MDU RESOURCES GROUP INC
Form DEF 14A
March 10, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

SCHEDULE 14A

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)

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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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1) Amount Previously Paid:

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3) Filing Party:

4) Date Filed:

Your **VOTE** is important

MDU Resources Group, Inc. Proxy Statement

2009 Notice of Annual Meeting
and Proxy Statement

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1200 West Century Avenue

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

Terry D. Hildestad
President and
Chief Executive Officer

March 10, 2009

To Our Stockholders:

Please join us for the 2009 Annual Meeting of Stockholders. The meeting will be held on Tuesday, April 28, 2009, 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 2008 Annual Meeting at which 90.53 percent of the common stock was represented in person or by proxy. We hope for an even greater representation at the 2009 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.

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

Sincerely yours,

Terry D. Hildestad

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MDU RESOURCES GROUP, INC.

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD APRIL 28, 2009

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on April 28, 2009

The 2009 Notice of Annual Meeting and Proxy Statement and 2008 Annual Report to Stockholders are available at www.mdu.com/proxymaterials.

March 10, 2009

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 28, 2009, at 11:00 a.m., Central Daylight Saving Time, for the following purposes:

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

(2) To ratify the appointment of Deloitte & Touche LLP as our independent auditors for 2009; and

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

The board of directors has set the close of business on February 27, 2009 as the record date for the determination of common stockholders who will be entitled to notice of, and to vote at, the meeting.

All stockholders who find it convenient to do so are cordially invited and urged to attend the meeting in person. Registered stockholders will receive a request for admission ticket(s) with their proxy card that can be completed and returned to us postage-free. Stockholders whose shares are held in the name of a bank or broker will not receive a request for admission ticket(s). They should, instead, (1) call (701) 530-1000 to request an admission ticket(s), (2) bring a statement from their bank or broker showing proof of stock ownership as of February 27, 2009 to the annual meeting, and (3) present their admission ticket(s) and photo identification, such as a driver s license. Directions to the meeting will be included with your admission ticket. We look forward to seeing you.

By order of the Board of Directors,

Paul K. Sandness
Secretary

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PROXY STATEMENT

The board of directors of MDU Resources Group, Inc. is furnishing this proxy statement beginning March 10, 2009 to solicit your proxy for use at our annual meeting of stockholders on April 28, 2009.

We will pay the cost of soliciting your proxy and reimburse brokers and others for forwarding proxy material to you. Georgeson Inc. additionally will solicit proxies for approximately $7,500 plus out-of-pocket expenses.

The Securities and Exchange Commission s e-proxy rules allow companies to post their proxy materials on the Internet and provide only a Notice of Internet Availability of Proxy Materials to stockholders as an alternative to mailing full sets of proxy materials except upon request. For 2009, we have opted to follow 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 27, 2009. You may vote each share that you owned on that date on each matter presented at the meeting. As of February 27, 2009, we had 183,785,994 shares outstanding entitled to one vote per share.

What am I voting on? You are voting on:

- the election of eight directors nominated by the board of directors for one year terms
- the ratification of Deloitte & Touche LLP as our independent auditors for 2009 and
- any other business a stockholder properly brings before the meeting.

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

If you hold shares through an account with a bank or broker, the bank or broker may vote your shares on certain 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 routine matters for which their customers do not provide voting instructions. The election of directors and the ratification of Deloitte & Touche LLP as our independent auditors for 2009 are considered routine matters. When a proposal is not routine and the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that proposal. Those shares are considered broker non-votes.

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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 do not count as votes cast for or against the director s election. In a contested election, which is an electi 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 any 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 for another person in their discretion.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for 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 where the election occurred.

Item 2 Ratification of Deloitte & Touche LLP as Independent Auditors for 2009

Ratification of the appointment of Deloitte & Touche LLP as our independent auditors for 2009 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.

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 proposal 2.

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

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

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

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

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

ITEM 1. ELECTION OF DIRECTORS

At the 2007 annual meeting of stockholders, a majority of our stockholders voted in favor of declassifying our board of directors. The directors elected at the 2007 annual meeting of stockholders will continue to serve their full three-year terms. Directors whose terms expire this year are nominated for one-year terms. Effective November 1, 2008, the number of directors was set at twelve.

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You will be voting on eight directors to serve for a term of one year each until the annual meeting of stockholders in 2010 or until their respective successors are elected and take office or until their earlier death, resignation, or removal. All of the nominees are incumbent directors. Two of the nominees, A. Bart Holaday and Thomas C. Knudson, were elected to the board effective November 1, 2008, and are nominees for election for the first time. Your proxy holder will vote your shares for the board s nominees unless you instruct otherwise. If a nominee is unable to serve as a director, your proxy holder may vote for any substitute nominee proposed by the board. Unless we specifically note below, no corporation or organization named below is a subsidiary or other affiliate of ours. Information concerning the nominees, including their ages, years of service as directors, and business experience, which each nominee has furnished to us, is as follows:

DIRECTOR NOMINEES FOR ONE YEAR TERM

Thomas Everist Director Since 1995
Age 59 Nominated for Term Expiring in 2010

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 previously was President and Chairman of L.G. Everist, Inc., Sioux Falls, South Dakota, an aggregate production company, from 1987 to April 15, 2002. He is a Director of Showplace Wood Products, Sioux Falls, South Dakota, a custom cabinets manufacturer, and a Director of Raven Industries, Inc., Sioux Falls, South Dakota, a general manufacturer of electronics, flow controls, and engineered films. He serves on the compensation committee of MDU Resources Group, Inc.

Karen B. Fagg Director Since 2005
Age 55 Nominated for Term Expiring in 2010

Ms. Fagg has served as Vice President of DOWL LLC, d/b/a DOWL HKM, since April 2008. DOWL HKM is an engineering and design firm. 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. Ms. Fagg also served a four-year term as Director of the Montana Department of Natural Resources and Conservation, Helena, Montana, from 1989 through 1992. From 1993 through 1995, she served as Corporate Development Director for MSE, Inc. Ms. Fagg is Board Chair for St. Vincent s Healthcare and is a member of the Board of Trustees of Carroll College and the Board of Advisors of the Charles M. Bair Family Trust. Ms. Fagg serves on the compensation and nominating and governance committees of MDU Resources Group, Inc.

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A. Bart Holaday Director Since 2008
Age 66 Nominated for Term Expiring in 2010

Mr. Holaday headed the Private Markets Group of UBS Asset Management and its predecessor entities for 15 years prior to his retirement in 2001. Prior to that he was vice president and principal of the InnoVen Venture Capital Group. He was founder and president of Tenax Oil and Gas Corporation, an onshore Gulf Coast exploration and production company. He is a member of the board of directors of Adams Street Partners, LLC, a private equity investment firm, Alerus Financial, Jamestown College, the United States Air Force Academy Endowment (chairman), the Falcon Foundation (vice president), which provides scholarships to Air Force Academy applicants, the Center for Innovation Foundation at the University of North Dakota (chairman) and the University of North Dakota Foundation, and is chairman and CEO of the Dakota Foundation. He is a past member of the board of directors of the National Venture Capital Association, Walden University, and the U.S. Securities and Exchange Commission advisory committee on the regulation of capital markets. He serves on the audit committee of MDU Resources Group, Inc.

Thomas C. Knudson Director Since 2008
Age 62 Nominated for Term Expiring in 2010

Mr. Knudson has been president of Tom Knudson Interests, LLC, since its formation on January 14, 2004. Tom Knudson Interests, LLC, provides consulting services in energy, sustainable development, and leadership. Mr. Knudson began employment with Continental Oil Company (Conoco) in May 1975 and retired in 2004 from Conoco s successor, ConocoPhillips, as senior vice president of human resources, government affairs and communications. 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 is also the chairman of the board of directors of Bristow Group Inc. and a director of Natco Group Inc. 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.

Mr. Knudson has served on the boards of a number of petroleum industry associations, Covenant House Texas, The Houston Museum of Natural Science, and Alpha USA/Houston. He has served as an adjunct professor at the Jones Graduate School of Management at Rice University. He serves on the compensation committee of MDU Resources Group, Inc.

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Richard H. Lewis Director Since 2005
Age 59 Nominated for Term Expiring in 2010

Mr. Lewis has been the Managing General Partner of Brakemaka LLLP, a private investment partnership for managing family investments, and President of the Lewis Family Foundation since August 2004. Mr. Lewis serves as Chairman of the Board of Entre Pure Industries, Inc., a privately held company involved in the purified water and ice business. He serves as a Director of Colorado State Bank and Trust and on the senior advisory board of TPH Partners, L.P., a private equity fund with an energy only focus. Mr. Lewis founded Prima Energy Corporation, a natural gas and oil exploration and production company in 1980, and served as Chairman and Chief Executive Officer of the company until its sale in July 2004. He is a past president of the Colorado Oil and Gas Association. Mr. Lewis serves as the Chairman of the Development Board of Colorado Uplift, a non-profit organization whose mission is to build long-term, life-changing relationships with urban youth. He also serves on the Board of Trustees of Alliance for Choice in Education, which provides scholarships to inner city youth. He serves on the audit and nominating and governance committees for MDU Resources Group, Inc.

