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are three levels of inputs that may be used to measure fair value:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date;

- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or

- Level 3 - unobservable inputs for the asset or liability.

MDU RESOURCES GROUP, INC.
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NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

The estimated fair values of the Plan's assets measured on a recurring basis are determined using the market approach and are corroborated using third-party market data. There have been no changes in the methodologies used at December 31, 2015.

Cash equivalents: Valued at the net asset value of shares held by the Plan at year end, based on published market quotations on an active market, or using other known sources including pricing from outside sources. Fair value approximates cost.

Common stock: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value of shares held by the Plan at year end, based on published market quotations on active markets.

Collective trust funds: Investment in the collective trust funds is valued at fair value reported by the fund managers based on the underlying investments within each fund and are expressed in units representing the net asset value of each fund.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the valuation methods are considered appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. For the year ended December 31, 2015, there were no transfers between Levels 1 and 2.

The Plan's assets measured at fair value are as follows:

	Fair Value Measurements at December 31, 2015, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Assets:				
Mutual funds	$454,816,333	$ —	$ —	$454,816,333
Common stock	159,297,200	—	—	159,297,200
Cash equivalents	2,572,088	—	—	2,572,088
Total assets in the fair value hierarchy	616,685,621	—	—	616,685,621
Collective trust fund investments measured at net asset value	—	—	—	31,430,271
Total assets measured at fair value	$616,685,621	$ —	$ —	$648,115,892

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MDU RESOURCES GROUP, INC.
401(k) RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

	Fair Value Measurements at December 31, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Assets:				
Mutual funds	$461,766,077	$ —	$ —	$461,766,077
Common stock	190,266,340	—	—	190,266,340
Cash equivalents	3,482,710	—	—	3,482,710
Total assets in the fair value hierarchy	655,515,127	—	—	655,515,127
Collective trust fund investments measured at net asset value	—	—	—	22,767,093
Total assets measured at fair value	$655,515,127	$ —	$ —	$678,282,220

6. Federal Income Taxes

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated October 15, 2014, that the Plan and related trust are designed for qualification as exempt from federal income taxes in accordance with applicable sections of the Code. The IRS based its determination on the application the Plan submitted on March 30, 2011. Although the Plan has been amended since submitting the determination letter application, the Company believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code. The Plan will take all necessary steps to maintain its qualified tax status.

GAAP requires Plan management to evaluate tax positions taken by the Plan. The effects of an uncertain tax position are recognized in the financial statements when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2015 and 2014, there are no uncertain positions taken or expected to be taken. The Plan has recognized no interest or penalties related to uncertain tax positions. The Plan is subject to routine audits by taxing jurisdictions. The 2013 Plan year is currently under audit with the IRS.

7. Related-Party Transactions

At December 31, 2015 and 2014, the Plan held 8,695,262 and 8,096,440 shares, respectively, of Company common stock, which qualify as exempt party-in-interest transactions and are allowable under ERISA. During 2015, the Plan purchased 1,657,260 shares of Company common stock at an aggregate cost of $33.2 million and sold 1,058,438 shares of Company common stock for proceeds of $28.3 million.

MDU RESOURCES GROUP, INC.
401(k) RETIREMENT PLAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

8. Prohibited Transactions

There were no nonexempt prohibited transactions, other than those listed in Schedule H, Line 4a, Schedule of Delinquent Participant Contributions, with respect to the Plan during the plan year ended December 31, 2015.

9. Reconciliation of the Financial Statements to the Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

	December 31,	
	2015	2014
Net assets available for benefits per the financial statements	$777,269,162	$807,996,094
Adjustment from contract value to fair value for fully benefit-responsive investment contract	—	509,046
Deemed distributions	(63,910)	(20,994)
Net assets available for benefits per the Form 5500	$777,205,252	$808,484,146

The following is a reconciliation of the statement of changes in net assets available for benefits per the financial statements to the Form 5500 for the year ended December 31, 2015:

Net decrease in net assets available for benefits per the financial statements	$(30,726,932)
Change in adjustment from contract value to fair value for fully benefit-responsive investment contract	(509,046)
Change in deemed distributions	(42,916)
Total net loss per the Form 5500	$(31,278,894)