Patricia L. Moss Director Since 2003
Age 55 Nominated for Term Expiring in 2010

Ms. Moss has been President, Chief Executive Officer and a Director of Cascade Bancorp, a financial holding company, and Bank of the Cascades, Bend, Oregon, since 1998. She also serves 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, a Director of the Oregon Investment Fund Advisory Council, a state sponsored program to encourage the growth of small businesses within Oregon, and a Director of Clear Choice Health Plans Inc., a multi-state insurance company. She serves on the compensation committee of MDU Resources Group, Inc.

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Harry J. Pearce Director Since 1997
Age 66 Nominated for Term Expiring in 2010

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 was named Chairman of the Board of Nortel Networks Corporation, a global telecommunications company, on 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 formerly was Vice Chairman and a Director of General Motors Corporation, one of the world s largest automakers, from January 1, 1996 to May 31, 2001. He is a Director of Marriott International, Inc., a major hotel chain, 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.

Sister Thomas Welder, O.S.B. Director Since 1988
Nominated for Term Expiring in 2010
Age 68

Sister Welder has been the President of the University of Mary, Bismarck, North Dakota since 1978. She plans to retire from the University of Mary in June 2009. She is a Director of St. Alexius Medical Center of Bismarck, the Bismarck-Mandan Development Association, and the Missouri Slope Areawide United Way. She also is a member of the North Dakota Higher Education Roundtable and the Theodore Roosevelt Medora Founder s Society and is a past member of the Bismarck-Mandan Area Chamber of Commerce Board and the Consultant-Evaluator Corps for the North Central Association of Colleges and Schools. She serves on the nominating and governance committee for MDU Resources Group, Inc.

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 do not count as votes cast for or against the director s election.

Our policy on majority voting for directors and our corporate governance guidelines require any nominee for 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 where the election occurred.

CONTINUING INCUMBENT DIRECTORS

Information concerning our continuing incumbent directors, whose terms expire in 2010, including their ages, years of service as directors and business experience which each director has furnished to us, is as follows:

DIRECTOR TERMS EXPIRING IN 2010

Terry D. Hildestad	Director Since 2006
Age 59	Term Expires in 2010

Mr. Hildestad was elected President and Chief Executive Officer and a Director of the Company effective August 17, 2006. He had served as President and Chief Operating Officer from May 1, 2005 until August 17, 2006. Prior to that, he served as President and Chief Executive Officer of our subsidiary, Knife River Corporation, from 1993 until May 1, 2005. He additionally serves as an executive officer and as chairman of the Company s principal subsidiaries and of the managing committees of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. Mr. Hildestad serves on the Foundation Board at Dickinson State University in Dickinson, North Dakota, and is a member of the U.S. Bancorp Western North Dakota Advisory Board of Directors.

Dennis W. Johnson	Director Since 2001
Age 59	Term Expires in 2010

Mr. Johnson is Chairman, Chief Executive Officer and President of TMI Corporation, and Chairman and Chief Executive Officer of TMI Systems Design Corporation, TMI Transport Corporation, and TMI Storage Systems Corporation, all of Dickinson, North Dakota, manufacturers of casework and architectural woodwork. He has been employed at TMI since 1974 serving as President or Chief Executive Officer since 1982 and has been the majority stockholder since 1985. Mr. Johnson serves as President of the Dickinson City Commission. He previously was a Director of the Federal Reserve Bank of Minneapolis. He serves on the audit committee for MDU Resources Group, Inc.

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John L. Olson	Director Since 1985
Age 69	Term Expires in 2010

Mr. Olson has been President and Chief Executive Officer of Blue Rock Products Company and of Blue Rock Distributing Company, a beverage bottling company and a distributing company, respectively, in Sidney, Montana since 1965. He also is Chairman of Admiral Beverage Corporation, Worland, Wyoming, and Ogden, Utah, and current President of Liquid Assets of Montana, Inc., a property development business. He is a former Chairman and Director of the Foundation for Community Care, Sidney, Montana, past Chairman and past member of the Executive Committee of the University of Montana Foundation, and a past Director of BlueCross BlueShield of Montana. He serves on the audit and nominating and governance committees for MDU Resources Group, Inc. Mr. Olson plans to retire from the board effective August 13, 2009. In accordance with the Bylaws, Mr. Olson must retire from the board at the first regular board meeting after his 70th birthday.

John K. Wilson	Director Since 2003
Age 54	Term Expires in 2010

Mr. Wilson was President of Durham Resources, LLC, a privately held financial management company, in Omaha, Nebraska, from 1994 to January 1, 2009. He previously was President of Great Plains Energy Corp., a public utility holding company and an affiliate of Durham Resources, LLC, from 1994 to July 1, 2000. He was Vice President of Great Plains Natural Gas Co., an affiliate company of Durham Resources, LLC, until July 1, 2000. The Company bought Great Plains Energy Corp. and Great Plains Natural Gas Co. on July 1, 2000. Mr. Wilson also served as President of the Durham Foundation and was a Director of Bridges Investment Fund, a mutual fund, and the Greater Omaha Chamber of Commerce. He is presently a director of HDR, Inc., an international architecture and engineering firm based in Omaha, and a director of the Durham Museum in Omaha. Mr. Wilson is a governor of the Joslyn Art Museum in Omaha. He serves on the audit committee for MDU Resources Group, Inc.

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ITEM 2. RATIFICATION OF INDEPENDENT AUDITORS

The audit committee at its February 2009 meeting appointed Deloitte & Touche LLP as our independent auditors for fiscal year 2009. 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 2009, 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 2009.

Ratification of the appointment of Deloitte & Touche LLP as our independent auditors for 2009 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal.

In connection with the audit of our financial statements for 2009, the parties have drafted an agreement for audit committee approval that contains provisions for alternative dispute resolution and for the exclusion of punitive damages. The agreement provides that disputes arising out of our engagement of Deloitte & Touche LLP are resolved through mediation or arbitration, commonly referred to as alternative dispute resolution procedures, and that the company s and Deloitte & Touche LLP s rights to pursue punitive damages or other forms of relief not based upon actual damages are waived. The alternative dispute resolution provisions do not apply to claims by third parties, such as our stockholders or creditors.

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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 2008 and 2007:

	2008	**2007***
Audit Fees(a)	$ 2,534,499	$ 2,409,261
Audit-Related Fees(b)	78,511	91,720
Tax Fees(c)	33,653	55,279
All Other Fees(d)	0	0
Total Fees(e)	$ 2,646,663	$ 2,556,260
Ratio of Tax and All Other Fees to Audit and Audit-Related Fees	1.3%	2.2%

* The 2007 amounts were adjusted from amounts shown in the 2008 proxy statement to reflect actual amounts.

(a)

Audit fees for both 2008 and 2007 consisted of services rendered for the audit of our annual financial statements; reviews of our quarterly financial statements; comfort letters; statutory and regulatory audits and consents and other services related to Securities and Exchange Commission matters.

(b) Audit-related fees for 2008 are associated with accounting research assistance; consultation on accounting process improvements, including recommended practices and opportunities for control improvement; and assistance in the transition of benefit plan audits to another accounting firm. Audit-related fees for 2007 consisted of consultation on the implementation of new accounting standards and accounting research assistance.

(c) Tax fees for 2008 are associated with tax planning, compliance, and support services. Tax fees for 2007 are associated with international and domestic tax matters and property tax consulting services.

(d) No fees under the category of all other fees were incurred during 2008 and 2007.

(e) Total fees reported above include out-of-pocket expenses related to the services provided of $268,864 for 2008 and $265,424 for 2007.

Pre-Approval Policy

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2008 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.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

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

Introduction

In this compensation discussion and analysis, we discuss our compensation objectives, our decisions, and the reasons for our decisions relating to 2008 compensation for our named executive officers.

For 2008, our named executive officers were Terry D. Hildestad, Vernon A. Raile, John G. Harp, William E. Schneider, and Paul K. Sandness. Mr. Sandness, MDU Resources Group, Inc. s general counsel and secretary, is a named executive officer for the first time and replaces Bruce T. Imsdahl, the president and chief executive officer of Montana-Dakota Utilities Co. and Great Plains Natural Gas Co., and chief executive officer of Cascade Natural Gas Corporation, who retired in June 2008.

Each year we conduct a strategic analysis to identify opportunities and challenges associated with the operating environments in which we do business. Our strategy is to apply our expertise in energy and transportation infrastructure industries to increase market share, increase profitability, and enhance stockholder value through:

- organic growth as well as a continued disciplined approach to the acquisition of well-managed companies and properties
- the elimination of system-wide cost redundancies through increased focus on integration of operations and standardization and consolidation of various support services and functions across companies within the organization and
- the development of projects that are accretive to earnings per share and return on invested capital.

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Objectives of our Compensation Program

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

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

We pay/grant

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

If earned, incentive compensation, which consists of annual cash incentive awards and three-year performance share awards under our Long-Term Performance-Based Incentive Plan, makes up the greatest portion of our named executive officers total compensation. The compensation committee believes incentive compensation comprising approximately 55% to 72% of total target compensation for the named executive officers for 2008 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 at risk than base salary and dependent upon our performance
- at risk 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.

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The following table shows the allocation of total target compensation for 2008 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
Vernon A. Raile	39.2	25.5	35.3	60.8
John G. Harp *	39.2	25.5	35.3	60.8

	% of Total Target Compensation Allocated to Base Salary (%)	% of Total Target Compensation Allocated to Incentives		
William E. Schneider	39.2	25.5	35.3	60.8
Paul K. Sandness	44.4	22.3	33.3	55.6

* The percentages listed for Mr. Harp exclude the additional annual incentive opportunity of $200,000 in 2008, which is discussed in greater detail under the heading 2008 Annual Incentives. Including the additional incentive opportunity would yield the following percentages: Base Salary, 32.8%; Annual Incentive, 37.7%; Long-Term Incentive, 29.5%; and, Annual + Long-Term, 67.2%.

In order to reward long-term growth as well as short-term results, the compensation committee establishes incentive targets that emphasize long-term compensation as much as or more than short-term compensation for all Section 16 officers. The annual incentive targets for 2008 range from 30% to 100% of base salary and the long-term incentive targets range from 30% to 150% of base salary, depending on the executive s salary grade. Generally, our approach is to allocate a higher percentage of total target compensation to the long-term incentive than to the short-term incentive for our higher level executives, since they are in a better position to influence our long-term performance.

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

We also offer our Section 16 officers, including all of our named executive officers, benefits under our pension plans and our non-qualified defined benefit retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. The SISP was adopted in 1982 to provide participants with additional retirement income and death benefits. We provide these benefits because of their importance to our success in recruiting and retaining executive talent.

All of our named executive officers have change of control employment agreements. The change of control employment agreements define change of control to include consummation of a merger or similar transaction rather than merely stockholder approval of the merger. This prevents severance and other benefits from being provided if the transaction is not consummated.

Following a change of control transaction, the change of control employment agreements provide job and financial security to our executive officers by providing for a three-year employment period from the date of the change of control. During the employment period, the executive officer receives guaranteed minimum levels of compensation and benefits. The executive officer will also receive severance payments and benefits if his or her employment is terminated without cause, or if he or she resigns for good reason.

In 2008, we amended the change of control employment agreements to address changes in federal tax law under Section 162(m) and Section 409A of the Internal Revenue Code and to eliminate provisions our compensation committee determined were either not necessary or did not further the intended purposes of the agreements. Two changes related to the types of employment terminations that entitle the executives to severance benefits. The first change removed what is commonly referred to as a 13th month trigger, which provided that a resignation for good reason included a resignation for any reason during the 30 day period beginning on the first anniversary of the change of control. The second change eliminated a provision providing severance benefits for certain terminations occurring prior to a change of control. While we made these changes in part to address tax law issues, the compensation committee believed removing these provisions would be in the best interest of the company by eliminating the possibility the company would provide the severance benefits under the agreements even when a change of control transaction is not consummated. The amendments also removed what employees could view as an incentive to terminate employment in the 13th month following a change of control.

Additionally, the amendments included the removal of the severance benefits attributable to additional years of service under our qualified pension plan and our welfare plans, and reduced the excise tax gross-up so that the company does not reimburse the executive officers for income or excise taxes imposed on the gross-up payment.

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

In addition to these agreements, the Long-Term Performance-Based Incentive Plan provides for accelerated vesting of awards and payment of performance awards at the time of a change of control. The compensation committee believes that these protections are necessary to reassure the officers that they will not lose prior incentive awards or otherwise be adversely affected by a change of control.

Role of Compensation Consultants and Management

Role of Compensation Consultants

The compensation committee uses an outside consulting firm to assess the competitive pay levels for base salary and incentive compensation for each Section 16 officer position. The assessment includes identifying material changes to the positions analyzed, updating competitive compensation information, gathering and analyzing relevant general and industry-specific survey data, and updating the base salary structure. The committee retained Towers Perrin, a nationally recognized consulting firm, to assist it in establishing competitive 2008 compensation targets for our Section 16 officers. Towers Perrin assessed competitive pay levels for base salary, total annual cash, which is base salary plus annual incentives, and total direct compensation, which is the sum of total annual cash and the expected value of long-term incentives. Towers Perrin also prepared an updated salary grade structure based on the above competitive analyses and identified overall competitive compensation targets. They compared our positions to like positions contained in general industry salary surveys, industry-specific salary surveys and, for our chief executive officer, the chief executive officers in our performance graph peer group. The salary surveys used by Towers Perrin were:

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Survey*	Number of Companies Participating (#)	Median Number of Employees (#)	Number of Publicly-Traded Companies (#)(1)	Median Revenue (000s) ($)
Towers Perrin s Executive Compensation Database	363	18,434	276	5,758,700
Towers Perrin s Energy Services Industry Executive Compensation Database	96	3,102	66	2,602,200
Effective Compensation, Inc. s Oil & Gas Exploration and Production Survey	112	135	66	247,500
Mercer s Energy Compensation Survey	184	1,014	136	1,027,850
Watson Wyatt s Report on Top Management Compensation	2,567	(2)	(2)	(2)

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

(2) The 2,567 organizations participating in the 2006/2007 Watson Wyatt Report included 370 organizations with 2,000 to 4,999 employees; 301 organizations with 5,000 to 9,999 employees; 292 organizations with 10,000 to 19,999 employees; and 362 organizations with 20,000 or more employees. Watson Wyatt did not provide a revenue breakdown or the number of publicly-traded companies participating in its survey. Towers Perrin utilized the 2006/2007 survey and aged the data to January 1, 2008.

Our revenues for 2006 were approximately $4.0 billion. For 2007, our revenues were $4.2 billion and for 2008, our revenues were approximately $5.0 billion.

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

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

*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.

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Role of Management

The chief executive officer played an important role in recommending 2008 compensation to the committee for the other named executive officers. The chief executive officer attended compensation committee meetings; however, he was not present during discussions regarding his compensation. In addition, he assessed the performance of the named executive officers and worked with the human resources department and compensation consultants to recommend:

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

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

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

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

Decisions for 2008

The compensation committee, in conjunction with the board of directors, determined all compensation for each named executive officer for 2008 and set overall and individual compensation targets for the three components of compensation base salary, annual incentive, and long-term incentive. The compensation committee made recommendations to the board of directors regarding compensation of all Section 16 officers, and the board of directors then approved the recommendations.

The compensation committee reviewed competitive executive compensation data from Towers Perrin and established salary grades at its August 2007 meeting. At the November 2007 meeting, it established individual base salaries, target annual incentive award levels, and target long-term incentive award levels for 2008. At the February meetings of the compensation committee and the board of directors, annual and long-term incentive awards were determined, along with the payouts based on performance from the recently completed performance period for prior annual and long-term awards. The February meetings occur after the release of earnings for the prior year.

Salary Grades for 2008

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

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

participation on our management policy committee, which is the body responsible for setting corporate-wide operating and management policies and procedures as well as our strategic direction

the position s responsibilities relative to our total earnings, use of invested capital, and the stable generation of earnings and cash flows and

the position s impact on key strategic initiatives.

Our named executive officers salary grade classifications are listed below along with the 2008 base salary ranges associated with each classification:

			2008 Base Salary (000s)		
Position	**Grade**	**Name**	**Minimum ($)**	**Midpoint ($)**	**Maximum ($)**
President and CEO	K	Terry D. Hildestad	620	775	930
Executive Vice President, Treasurer and CFO	J	Vernon A. Raile	312	390	468
President and CEO, MDU Construction Services Group, Inc.	J	John G. Harp	312	390	468
President and CEO, Knife River Corporation	J	William E. Schneider	312	390	468
General Counsel and Secretary	I	Paul K. Sandness	260	325	390

The executive vice president, treasurer and chief financial officer and the president and chief executive officers of Knife River Corporation and MDU Construction Services Group, Inc. are assigned to salary grade J. The committee believes that from an internal equity standpoint, these positions should carry the same salary grade based on the above factors. For 2008, Mr. Harp s salary grade was increased from I to J to reflect the significant contribution the position has on total company financial results. For the other named executive officers, the salary grades remained unchanged for 2008.