SUPPLEMENTAL
SCHEDULES

MDU RESOURCES GROUP, INC.
401(k) RETIREMENT PLAN

EMPLOYER IDENTIFICATION NUMBER (41-0423660) - PLAN NUMBER (004)
SCHEDULE H, LINE 4a - SCHEDULE OF DELINQUENT PARTICIPANT CONTRIBUTIONS
Year Ended December 31, 2015

Participant Contributions Transferred Late to Plan	Total that Constitute Nonexempt Prohibited Transactions			
Check here if Late Participant Loan Repayments are included: x	Contributions Not Corrected	Contributions Corrected Outside VFCP	Contributions Pending Correction in VFCP	Total Fully Corrected Under VFCP and PTE 2002-51
$21,170*	—	$ 21,170	—	—

* Of the $21,170 in delinquent contributions, $7,368 represents loan repayment amounts.

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MDU RESOURCES GROUP, INC.
401(k) RETIREMENT PLAN

EMPLOYER IDENTIFICATION NUMBER (41-0423660) - PLAN NUMBER (004)
SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS (HELD AT END OF YEAR)
December 31, 2015

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
*	MDU Resources Group, Inc. Common Stock	8,695,262 shares	**	$159,297,200
	Mutual Funds:			
	Allianz NFJ Small Cap Value Fund	1,052,329 units	**	23,077,572
	American Funds - EuroPacific Growth Fund	614,253 units	**	27,837,961
	Artisan Mid Cap Fund	581,928 units	**	24,801,792
	BlackRock Inflation Protected Bond Fund	442,135 units	**	4,562,836
	DFA International Value Portfolio Fund	658,298 units	**	10,552,517
	Dodge & Cox Balanced Fund	791,438 units	**	74,727,565
	Royce Total Return Fund	1,990,830 units	**	23,451,972
	T. Rowe Price Institutional Large Cap Growth Fund	2,171,702 units	**	62,740,461
	T. Rowe Price Institutional U.S. Structured Research Fund	2,784,905 units	**	32,973,270
	T. Rowe Price Retirement 2010 Fund	240,921 units	**	4,066,751
	T. Rowe Price Retirement 2015 Fund	645,496 units	**	8,830,383
	T. Rowe Price Retirement 2020 Fund	828,354 units	**	16,310,283
	T. Rowe Price Retirement 2025 Fund	1,098,727 units	**	16,425,961
	T. Rowe Price Retirement 2030 Fund	671,254 units	**	14,640,058
	T. Rowe Price Retirement 2035 Fund	923,769 units	**	14,586,316
	T. Rowe Price Retirement 2040 Fund	343,620 units	**	7,758,937
	T. Rowe Price Retirement 2045 Fund	1,080,506 units	**	16,380,470
	T. Rowe Price Retirement 2050 Fund	128,462 units	**	1,636,605
	T. Rowe Price Retirement 2055 Fund	200,049 units	**	2,542,617
	T. Rowe Price Retirement Balanced Fund	81,586 units	**	1,161,790
	Vanguard Institutional Index Fund	352,321 units	**	65,750,216
	Cash Equivalents:			
	PIMCO Money Market Administrative Fund	3,687 units	**	3,687
	PIMCO Money Market Institutional Fund	2,568,401 units	**	2,568,401
	Collective Trust Funds:			
	BlackRock U.S. Debt Index T Fund	1,145,959 units	**	21,888,507
	Loomis Sayles Core Plus Fixed Income Fund	746,617 units	**	9,541,764
	Pooled Separate Account:			

	New York Life Insurance Anchor Account	88,806,420 units	**	88,806,420
	Total Investments			736,922,312
*	Participant Loan Funds ***	4.25% to 9.25%	$	22,397,613
				$759,319,925

*Indicates party-in-interest investment.
**Cost information is not required for participant-directed investments, therefore it is not included.
***Loan maturities range from January 2, 2016, through November 12, 2030.

SIGNATURE

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the Employee Benefits Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

MDU Resources Group, Inc.
401(k) Retirement Plan

Date: June 17, 2016 By /s/ Doran N. Schwartz
Doran N. Schwartz
Chairman, Employee Benefits Committee

EXHIBIT INDEX

The following document is filed as part of this report:

Exhibit Number	Description
23	Consent of Independent Registered Public Accounting Firm