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

- our performance on financial measurements as compared to our performance graph peer group

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- the executive s performance on financial goals
- the executive s performance on non-financial goals, including the results of the performance assessment program
- the executive s experience, tenure, and future potential
- the position s relative value compared to other positions within the company
- the relationship of the salary to the competitive salary market value
- internal pay equity with other executives and
- the economic environment of the corporation or executive s business unit.

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

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

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 rating between four and five is considered commendable performance.

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

Base Salaries of the Named Executive Officers for 2008

Terry D. Hildestad

Mr. Hildestad was promoted to chief executive officer in August 2006. For 2008, the committee increased his salary by 12%, from $625,000 to $700,000. The reasons for Mr. Hildestad s 2008 increase were:

- the company s 2007 forecasted financial results (based on 9 months actual plus 3 months plan) on earnings per share (EPS) and return on invested capital (ROIC) were higher than 2007 targets by 45.2% and 35.1%, respectively
- the successful sale of our independent power production assets in July 2007, leading to an after-tax gain of $91.5 million, and redeploying those proceeds into our core lines of business
- the board assigning a commendable performance assessment rating and
- moving Mr. Hildestad s salary closer to the 2008 salary grade midpoint of $775,000.

Vernon A. Raile

Mr. Raile has served as executive vice president, treasurer and chief financial officer since January 2006. Mr. Raile s 2008 base salary was set at $400,000, representing an increase of 14.1% over his 2007 base salary of $350,700. The committee set his 2008 base salary at $400,000, above the

midpoint of his salary grade, due to his commendable performance assessment rating and due to results associated with these key achievements:

- the company s 2007 forecasted financial results (based on 9 months actual plus 3 months plan) on EPS and ROIC were higher than 2007 targets by 45.2% and 35.1%, respectively
- driving the reduction of balance sheet risk by keeping debt below 40% of total capital while, at the same time, funding key acquisitions
- overseeing consolidation of the company s non-utility cash management function and
- continuing to strengthen relationships with the investment community.

John G. Harp

Mr. Harp was appointed president and chief executive officer of MDU Construction Services Group, Inc. in September 2004. For 2008, his base salary was set at $400,000, representing an increase of 17.3% over his 2007 base salary of $341,000. The committee set his 2008 base salary at $400,000, above the midpoint of his salary grade, due to his commendable performance assessment rating and due to results associated with these key achievements:

- MDU Construction Services Group, Inc. s 2007 forecasted financial results (based on 9 months actual plus 3 months plan) on EPS and ROIC were higher than 2007 targets by 49.8% and 45.4%, respectively
- from January 2007 through September 2007, MDU Construction Services Group, Inc. achieving a combined recordable injury rate in 2007 of 5.0 compared to industry rate of 5.2 and a lost time case rate of 0.9 compared to industry rate of 1.9 and
- streamlining efficiencies across MDU Construction Services Group, Inc. s administrative and support functions.

William E. Schneider

Mr. Schneider has served as president and chief executive officer of our subsidiary, Knife River Corporation, since May 2005. Mr. Schneider s 2008 base salary was set at $447,400, representing an increase of 6.0% over his 2007 base salary of $422,000. The committee set his 2008 base salary at $447,400, above the midpoint of his salary grade, due to his commendable performance assessment rating and due to results associated with:

- Knife River Corporation s 2007 forecasted financial results (based on 9 months actual plus 3 months plan) on EPS and ROIC were lower than 2007 targets by 0.9% and 1.3%, respectively. The 2007 EPS and ROIC targets were the highest in the company s history, representing significant performance hurdles.
- expansion of the Knife River Energy Services business line into Texas and Oregon and
- from January 2007 through September 2007, Knife River Corporation achieved a combined recordable injury rate of 3.1 compared to industry rate of 5.3 and a lost time case rate of 0.6 compared to industry rate of 2.0.

Paul K. Sandness

Mr. Sandness was appointed to general counsel and secretary in April 2004. Mr. Sandness 2008 base salary was set at $321,400, representing a 4.0% increase over his 2007 base salary of $309,000. The committee set his 2008 base salary at $321,400, due to his commendable performance assessment rating, ensuring his salary approximated his salary grade midpoint, and due to results associated with these key achievements:

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- overseeing the due diligence associated with the Cascade Natural Gas Corporation acquisition from legal and regulatory perspectives
- driving the development and formalization of the company s first corporate-wide sustainability report, which addresses the environmental, social and economic responsibilities, risks, and opportunities our organization faces, and
- the company s 2007 forecasted financial results (based on 9 months actual plus 3 months plan) on EPS and ROIC were higher than 2007 targets by 45.2% and 35.1%, respectively.

The following table shows each named executive officer s base salary for 2007 and 2008 and the percentage change.

Name	**Base Salary for 2007 (000s) ($)**	**Base Salary for 2008 (000s) ($)**	**% Change (%)**
Terry D. Hildestad	625	700	12.0
Vernon A. Raile	350.7	400	14.1
John G. Harp	341	400	17.3
William E. Schneider	422	447.4	6.0
Paul K. Sandness	309	321.4	4.0

2008 Annual Incentives

What the Performance Measures Are and Why We Chose Them

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

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

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

The compensation committee determines the weighting of the goals each year based upon recommendations from the chief executive officer. The compensation committee weighted the 2008 goals for return on invested capital compared to targeted results and allocated earnings per share

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compared to targeted results each at 50%. The compensation committee believes both measures are equally important in driving shareholder value in the short term and over time.

We limit the after-tax incentive compensation we will pay above the target amount to 20% of earnings in excess of planned earnings. We calculate the earnings in excess of planned earnings without regard to the after-tax incentive amounts above target. We measure the 20% limitation at the major business unit level for business unit and operating company executives, which include Messrs. Harp and Schneider, and at the corporate level for corporate executives, which include Messrs. Hildestad, Raile, and Sandness.

Incentive plan performance targets are established in connection with our annual financial planning process, where we assess the economic environment, competitive outlook, industry trends, and company specific conditions to set projections of results. The committee evaluates the projected results and uses this evaluation to establish the incentive plan performance targets. The committee also considers annual improvement in the return on invested capital measure for incentive purposes to help ensure that return on invested capital will equal or exceed the weighted average cost of capital. Historically, this consideration took the form of a minimum annual increase in a business unit s and/or the company s return on invested capital incentive plan performance target(s). For 2008, in the case of Knife River Corporation, and for 2009, in the case of Knife River Corporation and MDU Resources Group, Inc., the committee chose to use the stretch return on invested capital target approved by the board in the 2009 business plan rather than the required annual minimum increase in recognition of the soft economic environment and depressed commodity prices faced by that business unit and the company. The committee will again consider the minimum required return on invested capital increase in 2010. In the committee s discretion, they may establish incentive plan performance targets higher, lower, or at the same level as the prior year s target and/or results.

What the Incentive Targets Are and Why We Chose Them

Annual incentive targets were established by the compensation committee as a percentage of the individual s actual base salary.

The chief executive officer s target annual incentive was 100% of his base salary. Messrs. Raile, Harp, and Schneider s target annual incentives were 65% of their base salaries. For Messrs. Raile, Harp, and Schneider, the 2008 target incentive was increased from 50% to 65% of base salary. Mr. Harp s target annual incentive was increased from 50% in 2007 to 65% in 2008 to reflect the significant contribution the position has on total company financial results and to be similar to other like positions with the same salary grade. As previously discussed, Mr. Harp s salary grade was increased from an I to a J for 2008. Mr. Sandness annual incentive target was 50% of his base salary. These incentive targets were derived in part from competitive data provided by Towers Perrin and in part by the compensation committee s judgment on the internal equity of the positions, their relative value to the company, and the desire to maintain a consistent annual incentive target for presidents and chief executive officers of the business units and the executive vice president, treasurer and chief financial officer positions.

The named executive officers were eligible to earn from 0% to 200% of their targeted annual incentive. The award opportunities available to each named executive officer ranged from no payment if the goals were met below the 85% level to a 200% payout if the goals were met at or above the 115% level.

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The table below lists each named executive officer s 2008 base salary, the 2008 annual incentive target percentage, the officer s 2008 incentive plan performance targets, the 2008 incentive plan results, and the annual incentive earned for 2008.

Name	2008 Base Salary (000s) ($)	2008 Annual Incentive Target (%)	2008 Incentive Plan Performance Targets EPS ($)	2008 Incentive Plan Performance Targets ROIC (%)	2008 Incentive Plan Results EPS ($)	2008 Incentive Plan Results ROIC (%)	2008 Annual Incentive Earned (000s) ($)
Terry D. Hildestad[1]	700	100	1.77	9.1	1.59	8.0	310.80
Vernon A. Raile[1]	400	65	1.77	9.1	1.59	8.0	115.44
John G. Harp[2]	400	65	2.73	10.5	5.03	17.7	520.00
William E. Schneider[3]	447.4	65	1.03	7.5	0.42	3.5	
Paul K. Sandness[1]	321.4	50	1.77	9.1	1.59	8.0	71.35

(1) Based on earnings per share and return on invested capital for MDU Resources Group, Inc.

(2) Based on allocated earnings per share and return on invested capital for MDU Construction Services Group, Inc. In addition, Mr. Harp earned an additional $200,000 annual incentive as described below.

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

The following table shows the changes in our performance targets and achievements for both 2007 and 2008.

	2007 Incentive Plan Performance Targets		2007 Incentive Plan Results		2008 Incentive Plan Performance Targets		2008 Incentive Plan Results	
Name	**EPS ($)**	**ROIC (%)**	**EPS ($)**	**ROIC (%)**	**EPS ($)**	**ROIC (%)**	**EPS ($)**	**ROIC (%)**
Terry D. Hildestad[1]	1.57	9.4	2.36	13.1	1.77	9.1	1.59	8.0
Vernon A. Raile[1]	1.57	9.4	2.36	13.1	1.77	9.1	1.59	8.0
John G. Harp[2]	2.53	10.8	4.00	16.7	2.73	10.5	5.03	17.7
William E. Schneider[3]	1.13	8.0	1.08	7.6	1.03	7.5	0.42	3.5
Paul K. Sandness[1]	1.57	9.4	2.36	13.1	1.77	9.1	1.59	8.0

(1) Based on earnings per share and return on invested capital for MDU Resources Group, Inc.

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

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

Terry D. Hildestad s 2008 Annual Incentive Award

As president and chief executive officer of MDU Resources Group, Inc., Mr. Hildestad s 2008 incentive plan performance targets were based on our earnings per share and return on invested capital. We set his 2008 earnings per share target level above his 2007 earnings per share target level to reflect higher projected earnings from Cascade Natural Gas Corporation and from the oil and natural gas exploration and production segment. However, the 2008 target earnings per share was lower than 2007 actual earnings per share primarily because 2007 actual earnings per share included

earnings from discontinued operations of $109.3 million. The 2008 return on invested capital target was slightly lower than the 2007 return on invested capital target primarily because of the investment in Cascade Natural Gas Corporation and was substantially lower than the 2007 return on invested capital results primarily because 2007 included earnings from discontinued operations of $109.3 million.

For 2008 incentive plan results, the company s 2008 earnings per share results and return on invested capital results were 89.8% and 87.9% of their respective 2008 targets. Therefore, $310,800 was paid to Mr. Hildestad as a 2008 incentive.

Vernon A. Raile s 2008 Annual Incentive Award

As executive vice president, treasurer and chief financial officer of MDU Resources Group, Inc., Mr. Raile s 2008 incentive plan performance targets were based on our earnings per share and return on invested capital. As discussed above for Mr. Hildestad, we set his 2008 earnings per share target level above his 2007 earnings per share target level to reflect higher projected earnings from Cascade Natural Gas Corporation and from the oil and natural gas exploration and production segment. However, the 2008 target earnings per share was lower than 2007 actual earnings per share primarily because 2007 actual earnings per share included earnings from discontinued operations of $109.3 million. The 2008 return on invested capital target was slightly lower than the 2007 return on invested capital target primarily because of the investment in Cascade Natural Gas Corporation and was substantially lower than the 2007 return on invested capital results primarily because 2007 included earnings from discontinued operations of $109.3 million.

For 2008 incentive plan results, the company s 2008 earnings per share results and return on invested capital results were 89.8% and 87.9% of their respective 2008 targets. Therefore, $115,440 was paid to Mr. Raile as a 2008 incentive.

John G. Harp s 2008 Annual Incentive Award

As president and chief executive officer of MDU Construction Services Group, Inc., Mr. Harp s 2008 incentive plan performance targets were based on allocated earnings per share and return on invested capital for MDU Construction Services Group, Inc. We set his 2008 earnings per share target level above his 2007 earnings per share target level to reflect that the 2008 operating plan contained higher projected workloads than the 2007 operating plan. We set the 2008 return on invested capital target to be slightly lower than the 2007 return on invested capital target. The 2008 earnings per share and return on invested capital targets were lower than the actual results for 2007 allocated earnings per share and return on invested capital because the 2007 results reflected an atypically high level of business activity.

For 2008 incentive plan results, MDU Construction Services Group, Inc. s 2008 earnings per share results and return on invested capital results were 184.3% and 168.6% of their respective 2008 targets. Therefore, a maximum incentive award of $520,000 was paid to Mr. Harp.

Also in 2008, Mr. Harp had an opportunity to earn an additional $200,000 annual incentive in recognition of the instrumental role he played in MDU Construction Services Group, Inc. s financial turnaround from a loss in 2004 to record earnings in 2007. The committee established this opportunity as an incentive to Mr. Harp to sustain his business unit s exceptional financial results. The performance target for this additional $200,000 was MDU Construction Services Group, Inc. s attainment of incremental after-tax earnings necessary to achieve return on invested capital results that were at least 200 basis points above the weighted cost of capital. Based on MDU Construction Services Group, Inc. s 2008 planned capital structure, the incremental 200 basis points equated to a minimum of $6.6 million of incremental earnings.

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In 2008, Mr. Harp earned the full $200,000 because MDU Construction Services Group, Inc. s 2008 return on invested capital results were more than 200 basis points above its weighted average cost of capital.

William E. Schneider s 2008 Annual Incentive Award

As president and chief executive officer of Knife River Corporation, Mr. Schneider s 2008 incentive plan performance targets were based on allocated earnings per share and return on invested capital for Knife River Corporation. We set his 2008 targets for allocated earnings per share and return on invested capital lower than his 2007 targets and the actual results for 2007. The reduction in 2008 targets was due primarily to the projected continued decline in the residential construction market and the anticipated reduction in margins and volumes.

For 2008, Knife River Corporation s 2008 earnings per share results and return on invested capital results were 40.8% and 46.7% of their respective 2008 targets. Therefore, no incentive was paid to Mr. Schneider for 2008.

Paul K. Sandness 2008 Annual Incentive Award

As general counsel and secretary of MDU Resources Group, Inc., Mr. Sandness 2008 incentive plan performance targets were based on our earnings per share and return on invested capital. As discussed above for Messrs. Hildestad and Raile, we set his 2008 earnings per share target level above his 2007 earnings per share target level to reflect higher projected earnings from Cascade Natural Gas Corporation and from the oil and natural gas exploration and production segment. However, the 2008 target earnings per share was lower than 2007 actual earnings per share primarily because 2007 actual earnings per share included earnings from discontinued operations of $109.3 million. The 2008 return on invested capital target was slightly lower than the 2007 return on invested capital target primarily because of the investment in Cascade Natural Gas Corporation and was substantially lower than the 2007 return on invested capital results primarily because 2007 included earnings from discontinued operations of $109.3 million.

For 2008 incentive plan results, the company s 2008 earnings per share results and return on invested capital results were 89.8% and 87.9% of their respective 2008 targets. Therefore, $71,351 was paid to Mr. Sandness as a 2008 incentive.

Deferral of Annual Incentive Compensation

We provide executives the opportunity to defer receipt of earned annual incentives. If an executive chooses to defer his or her annual incentive, we will credit the deferral with interest. For 2008, the interest rate on deferred compensation was the prime rate.

2008 Long-Term Incentives

Awards Granted in 2008 under the Long-Term Performance-Based Incentive Plan

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

The compensation committee uses the performance graph peer group as the comparator group to determine relative stockholder return and potential payments under the Long-Term Performance-Based Incentive Plan for its 2008-2010 performance share award cycle. The companies comprising our performance graph peer group are as follows:

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

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

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

As with the annual incentive target, the long-term incentive target for a given position is determined by reference to the salary grade. These incentive targets were derived in part from competitive data provided by Towers Perrin and in part by the committee s judgment on the impact each position has on our total stockholder return. The committee also believed consistency across positions in the same salary grades was important from an internal equity standpoint. The variance in target percentages reflects our philosophy that executives in higher salary grades should have more of their total compensation at risk because they are in positions to have a more direct impact on our long-term results.

The compensation committee increased Mr. Hildestad s long-term incentive target from 133% of base salary in 2007 to 150% of base salary in 2008. The committee s rationale for the increase was to bring Mr. Hildestad s long-term incentive target closer to the competitive chief executive officer pay data provided by Towers Perrin. Their analysis for 2007 and again for 2008 reported the competitive long-term incentive target for chief executive officers ranged from approximately 200% to 400% of base salary. The committee decided to set Mr. Hildestad s long-term incentive target lower than the competitive data in order to avoid creating too great a difference between Mr. Hildestad s long-term incentive target and the long-term incentive targets of his direct reports, and to recognize that Mr. Hildestad s SISP benefit is larger than similar benefits offered to chief executive officers.

Mr. Harp s long-term incentive target was increased to 90% of base salary in 2008 from 75% of base salary in 2007. The committee s rationale for the increase was to reflect the significant increase the position has on total company financial results. The committee believes from an internal equity standpoint this target should be similar to that of other like positions with the same salary grade.

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On February 14, 2008, 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 2008 base salary by his or her long-term incentive target and then dividing this product by the average of the closing prices of our stock from January 2, 2008 through January 22, 2008, as shown in the following table:

Name	2008 Base Salary to Determine Target ($)	2008 Long-Term Incentive Target at Time of Grant (%)	2008 Long-Term Incentive Target at Time of Grant ($)	Average Closing Price of Our Stock From January 2 Through January 22 ($)	Resulting Number of Performance Shares Granted on February 14 (#)
Terry D. Hildestad	700,000	150	1,050,000	26.86	39,091
Vernon A. Raile	400,000	90	360,000	26.86	13,402
John G. Harp	400,000	90	360,000	26.86	13,402
William E. Schneider	447,400	90	402,660	26.86	14,991
Paul K. Sandness	321,400	75	241,050	26.86	8,974

From 0% to 200% of the target grant will be paid out in February 2011 depending on our three-year 2008-2010 total stockholder return compared to the total three-year stockholder returns of companies in our performance graph peer group. The payout percentage will be a function of our rank against our performance graph peer group as follows:

The Company s Percentile Rank	Payout Percentage of February 14, 2008 Grant
100th	200%
75th	150%
50th	100%
40th	10%
Less than 40th	0%

Payouts for percentile ranks falling between the intervals will be interpolated. We also will pay dividend equivalents in cash on the number of shares actually earned for the performance period. The dividend equivalents will be paid in 2011 at the same time as the performance awards are paid.

Awards Paid on February 14, 2008 under the Long-Term Performance-Based Incentive Plan

We granted performance shares to our named executive officers under the Long-Term Performance-Based Incentive Plan on February 17, 2005 for the 2005 through 2007 performance period. Our total stockholder return for the 2005 through 2007 performance period was 65.82%, which corresponded to a percentile rank of 62% against our performance graph peer group. The percentile rank of 62% corresponded to a payout percentage of 124%, meaning 124% of the target shares originally granted plus dividend equivalents were paid to the named executive officers. The table below lists the shares granted on February 17, 2005, the shares paid on February 14, 2008 based on the payout percentage, and the dividend equivalents earned.

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Name	Shares Granted on February 17, 2005[1] (#)	Payout Percentage (%)	Shares Paid on February 14, 2008[1] (#)	Dividend Equivalents ($)
Terry D. Hildestad	19,122	124	23,711	37,388
Vernon A. Raile	6,240	124	7,738	12,201
John G. Harp	10,767	124	13,351	21,052
William E. Schneider	12,921	124	16,022	25,263
Paul K. Sandness	11,628	124	14,419	22,736

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

PEER4 Analysi$: Comparison of Pay for Performance Ratios

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

This analysis consisted of dividing what we paid our named executive officers for the years 2003 through 2007 by our average annual total stockholder return for the same five-year period to yield our pay ratio. Our pay ratio was then compared to the pay ratio of the companies in the performance graph peer group, which was calculated by dividing total direct compensation for all the proxy group executives by the sum of each company s average annual total stockholder return for the same five-year period. The results are shown in the following chart.

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

	MDU Resources Group, Inc. ($)	Performance Graph Peer Group ($)

	MDU Resources Group, Inc. ($)	Performance Graph Peer Group ($)
Dollars of Total Direct Compensation[1] per Point of Total Stockholder Return	2,057,183	2,017,609

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

The results of the analysis showed that we paid our named executive officers slightly more than what the peer group companies paid their named executive officers for comparable levels of stockholder return over the five-year period. Specifically, as indicated in the chart, the data shows that we paid each of our named executive officers approximately $40,000 more per point of stockholder return than our performance graph peer group. This is the first occurrence in which MDU Resources Group, Inc. has paid its named executive officers more per point of stockholder return than the performance graph peer group. We have been conducting our PEER4 Analysi$ since 2004.

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

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Post-Termination Compensation and Benefits

Pension Plans

Effective 2006, we no longer offer defined benefit pension plans to new non-bargaining unit employees. Instead, executives and other employees are offered increased company contributions to our 401(k) plan. The pension plans continue in effect for all eligible employees hired before 2006.

We provide our executives and other employees hired before 2006 with income for their retirement through our qualified defined benefit pension plans, where benefits are determined by years of service and base salary. Because benefits under our pension plan increase with an employee s period of service and earnings, we believe the pension encourages our employees to make long-term commitments to the company and, as such, serves as an important retention tool.

Supplemental Income Security Plan

Benefits Offered

We offer certain key managers and executives, including all of our named executive officers, benefits under our non-qualified retirement plan, which we refer to as the Supplemental Income Security Plan or SISP. The SISP, which has a ten-year vesting schedule, provides participants with additional retirement income and death benefits. The additional retirement income may take two forms:

a supplemental retirement benefit payable for fifteen years beginning at the later of age 65 or after employment ends and

an additional retirement benefit to offset the Internal Revenue Code limitations placed on benefits payable under our qualified defined benefit pension plans. If eligible, the participants receive this retirement benefit after they separate from the company and until they reach age 65. In order to be eligible to receive the additional retirement benefit, participants must vest in their pension benefit, which requires five years of service and their pension must be limited by the Internal Revenue Code. Mr. Harp has an additional qualification in that he must remain employed until age 60 in order to receive this additional retirement benefit.

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

SISP Competitiveness

Our SISP benefit is high when compared to benefits at our performance graph peer companies who offer one or more non-qualified defined benefit plans. We believe, however, that the SISP is critical in retaining the talent necessary to drive long-term stockholder value. In addition, we believe that the 10 year vesting provision of the SISP helps promote retention of key executive officers.

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Benefit Level Increases

Each November the compensation committee considers SISP benefit level increases for the upcoming year. The chief executive officer recommends the benefit level increases to the committee on executives other than himself; the committee considers benefit level increases for the chief executive. In November 2007, Messrs. Hildestad, Raile, and Harp each received an increase in their SISP benefit levels which was effective on January 1, 2008. The committee s rationale for the benefit level increases was recognition of each named executive s contribution to the financial success of the company. The following table reflects our named executive officers SISP levels:

	Pre January 1, 2008 Annual SISP Benefits		**Post January 1, 2008 Annual SISP Benefits**	
Name	**Survivors ($)**	**Retirement ($)**	**Survivors ($)**	**Retirement ($)**
Terry D. Hildestad	876,000	438,000	1,025,040	512,520
Vernon A. Raile	386,640	193,320	468,600	234,300
John G. Harp	291,480	145,740	386,640	193,320

Name	**Pre January 1, 2008 Annual SISP Benefits**		**Post January 1, 2008 Annual SISP Benefits**	
William E. Schneider	468,600	234,300	468,600	234,300
Paul K. Sandness	291,480	145,740	291,480	145,740

To encourage Mr. Harp to remain with the company, on November 16, 2006, upon recommendation of our chief executive officer and the compensation committee, our board of directors approved an additional retirement benefit for Mr. Harp. The benefit provides for Mr. Harp to receive payments that represent the equivalent of an additional three years of service under the pension plan and the SISP if he did not resign or retire before January 2, 2008, and he had acceptable successors in place. The additional three years of service recognize Mr. Harp s previous employment with a subsidiary of the company.

Clawback

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

Impact of Tax and Accounting Treatment

The compensation committee may consider the impact of tax and/or accounting treatment in determining compensation. Section 162(m) of the Internal Revenue Code places a limit of $1 million on the amount of compensation paid to certain officers that we may deduct as a business expense in any tax year unless, among other things, the compensation qualifies as performance-based compensation, as that term is used in section 162(m). Generally, long-term incentive compensation and annual incentive awards for our chief executive officer and those executive officers whose overall compensation is likely to exceed $1 million are structured to be deductible for purposes of Section 162(m) of the Internal Revenue Code, but we may pay compensation to an executive officer that is not deductible. All annual or long-term incentive compensation paid to our named executive officers for 2008 satisfied the requirements for deductibility.

Section 409A of the Internal Revenue Code imposes additional income taxes on executive officers for certain types of deferred compensation if the deferral does not comply with Section

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409A. We have amended our compensation plans and arrangements affected by Section 409A with the objective of not triggering any additional income taxes under Section 409A.

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

The compensation committee also considers the accounting and cash flow implications of various forms of executive compensation. In our financial statements, we record salaries and performance-based compensation incentives as expenses in the amount paid, or to be paid, to the named executive officers. Accounting rules also require that we record an expense in our financial statements for equity awards. The accounting expense of equity awards to employees is calculated in accordance with SFAS 123 (revised).

Stock Ownership Guidelines

We instituted stock ownership guidelines on May 5, 1993, which we revised in February 2003, to encourage executives to own a multiple of their base salary in our common stock. All officers who participate in our Long-Term Performance-Based Incentive Plan are subject to the guidelines. The guidelines call for the executive to reach the multiple within five years. Unvested performance shares and other unvested equity awards do not count towards the guidelines. Each February the compensation committee receives a report on the status of stock holdings by executives. The table shows the named executive officers holdings as of December 31, 2008:

Name	**Guideline Multiple of Base Salary**	**Actual Holdings as a Multiple of Base Salary**	**Number of Years at Guideline Multiple (#)**
Terry D. Hildestad	4X	5.22	3.67
Vernon A. Raile	3X	2.53	3.00
John G. Harp	3X	5.45	4.25
William E. Schneider	3X	4.55	7.00
Paul K. Sandness	3X	1.75	4.75

The compensation committee may consider the guidelines and the executive s stock ownership in determining compensation. The committee, however, did not do so with respect to 2008 compensation.

Policy Regarding Hedging Stock Ownership

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

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COMPENSATION COMMITTEE REPORT

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

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

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Summary Compensation Table for 2008

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)(1)	Option Awards ($) (f)(1)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)(2)	All Other Compensation ($) (i)	Total ($) (j)
Terry D.	2008	700,000		860,702		310,800	898,941	9,476(3)	2,779,919
Hildestad	2007	625,000		661,821		1,250,000	1,362,413	7,026	3,906,260
President and	2006	562,500		376,394	25,084	1,125,000	768,184	6,876	2,864,038
CEO									
Vernon A. Raile	2008	400,000		340,306		115,440	498,210	7,176(3)	1,361,132
Executive Vice	2007	350,700		268,806		350,700	555,248	7,026	1,532,480
President,	2006	318,750		161,690		318,750	635,356	6,876	1,441,422
Treasurer and									
CFO									
John G. Harp	2008	400,000		301,785		720,000(4)	338,774(6)	23,230(7)	1,783,789
President and	2007	341,000		277,929		341,000	47,334(6)	23,080(7)	1,030,343
CEO of MDU	2006	310,000		150,566		810,000(5)	324,976(6)	31,323(7)	1,626,865
Construction									
Services Group,									
Inc.									
William E.	2008	447,400		400,638			180,801	8,976(3)	1,037,815
Schneider	2007	422,000		383,191		206,780	450,347	7,026	1,469,344
President and	2006	392,000		248,217	20,729	392,000	609,916	6,876	1,669,738
CEO of Knife									
River									
Corporation									

Name and Principal Position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)(1)	Option Awards ($) (f)(1)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (h)(2)	All Other Compensation ($) (i)	Total ($) (j)
Paul K. Sandness	2008	321,400		246,228		71,351	170,403	9,426(3)	818,808
General Counsel	2007								
and Secretary	2006								

(1) Amounts in these columns represent the dollar amount recognized for financial statement reporting purposes for the 2008, 2007, and 2006 fiscal years for restricted stock awards, performance share awards, and stock option awards granted in 2008 and prior years. These amounts reflect our accounting expense for these awards and do not correspond to the actual value that will be recognized by the named executive officers. Assumptions used to determine the amounts in these columns are the same as used in the calculation of compensation expense for our audited financial statements, except for the effect of estimated forfeitures. Statement of Financial Accounting Standards No. 123 (revised), Share-Based Payment requires us to estimate forfeitures when awards are granted and reduce estimated compensation expense accordingly. These columns were prepared assuming none of the awards will be forfeited. However, for both these columns and our audited financial statements, compensation expense is adjusted for actual forfeitures.

The grant date fair value of restricted stock awards was based on the market price of our stock on the grant date.

The grant date fair value for the performance shares granted in 2008 was determined by Monte Carlo simulation using a blended volatility term structure in the range of 21.54% to 22.97% comprised of 50% historical volatility and 50% implied volatility and a risk-free interest rate term structure in the range of 1.87% to 2.23% based on the U.S. Treasury security rates in effect as of the grant date. In addition, the mean overall simulation paths of the discounted dividends expected to be earned in the performance period used in the valuation was $1.64 per target share.

The grant date fair value for the performance shares granted in 2007 was determined by Monte Carlo simulation using a blended volatility term structure in the range of 18.17% to 18.73% comprised of 50% historical volatility and 50% implied volatility and a risk-free interest rate term structure in the range of 4.75% to 5.21% based on the U.S. Treasury security rates in effect as of the grant date. In addition, the mean overall simulation paths of the discounted dividends expected to be earned in the performance period used in the valuation was $1.25 per target share.

The grant date fair value for the performance shares granted in 2006 was determined by Monte Carlo simulation using a blended volatility term structure in the range of 17.65% to 18.79% comprised of 50% historical volatility and 50% implied volatility and a risk-free interest rate term structure in the range of 4.66% to 4.79% based on the U.S. Treasury security rates in effect as of the grant date. In addition, the mean overall simulation paths of the discounted dividends expected to be earned in the performance period used in the valuation was $1.37 per target share.

The grant date fair value for the performance share awards granted in 2005 and 2004 were equal to the market value of our common stock on the grant date.

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The fair value of stock options was estimated on the grant date using the Black-Scholes option-pricing model. The fair value of the options granted and the underlying assumptions were as follows:

Fair value of options at grant date	$ 3.22
Risk-free interest rate	5.18%
Expected price volatility	25.94%
Expected dividend yield	3.53%
Expected life in years	7
Date of Grant	February 14, 2001

For additional information about these stock awards and option awards, refer to Note 14 of our audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

(2) Amounts shown represent the change in the actuarial present value for years ending December 31, 2006, 2007, and 2008 for the named executive officers accumulated benefits under the pension plan, excess SISP, and SISP and, for Mr. Harp, the additional retirement benefit, collectively referred to as the accumulated pension change, plus above market earnings on deferred annual incentives, if any. The amounts shown are based on accumulated pension change and above market earnings as of December 31, 2006, 2007, and 2008 as follows:

	Accumulated Pension Change			Above Market Earnings		
Name	**12/31/2006 ($)**	**12/31/2007 ($)**	**12/31/2008 ($)**	**12/31/2006 ($)**	**12/31/2007 ($)**	**12/31/2008 ($)**
Terry D. Hildestad	752,265	1,336,815	883,351	15,919	25,598	15,590
Vernon A. Raile	608,295	508,987	469,755	27,061	46,261	28,455
John G. Harp	239,228	38,498	331,558			
*Additional Retirement (John G. Harp)**	85,748	8,836	7,216			
William E. Schneider	593,820	411,123	155,816	16,096	39,224	24,985
Paul K. Sandness			170,403			

*See footnote 6.

(3) Includes company contributions to the 401(k) account, payment of a life insurance premium, and, except for Mr. Raile, matching contributions to charitable organizations.

(4) Includes one-time incentive payment of $200,000 in addition to his executive incentive compensation plan payment.

(5) Includes one-time incentive payment of $500,000 in addition to his executive incentive compensation plan payment.

(6) In addition to the change in the actuarial present value of Mr. Harp s accumulated benefit under the pension plan, excess SISP, and SISP, this amount also includes the following amounts attributable to Mr. Harp s additional retirement benefit:

	2006	**2007**	**2008**
Change in present value of additional years of service for pension plan	$ 77,447	$ 6,033	$ 3,570
Change in present value of additional years of service for excess SISP	8,301	2,803	3,646
Change in present value of additional years of service for SISP			

Mr. Harp s additional retirement benefit is described in the narrative that follows the Pension Benefits for 2008 table. The additional retirement benefit provides Mr. Harp with additional retirement benefits equal to the additional benefit he would earn under the pension plan, excess SISP, and the SISP if he had three additional years of service. The amounts in the table above reflect the change in present value of this additional benefit in 2006, 2007, and 2008. The additional retirement benefit was determined by calculating the actuarial present values of the accumulated benefits under the pension plan, excess SISP, and SISP, with and without the three additional years of service, using the same assumptions used to determine the amounts disclosed in the Pension Benefits for 2008 table. Because Mr. Harp would be fully vested in his SISP benefit if he retired at age 65, the assumed retirement age of these calculations, the additional years of service provided by the additional retirement agreement would not increase that benefit. If Mr. Harp retires before becoming 100% vested in his SISP benefit, his SISP benefit would be less than the amount shown in the Pension Benefits for 2008 table, but the payments he would receive under the additional retirement benefit arrangement would increase, as would the amounts reflected in the table above and in the Summary Compensation Table.

(7) Includes a company contribution to Mr. Harp s 401(k) account, a matching contribution to a charity, payment of a life insurance premium, an additional premium for Mr. Harp s long-term disability insurance and Mr. Harp s office and automobile allowance.

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Grants of Plan-Based Awards in 2008

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive PlanAwards Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Estimated Future Payouts Under Equity Incentive PlanAwards Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)	All Other Stock Awards: Number of Shares of Stock or Units (#) (i)	All Other Option Awards: Number of Securities Underlying Options (#) (j)	Exercise or Base Price of Option Awards ($/Sh) (k)	Grant Date Fair Value of Stock and Option Awards ($) (l)
Terry D. Hildestad	2/14/08(1)	175,000	700,000	1,400,000							
	2/14/08(2)				3,909	39,091	78,182				1,200,485
Vernon A. Raile	2/14/08(1)	65,000	260,000	520,000							
	2/14/08(2)				1,340	13,402	26,804				411,575
John G. Harp	2/14/08(1)	65,000	260,000	520,000							
	2/14/08(2)				1,340	13,402	26,804				411,575
	2/14/08(3)		200,000								
William E. Schneider	2/14/08(1)	72,703	290,810	581,620							
	2/14/08(2)				1,499	14,991	29,982				460,374
Paul K. Sandness	2/14/08(4)	40,175	160,700	321,400							
	2/14/08(2)				897	8,974	17,948				275,592

(1) Annual incentive for 2008 granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.

(2) Performance shares for the 2008-2010 performance period granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.

(3) Mr. Harp s 2008 additional annual incentive opportunity for 2008.

(4)

Annual incentive for 2008 granted pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan.

Narrative Discussion Relating to the Summary Compensation Table
and Grants of Plan-Based Awards Table

Incentive Awards

Annual Incentive

On February 12, 2008, the compensation committee recommended the 2008 annual incentive award opportunities for our named executive officers, and the board approved these opportunities at its meeting on February 14, 2008. These award opportunities are reflected in the Grants of Plan-Based Awards table at grant on February 14, 2008 in columns (c), (d) and (e) and in the Summary Compensation Table as earned with respect to 2008 in column (g).

Executive officers may receive annual cash incentive awards based upon achievement of annual performance measures with a threshold, target, and maximum level. A target incentive award is established based on a percent of the executive s base salary. Actual payment may range from zero to 200% of the target based upon achievement of corporate goals.

In order to be eligible to receive an annual incentive award under the Long-Term Performance-Based Incentive Plan, Messrs. Hildestad, Raile, Schneider, and Harp must have remained employed by the company through December 31, 2008, unless the compensation committee determines otherwise. The committee has full discretion to determine the extent to which goals have been achieved, the payment level, whether any final payment will be made, and whether to adjust awards downward based upon individual performance. Unless the committee determines otherwise, performance measure targets shall be adjusted to take into account unusual or nonrecurring events affecting the company, a subsidiary or a division or business unit, or any of their financial statements,

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or changes in applicable laws, regulations or accounting principles to the extent such unusual or nonrecurring events or changes in applicable laws, regulations or accounting principles otherwise would result in dilution or enlargement of the annual incentive award intended to be provided. Such adjustments are made in a manner that will not cause the award to fail to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code.

With respect to annual incentive awards granted pursuant to our Executive Incentive Compensation Plan, which includes Mr. Sandness, participants who retire at age 65 during the year remain eligible to receive an award. Subject to the compensation committee s discretion, executives who terminate employment for other reasons are not eligible for an award. The committee has full discretion to determine the extent to which goals have been achieved, the payment level, and whether any final payment will be made. Once performance goals are approved by the committee for executive incentive compensation plan awards, the committee generally does not modify the goals. However, if major unforeseen changes in economic and environmental conditions or other significant factors beyond the control of management substantially affected management s ability to achieve the specified performance goals, the committee, in consultation with the chief executive officer, may modify the performance goals. Such goal modifications will only be considered in years of unusually adverse or favorable external conditions.

For Messrs. Hildestad, Raile, and Sandness, the performance measures for annual incentive awards are our annual return on invested capital achieved compared to target and our annual earnings per share achieved compared to target. For Messrs. Schneider and Harp, the performance measures for annual incentive awards are their respective business unit s annual return on invested capital achieved compared to target and their respective business unit s allocated earnings per share achieved compared to target.

For 2008, the compensation committee weighted the goals for annual return on invested capital compared to planned results and allocated earnings per share compared to planned results each at 50%.

We limit the after-tax incentive compensation we will pay above the target amount to 20% of earnings in excess of planned earnings. We calculate the earnings in excess of planned earnings without regard to the after-tax incentive amounts above target. We measure the 20% limitation at the major business unit level for business unit and operating company executives, which include Messrs. Harp and Schneider, and at the corporate level for corporate executives, which include Messrs. Hildestad, Raile, and Sandness.

The award opportunities available to each named executive officer were:

2008 earnings per share results as a % of 2008 target	**Corresponding payment of annual incentive target based on earnings per share**
Less than 85%	0%
85%	25%
90%	50%
95%	75%
100%	100%
103%	120%
106%	140%
109%	160%
112%	180%
115%	200%

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2008 return on invested capital results as a % of 2008 target	**Corresponding payment of annual incentive target based on return on invested capital**
Less than 85%	0%
85%	25%
90%	50%
95%	75%

2008 return on invested capital results as a % of 2008 target	Corresponding payment of annual incentive target based on return on invested capital
100%	100%
103%	120%
106%	140%
109%	160%
112%	180%
115%	200%

For discussion of the specific incentive plan performance targets and results, please see the compensation discussion and analysis.

In addition to the annual incentive that Mr. Harp earned under our Long-Term Performance Based Incentive Plan, Mr. Harp earned an additional $200,000 incentive payment. The performance target for this additional $200,000 was MDU Construction Services Group, Inc. s attainment of incremental after-tax earnings necessary to achieve return on invested capital results that were at least 200 basis points above the weighted cost of capital. Mr. Harp earned the additional $200,000 incentive payment because MDU Construction Services Group, Inc. s 2008 return on invested capital exceeded its weighted average cost of capital by more than 200 basis points.

Long-Term Incentive

On February 12, 2008, the compensation committee recommended long-term incentive grants to the named executive officers in the form of performance shares, and the board approved these grants at its meeting on February 14, 2008. These grants are reflected in columns (f), (g), (h), and (l) of the Grants of Plan-Based Awards table.

From 0% to 200% of the target grant will be paid out in February 2011, depending on our 2008-2010 total stockholder return compared to the total three-year stockholder returns of companies in our performance graph peer group. The payout percentage is determined as follows:

The Company s Percentile Rank	Payout Percentage of February 14, 2008 Grant
100th	200%
75th	150%
50th	100%
40th	10%
Less than 40th	0%

Payouts for percentile ranks falling between the intervals will be interpolated. We also will pay dividend equivalents in cash on the number of shares actually earned for the performance period. The dividend equivalents will be paid in 2011 at the same time as the performance awards are paid.

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Salary and Bonus in Proportion to Total Compensation

The following table shows the proportion of salary to total compensation. We paid no bonuses to our named executive officers in 2008.

Name	Salary ($)	Total Compensation ($)	Salary as % of Total Compensation
Terry D. Hildestad	700,000	2,779,919	25.2
Vernon A. Raile	400,000	1,361,132	29.4
John G. Harp	400,000	1,783,789	22.4
William E. Schneider	447,400	1,037,815	43.1
Paul K. Sandness	321,400	818,808	39.3

Outstanding Equity Awards at Fiscal Year-End 2008

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options Exercisable (#) (b)	Number of Securities Underlying Unexercised Options Unexercisable (#) (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (#) (g)(1,2)	Market Value of Shares or Units of Stock That Have Not Vested ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i)(1,3)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($) (j)(4)
Terry D. Hildestad						3,712	80,105	168,247	3,630,770
Vernon A. Raile						1,114	24,040	64,361	1,388,910
John G. Harp								57,238	1,235,196
William E. Schneider									